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A report from the Deloitte Center for Financial Services

Building on the digital banking momentum

How banks could influence customer channel preferences

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KEY FINDINGS

- The pandemic is continuing to reshape banking preferences and behaviors among US consumers. Digital banking—perhaps for the first time—may be contributing to overall satisfaction with banks, which still remains quite overall robust.

- Our survey indicates that consumers will continue to use digital channels for simple transactional activities, but many consumers desire high-touch interactions for more complex products and services, such as mortgages and financial advice. Meeting consumers' latent need for the human touch in digital channels is a real opportunity for banks.

- Younger consumers surveyed demonstrate a preference for both physical and digital channels. However, they are less satisfied with their primary banks, and they are also at a higher risk of switching. Generally, they are also more open to financial products from digital-only banks and large technology companies.

- Banks have a unique opportunity to influence customer preferences for digital channels, increase stickiness, and at the same time strengthen relationships. Banks should capitalize on the momentum in the use of digital and self-service channels and try to elevate customer experience with an innovative blend of human and digital features.

Uncovering the new digital banking paradox

THE COVID-19 PANDEMIC was an unprecedented catalyst for digital banking across the globe. With many branches temporarily shut down and most physical interactions minimized, retail bank consumers in the United States had no choice but to embrace these self-service channels like never before.

Almost every bank, large and small, saw a spike in digital banking usage. For instance, Wells Fargo saw a 35% increase in remote check deposits and a 50% growth in online wire transfers compared to a year ago.[1] The pandemic even pushed many customers to use mobile banking for the first time, especially in the older cohorts. But will these new digital banking behaviors—some of which were involuntary—stick, and more importantly, will the increasingly digital interactions lead to sticky relationships?

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The answers to these questions are not as straightforward as they may seem. In fact, our survey findings indicate that consumers' preferences for digital banking are very much context dependent. They may use digital channels for many routine transactions, but for services that are complex and involved, many surveyed customers will want in-person interactions, even as their needs are evolving with changing social, economic, cultural, and technological trends. After the pandemic experience, consumers seem to be looking not only for instant gratification, increased convenience, and flexibility, but also more tailored services. That said, irrespective of the banking channel they use—the branch, phone, or a mobile app—one factor continues to remain important for them: the human touch.

Some of these episodic interactions may return to the branches, especially among cohorts more comfortable with live, in-person interactions. In fact, branches are likely to remain pivotal to banks' overall revenue growth and strengthening customer relationships. However, banks should capitalize on the digital banking momentum by blending digital and human experiences.

While mobile banking has made it convenient for consumers to check account status, pay bills, transfer money, or withdraw cash from ATMs, the new digital tools have also enabled easy access to alternative financial options from banks, digital-only competitors, and large technology companies ("bigtechs"). The net result is that stickiness with primary banks is at risk, especially among younger consumers. Our survey results also show that urban dwellers and those with full-time jobs are also likely to be more open to new banking relationships. (For the survey methodology, see sidebar "About the survey.")

So how should banks rethink the digital banking experience and expand their digital offerings with an eye on increasing customer loyalty? They could consider many things, from personalizing experiences to alleviating consumers' perceived security risks. Equally important, if not more, is the imperative to humanize banking interactions, whether consumers choose to engage with their bank in-person at a branch or digitally with a chatbot while banking online.

ABOUT THE SURVEY

The Deloitte Center for Financial Services conducted the Digital Banking Survey in March 2021. The survey was fielded to about 3,000 US consumers by an independent research firm. All data is weighted to be representative of the banking population. In this report, we focus on five generations of retail bank consumers: Generation Z: 18–23 years; millennials: 24–39 years; Generation X: 40–55 years; boomers: 56–74 years; and the Silent generation: 75 years or above.[2]

The focus of the survey was to gain insights into the stickiness of consumers' digital banking behaviors. In addition, we gauged their interest in banking offerings from digital-only banks and bigtechs, along with their perceptions of and loyalty to the primary bank, defined as the bank they use most frequently for their banking needs.

Blending high-tech and high-touch banking experiences

ONE-THIRD OF OUR survey respondents agree[3] that they are using digital banking channels much more now compared to the prepandemic days. In fact, many banks saw a record growth in digital banking usage and welcomed first-time users. Bank of America, for instance, noted that 7 million clients used Erica, its chatbot, for the first time during the pandemic.[4]

Not only does this rise in digital transactions bode well for banks' cost reduction plans, it is also contributing to topline growth. Digital channels accounted for 61% of US Bank's total loan sales in the three months ending February 2021, a jump from 39% a year earlier.[5]

Banks are delighted to observe this increased digital adoption—they had spent the last several years coaxing consumers to take up mobile banking.[6] But how much of this digital momentum is sustainable in a postpandemic world?

Survey respondents said they will likely continue to prefer the convenience of digital channels for simple, transactional activities, such as paying bills, transferring funds, or depositing checks (figure 1). Even boomers have become comfortable using online banking and are likely to continue this behavior, as many of their banking needs are simple and straightforward. One-half of the boomers in our survey said they preferred to use online banking to transfer funds to another person or account.

Meanwhile, Gen Z and millennial respondents are likely to use mobile banking apps much more frequently than older cohorts, likely for their "anytime, anywhere" banking functionality. Similarly, underbanked respondents—those who use alternative financial services providers such as payday lenders, check cashers, and remittance services—also favor mobile banking, as they have basic banking needs and also because younger respondents make up the majority of the underbanked segment in our survey.

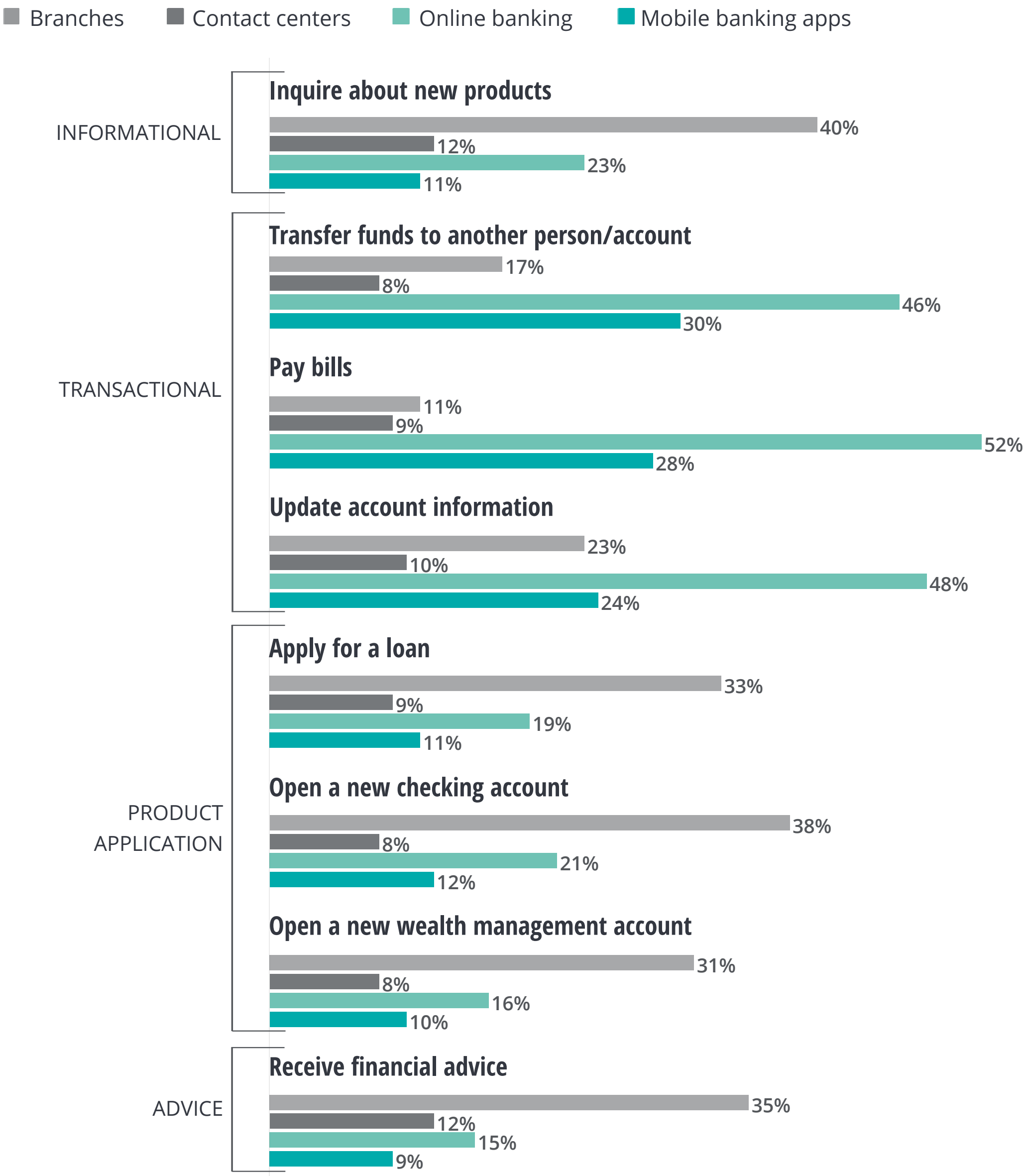
While digital banking has always symbolized convenience, it has traditionally lacked the human touch and the personal connection. As a result, many believe that engendering trust in a digital context is generally more challenging.[7] The pandemic, however, provided banks with an opportunity to blend the human touch in their digital interactions with customers. One such example has been enabling customers to remotely connect with bank representatives via video calls, which may continue to stick postpandemic. One-quarter of our millennial and Gen X respondents are likely or very likely to use video conference service on their mobile banking app or online portal to remotely connect with bank representatives.

While digital banking has always symbolized convenience, it has traditionally lacked the human touch and the personal connection.

FIGURE 1

Consumers would prefer using digital channels for transactional activities but bank branches for high-touch interactions

Preferred channels to undertake the following banking activities in a post–COVID-19 world



Notes: Percentages do not add to 100%, as respondents could choose more than one channel for a banking interaction. Respondents also had an option to choose none of the channels for individual interactions.

Source: Deloitte Center for Financial Services' 2021 Digital Banking Consumer Survey.

But not all efforts of blending the digital and human touch have been equally successful. The growing popularity of online and mobile apps, combined with increased call volumes and branch closures, was the perfect moment for chatbots to shine. But as consumer needs and queries grew more complex, as they were dealing with some extraordinary challenges, it was no easy feat for chatbots to adequately provide satisfying solutions. While a couple of banks saw higher engagement levels with chatbots,[8] there is still a long road ahead. Among those who have used chatbots in our survey, many found them to be less knowledgeable and less empathetic than a human agent. They also experienced longer waiting time to resolve their issues. Of the respondents who used chatbots for product inquiry in the last year, 82% would not use them for this interaction type in the future and 46% would instead use branches.[9] Humanizing chatbots, and other digital interactions, and providing faster resolution to consumers' issues, whether they are disputing a transaction, reporting a lost or stolen card, or reporting fraud, is going to be important in making digital banking behaviors stick.

Meanwhile, branches, even though not as convenient as digital channels, have the potential to personify warmth and empathy. It is, therefore, reasonable that older consumers are likely to go back to using branches for their complex, high-touch interactions, such as mortgage refinancing or home equity line of credit applications and financial advice, where they have an opportunity to engage in a dialogue and ask questions. For instance, 35% of boomers said they would prefer to visit a branch to receive financial advice, while only 8% of them would use online or mobile banking for this service.

The preference for branches is, however, not restricted to the older cohorts. One-third of millennials in our survey expressed a preference for branches for financial advice. What's encouraging though is that the pandemic has also made them more comfortable with using digital channels for high-touch interactions. Thirty percent of millennial respondents said they would prefer a digital channel (online or mobile apps) to reach out to their bank for financial advice.

This increasing proclivity to use both physical and digital channels, especially among the younger consumers, is giving rise to a new set of expectations for interconnected experiences. It may become increasingly normal for consumers to engage in multichannel journeys. Imagine a scenario where a consumer searches for information regarding a home mortgage on a mobile app or on a laptop, connects with a chatbot to find out the current interest rates, calls the customer service center to discuss the process for obtaining a prequalification letter, and visits a branch to submit the application. The transition from one channel to another is not seamless at present. Every time a consumer switches channels, they have to identify themselves and share the same information time and again. Naturally, this leads to a subpar experience. Unfortunately, this happens more often than banks and consumers would like.[10] It's important that banks' technology systems are tightly integrated to allow for a seamless exchange of data between physical and digital channels so that consumers can migrate from one channel to another with ease.

This increasing proclivity to use both physical and digital channels, especially among the younger consumers, is giving rise to a new set of expectations for interconnected experiences.

Losing younger customers

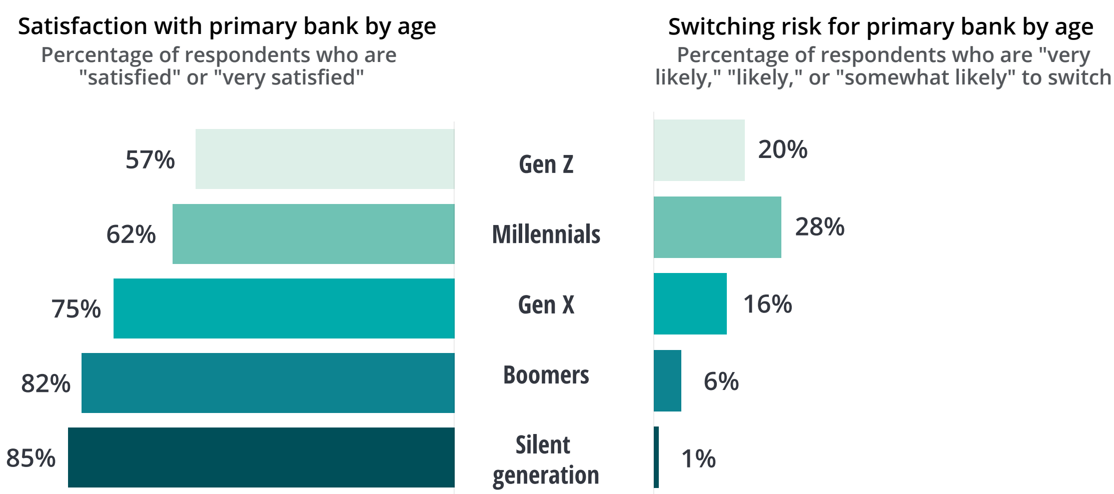
A new risk on the horizon

GIVEN RESTRICTIONS ON in-person interactions during the pandemic, one might conclude that consumers were not as happy with their banks in the last year. In reality, customer satisfaction with their banks remained at a healthy level: Seventy-two percent of respondents have been satisfied or completely satisfied with their primary bank in the last year. In our 2018 Global Digital Banking survey, 76% of US respondents were satisfied or completely satisfied with their primary banks.[11] Banks, in fact, seem to have made progress in improving trust in lending by putting the customers first, providing them the right guidance, and treating them fairly.[12]

However, not all customers appear to be equally happy. Younger respondents are much less satisfied with their primary banks and much more likely to switch to another institution compared to Gen X customers and boomers (figure 2), which is a worrying sign for banks. No doubt switching costs are likely lower for younger consumers, because they do not have as many accounts/relationships with their banks. But it does seem the younger cohorts have much higher expectations of their banks, influenced by their experiences with players in the other industries, fintechs, and bigtechs. Many, perhaps, don't simply want to use a bank to buy a financial product or complete a transaction but are rather looking for seamless, integrated, and intelligent experiences with a financial partner they can trust.[13]

FIGURE 2

Younger consumers are less satisfied with and at a higher risk of switching their primary banks



Source: Deloitte Center for Financial Services' 2021 Digital Banking Consumer Survey.

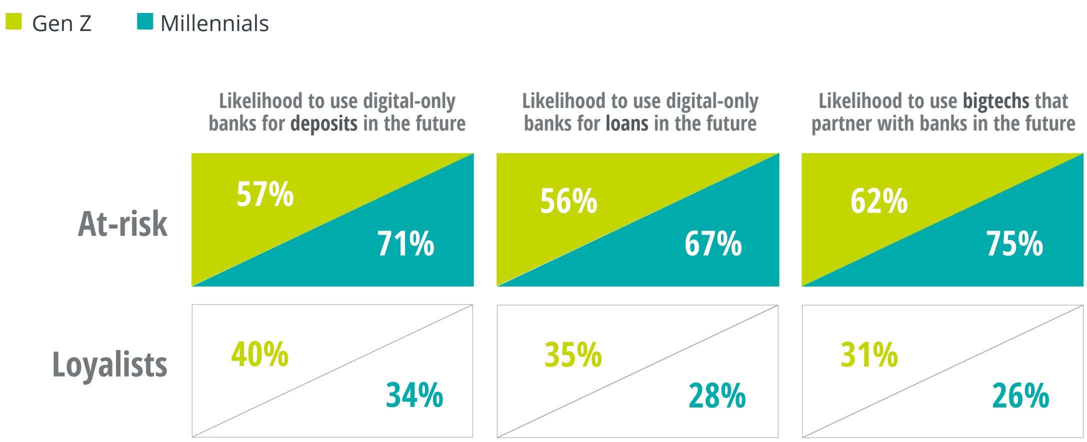
In addition, surveyed gig workers with one or multiple part-time jobs are significantly less satisfied with their primary banks, compared to consumers with full-time jobs and those retired. The sporadic nature of income, inadequate savings, challenges in access to credit, and more broadly, concerns about financial wellbeing could be some of factors impacting gig workers' satisfaction levels.[14] In our survey, 18% of gig workers disagree or strongly disagree that they were satisfied with the financial support (such as lower interest rates/charges, loan forbearance, or modification) their primary bank had to offer during the pandemic, twice as high (9%) as full-time workers.

As a result, banking consumers are often more open to exploring options outside the traditional banking system. In our survey, 29% of millennials are likely or very likely to open a deposit account with digital-only banks, compared to 5% of boomers. Moreover, underbanked customers are nearly thrice as likely to open a deposit account with digital-only banks, compared to banked customers. A recent study suggests that although satisfaction with digital-only banks has dipped during the last year, it still remains higher than traditional banks.[15]

In particular, at-risk consumers (those who are "very likely," "likely," or "somewhat likely" to switch their primary bank) are more open to a relationship with digital-only banks and bigtechs that partner with banks. This preference for nontraditional institutions is especially pervasive among younger customers, possibly due to the fact that these nonbanks offer superior digital experiences (figure 3). Younger consumers are also looking for innovative services that are currently being offered by nonbanks, such as automated spending insights, P2P payments functionality, and "get gas" and "get food" buttons that will find the nearest gas station and restaurant, respectively, and pay for it automatically.[16]

FIGURE 3

At-risk younger consumers are more open to a relationship with digital-only banks and bigtechs in the future



Note: Percentages represent "at-risk vs. loyalist Gen Z and millennial" respondents who are "very likely," "likely," or "somewhat likely" to open an account or use a deposit/loan product at a digital-only bank or bigtechs.

Source: Deloitte Center for Financial Services' 2021 Digital Banking Consumer Survey.

Reinforcing sticky behaviors and relationships

US RETAIL BANKS are thus confronted with two pressing challenges: How to maintain the stickiness of digital banking behaviors, and retain younger consumers? Addressing both in parallel will likely require a more concerted effort to humanize their customer interactions and make banking more convenient across physical and digital channels. At the same time, banks should not lose on the momentum in the use of self-service channels, think of novel ways to understand consumers' latent needs, and take a lead role in influencing their banking behaviors. Here's what they can consider:

Engage with a human touch: Humanizing customer interactions in an increasingly hybrid world will be pivotal to engage consumers, and branches and digital channels will likely have an equally important role to play. Our survey indicates that branches will not have lost their relevance in the postpandemic world and would remain important in catering to the demands of Gen Z and boomers alike. They are expected to continue to be the core platform to forge deeper, personalized relationships, along with providing a sense of community and "human" touch on important financial decisions, such as buying a home or planning for retirement.[17] While banks may reduce their branch footprint, they should revisit principles of design thinking to continue to remodel branches with intimate settings that allow for complex product-related conversations, financial goals–based discussions, and emotional connections.

At the same time, humanizing consumers' digital experiences and making digital banking channels more intelligent, empathetic, and quick to resolve customer issues would be equally important. Training AI models to understand the range of emotions that humans experience and adapt their approach can make consumer interactions with these digital channels much more personal and human-like. Meanwhile, training employees to encourage consumers to use self-service channels and educating consumers on the ease and convenience of these tools could lead to increased usage. To read more on elevating the human experience, read *Deloitte's Digital banking redefined in 2021*.

Humanizing consumers' digital experiences and making digital banking channels more intelligent, empathetic, and quick to resolve customer issues would be equally important.

Building human connections would also help digital channels, such as chatbots, to enable revenue-generating efforts, and banks could take inspiration from other industries in this regard. For instance, Amtrak's chatbot helped with automated bookings, which increased revenue by 30%, in addition to fielding close to 5 million queries and saving US$1 million in a year.[18]

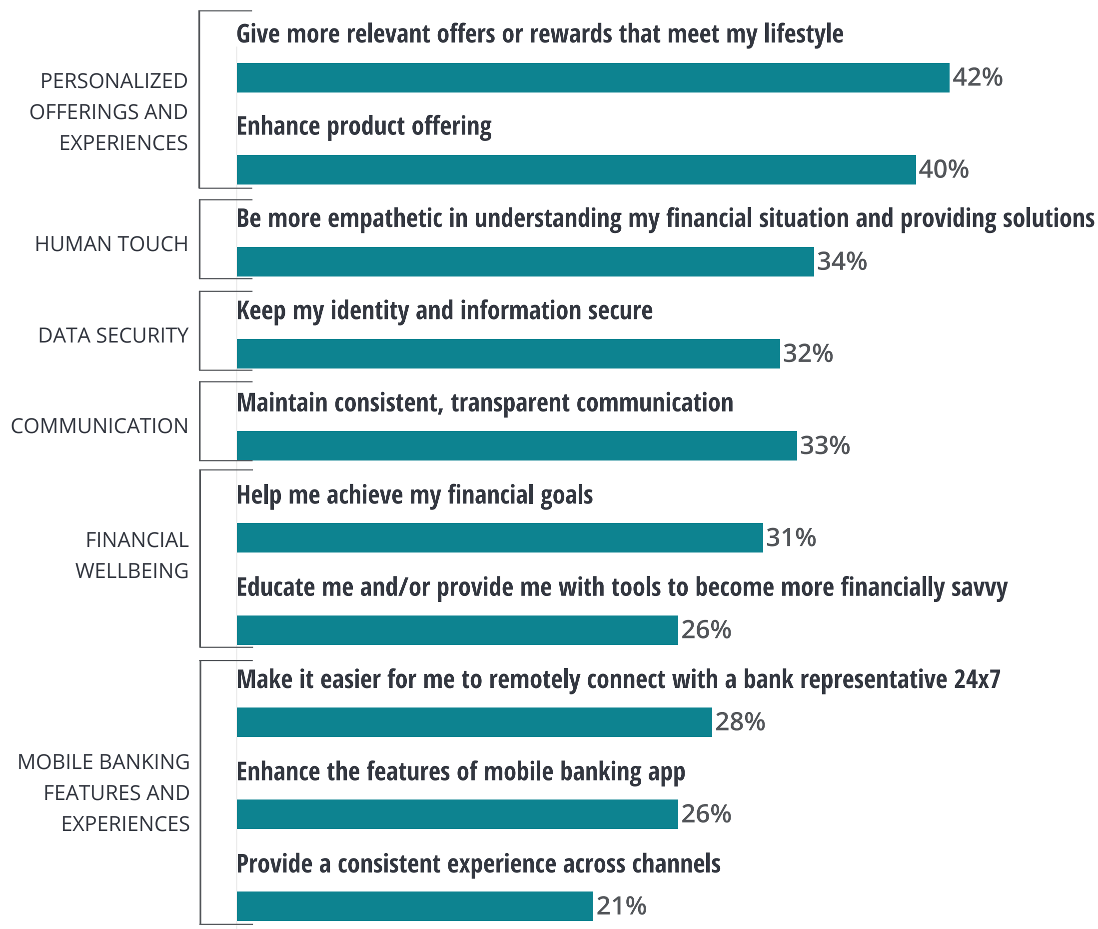
Personalize experiences: More relevant rewards and offers, such as location-based offers pushed through mobile apps or discounts on subscription of streaming services, should encourage at-risk consumers to stick with their primary banks (figure 4). This can't be any truer for the younger generation. About one-half of Gen Z and millennial respondents in our survey who are likely to switch their primary bank would stick if they were offered more relevant insights on offers and rewards. Moreover, personalized experiences could also help increase digital banking behavior stickiness.

For instance, consider Spotify's focus on personalizing the user experience. The music streaming company recently launched new features, including "Only You"—a dedicated hub in

FIGURE 4

At-risk consumers could stick with their primary banks if they're offered a bunch of product and experience enhancements

Attributes to make at-risk consumers stick with their primary banks



Note: Sample includes only at-risk respondents who are "very likely," "likely," or "somewhat likely" to switch their primary bank.

Source: Deloitte Center for Financial Services' 2021 Digital Banking Consumer Survey.

its app to throw a spotlight on users' music journey through the year—and "Blend," which integrates the brand further in users' lives by allowing them to create personalized playlists with a significant other, friend, or family members.[19] Taking inspiration from such players, banks could consider curating a list of financial products and services suited to individuals' unique needs and lifestyle based on their transactional and behavioral data, in place of overwhelming them with their full breadth of product portfolio.[20]

It has become clear that data will be central to any level of personalization. And given banks sit on a treasure trove of data, personalizing rewards, offers, and products should flow rather naturally. While it's true for some banks, many others remain challenged by legacy and disparate systems that do not talk to each other.[21] Cloud platforms can alleviate this pain point by connecting the data silos and enable banks to offer personalization-as-a-service.[22]

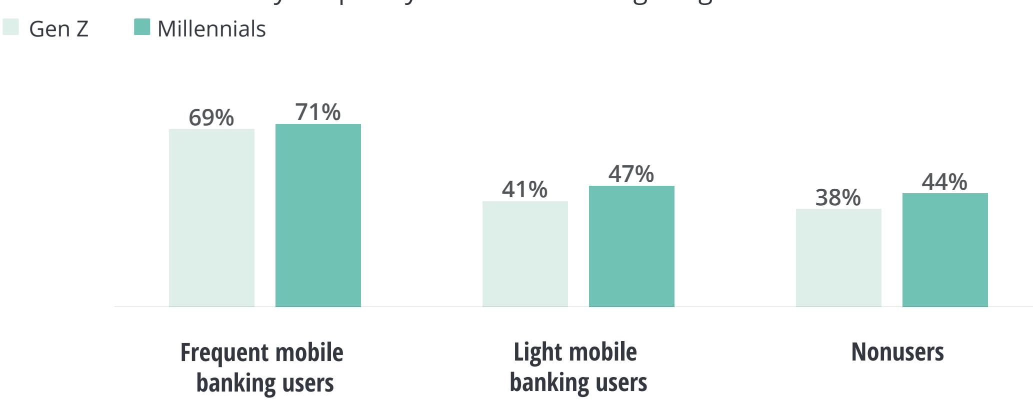
Break the channel silos: There appears to be a need for integrated banking experiences across branches, online banking, mobile apps, chatbots, call centers, and third-party digital assistants. One-fifth of the at-risk respondents to our survey said that they'd prefer a consistent experience across channels from their primary banks. Banks should work toward a seamless flow of data across all channels to have a 360-degree view of consumers.

Meanwhile, mobile banking apps should be positioned at the heart of such interconnected experiences, making it easier for consumers to remotely access a banking advisor live; open a new banking account entirely on the app; prestage an ATM transaction, and complete day-to-day activities such as buying groceries, shopping for apparel, paying bills, or managing their subscriptions without leaving the app. If mobile apps evolve as the go-to help tool for consumers, this could also minimize the need for call centers. Banks can see the net result in their happy customer base. Our survey indicates that younger consumers who frequently use their mobile banking apps are also more satisfied with their primary banks (figure 5).

FIGURE 5

Frequent use of mobile banking improves younger consumers' overall satisfaction with their primary bank

Satisfied consumers by frequency of mobile banking usage



Notes: 1. Sample includes only Gen Z and millennial respondents. 2. Frequent mobile banking users: Used mobile banking at least once in every two weeks in the last year; Light mobile banking users: Used mobile banking at most once a month in the last year; Nonusers: Didn't use mobile banking in the last one year. 3. Percentages represent respondents who are "satisfied" or "very satisfied" with their primary banks.

Source: Deloitte Center for Financial Services' 2021 Digital Banking Consumer Survey.

Banks should consider positioning mobile apps as the central platform for their consumers' various banking needs instead of their branches. Acting as the hub of interconnected experiences, these apps can help integrate the banks' otherwise siloed channels and become a go-to tool for consumers.

Ensure data security: Data security is one of the biggest concerns keeping the light mobile banking users (who used mobile banking app at most once in a month last year) on the fence. Moreover, consumers' anxiety over customer privacy, for instance how much of their personal data is protected and private, is reaching a fever pitch.[23] Ongoing advances in technology, including application programming interfaces, AI, 5G, and data sharing are further fueling these concerns, as the security of banks' complex, interconnected ecosystem is only as strong as the weakest link. A cyberattack on any of the banks' vendors or fintech partners could expose the security of their own enterprise at risk.

Now arguably, banks are taking the appropriate measures, as cybersecurity continues to top their technology spending priorities.[24] But perhaps they should pay attention to consumers' "perception of security and privacy." One-third of our survey respondents agreed they would use more mobile apps if their banks strengthened mobile data security. A similar proportion of at-risk consumers would stick with their primary banks if banks kept their identity and information secure (figure 4).

Banks should design targeted communication campaigns on the security and privacy features in their digital banking offerings and guide consumers on the leading practices of securely using digital banking.

Communicate with integrity and honesty: One-third of our at-risk survey respondents would appreciate consistent, transparent communication from their banks, such as on fees and interest rates (figure 4). Younger consumers value it even more: Forty-seven percent of Gen Z at-risk consumers mentioned their banks can retain them by maintaining consistent and transparent communication. This is also part of "humanizing" the banking experience, to communicate with integrity across digital and physical channels and engender trust.

According to a marketing research firm, Gen Z values attributes like being "honest" much more than "provides useful information."[25] And perhaps this is one of the areas where digital-only banks and fintechs score over traditional institutions.[26] Bridging this gap and winning the hearts of at-risk consumers can start with a small but impactful step: Phase out the "fine print" and embrace clarity in communicating with consumers.

Reinforce financial wellbeing with customer education: One-quarter of our at-risk respondents are interested in educational resources and tools to become financially savvy (figure 4). Moreover, about one-third of our Gen Z and millennial respondents also agreed that they'd use mobile apps more if their banks educate them on various products, services, and financial behaviors (such as debt management) to achieve their short- and long-term goals. Banks are uniquely qualified to reinforce financial wellbeing, but this can only happen if consumers are financially literate. So financial education, especially among the younger cohorts, should remain a top priority.

To appeal to their younger customer base that spends a significant amount of time on social media, banks should experiment with fresh approaches, such as influencer marketing, over more traditional marketing techniques.[27] Bank of America, for instance, invited a group of influencers to a "Better Money Habits Retreat" in Miami in 2019 to share insights on money management especially targeting millennials.[28] In addition, the bank maintains a dedicated website covering a host of tools and resources on savings and budgeting, homeownership, building credit, and retirement among other topics.[29] As many banks have started to invest in raising financial literacy, clearly defining these metrics to gauge the change in consumers' financial wellbeing, such as the increase in savings rate among users of these tools, would be important to measure the return on their investments.

Beginning a sticky chapter in the evolution of digital banking

DIGITAL BANKING IS entering a new chapter in its evolution. Consumers are much more aware of digital banking features and many first-time users have grown comfortable using them, at least for their transactional banking needs. Moreover, the banking landscape is shifting from "no choice but embrace digital" to "digital by choice," as branches reopen across the country.

While consumers are going to exercise their choice in different ways, it appears that use of digital banking is likely to continue for simple, transactional activities. Yet banks have an opportunity to humanize digital experiences to further make these digital banking behaviors stick.

Digital banking can also play a role in winning over at-risk younger consumers. It can be positioned at the heart of personalizing consumers' day-to-day interactions and elevating their financial wellbeing. Banks are uniquely positioned with the right tools and resources to educate consumers on, and help them embrace, more responsible financial behaviors.

However, they shouldn't lose sight of the human touch, especially for complex interactions where conversations and advice are integral to making milestone decisions and overcoming stressful moments in consumers' financial journeys.

The flexibility to therefore use "channel(s) of choice" and yet get a consistent, meaningful banking experience would influence the stickiness of overall banking relationships in the future.

While consumers are going to exercise their choice in different ways, it appears that use of digital banking is likely to continue for simple, transactional activities. Yet banks have an opportunity to humanize digital experiences to further make these digital banking behaviors stick.

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