MAY 11
Jenna McNamee

Incumbents that fail to address social equity issues risk losing customers to affinity banks, Deloitte finds

Article

The news: A survey from Deloitte has found that financial institutions are coming under increasing pressure to **address and improve social equity issues**. As a result, the rapid proliferation of **affinity banks—challenger banks founded by and for the underrepresented**—is putting pressure on incumbent banks to change how they operate.

The survey was conducted in January 2022 with over 2,000 respondents across the US.

Inclusivity is good for business: Consumers increasingly expect brands they associate with—including their banks—to behave in a socially responsible way. This is especially true of the up-and-coming Gen Zers, who patronize financial institutions and invest in companies that mirror their goals for social justice, sustainability, and other causes they deem important. Deloitte's findings affirm that consumers' interest in social equity extends to their financial lives.

- Sixty-six percent of Americans believe **banks have a responsibility to support diverse and underserved communities.** US consumers are now 2.6 times more likely to transact with banks associated with "high humanity."
- 31% of Americans are interested in **switching to a bank supporting diverse and underserved communities**.
- Those looking to switch hold approximately $1.04 trillion of investable assets in retirement and wealth.

Personal values influence choices: As shared values become the influencing factor in selecting products and services, Deloitte found, negative interactions become more likely to drive consumers to seek services that better reflect their identity and affinities. As a result, financial institutions that fail to address and improve equity issues will risk losing market share and brand strength.

- **One in six Americans feel unwelcome purchasing banking products** due to their race, gender, socioeconomic status, or sexual orientation.
- Black and Hispanic customers are **44% more likely to select a bank based on their personal values,** compared to the average consumer.

By the numbers: Each of the various affinity groups Deloitte surveyed identified a different need.

- **46% of Latin Americans** worry about **debt**, as that group was disproportionately hit harder by job loss during the pandemic.

- **Black Americans are 1.76 times** more likely to worry about having enough money for **retirement**.
- **Asian communities are 20% less likely** to have exposure to **digital banking**.
- **One in five women** worry about **educational debt**, which is **80% higher** than their male counterparts.
- **Nearly half of rural consumers** struggle with access to financial advice, which amounts to roughly **$400 billion of unadvised investment assets**.

The bigger picture: Digital access, open banking, and neobanks have changed the way people handle their money by expanding their choices. Instead of viewing banks as just a place to store money, transact, and access credit, consumers also want a bank to complement their personality, beliefs, and values. Deloitte identified more than 30 affinity banks in the market specifically designed to serve underrepresented groups who share common values and identity drivers.

- **Cheese** serves Asian American communities.
- **Fortú** focuses on underserved Latinos.
- **Daylight** is geared toward the LGBTQ+ community.
- **Kinley** and Greenwood serve Black Americans.

Deloitte concludes that as consumers continue to seek out products and services that better reflect their identity and affinities, **incumbent banks risk losing up to 10% of market share to the flourishing affinity market** if they don't take proactive steps to seriously serve underrepresented groups.

The big takeaway: Both incumbent banks and digital challengers must be thoughtful about their next moves. Incumbent banks will need to lean on personalization and inclusion, but must do so authentically to be successful.

- Internally developed products and services should be influenced and informed by people in the affinity groups they serve.
- Acquired companies and fintechs must align with the incumbent bank's values or the acquired firm may not reach its full potential under the new brand.

Since challenger banks can bring in specialization right from the starting gate, they need to direct their efforts toward customer retention.

- Their products, communications, and customer interactions need to regularly reflect the values that initially drew the customer in.
- They need to provide products and services that the affinity group cannot find anywhere else.
- They must promote their affinity group within the community, and encourage support from members outside of the affinity group.