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INSIGHTS

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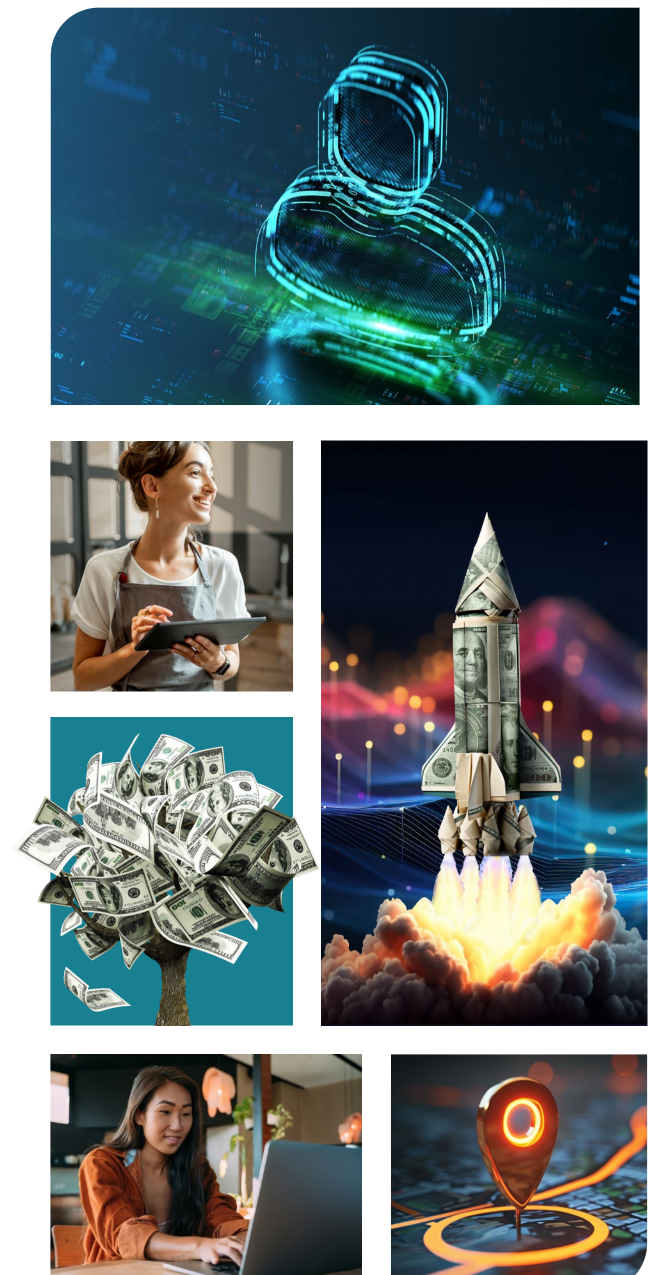

3 PILLARS OF FINANCIAL INSTITUTION SUCCESS

Growth Strategy: Adapting to Market Shifts

Increasing Acquisition: Beyond CRM Metrics

Building Loyalty Through Exceptional Customer Experience

TO ACHIEVE GROWTH, ACQUIRE CUSTOMERS AND DELIVER A POWERFUL CUSTOMER EXPERIENCE, START WITH DATA-DRIVEN STRATEGIES AND PROVEN PRACTICES.

By Michael Scicolone
VP of Financial Services at Claritas

With markets fluctuating daily, financial institutions have their work cut out for them. Inadequate strategic focus and lack of competitive data can thwart efforts to achieve three vital objectives: Growing, acquiring customers and delivering a powerful customer experience. Here's a look at best practices gleaned from thousands of client engagements that can provide a path forward.

In the current financial landscape, three key strategic imperatives will dominate the agendas of banking executives for the remainder of 2024: growth, customer acquisition and customer experience (CX).

Implementing these priorities necessitates unique approaches tailored to each individual institution, but there are also some broad principles that apply. We are pleased to share some valuable lessons we've gleaned during five decades of supporting hundreds of financial institutions.

PILLAR 01 Growth Strategy: Adapting to Market Shifts

BAI.org reports a negative trend in consumer deposits due in part to economic fluctuations like inflation and the current craze for certificates of deposit. While competitive CD rates have undoubtedly attracted customers — a 6.5% APY is hard to pass up — history suggests this trend will eventually recede, as we've seen with the pandemic-driven mortgage boom. To prepare for this inevitable shift, consider these simple, yet effective action steps:

- **Implement robust customer segmentation:** Utilize a system that incorporates unique financial needs and behaviors to understand customers' complete financial picture. This will allow the financial institution to adjust its strategy as market conditions change.
- **Identify best customers:** Look for concentrations of prospective customers with similar behaviors and compare them to existing data on how these segments, identified via that segmentation analysis we mentioned above, interact with the financial institution. Analyze which segments represent the "best" customers and prioritize them in growth campaigns.
- **Uncover hidden insights:** Segmentation may reveal hidden behaviors, such as owning a home, traveling abroad, or falling into the "elder" Millennial age range. This knowledge can inform targeted strategies, like refinance campaigns, travel credit card promotions, or content highlighting the advantage of 529 savings plan for college-bound children.

Look for concentrations of prospective customers with similar behaviors and **compare them to existing data on how these segments interact with the financial institution.**

Case Study Spotlight

In anticipation of opening new branches, Webster First Federal Credit Union proactively integrated a financial services-specific segmentation system with its first-party data to better understand existing members. This insightful initiative yielded previously unknown information, uncovering a sizable demographic of mature and fiscally conservative individuals within the member base. Armed with this valuable segmentation data and member channel preferences, Webster First strategically crafted targeted multichannel campaigns tailored to specific service areas surrounding the new branches. The messaging, meticulously designed around the segmentation analysis, resonated significantly with the target audience. By the conclusion of the third quarter, deposit growth had already far exceeded initial projections, surpassing the goal by a remarkable 250%. Read full Webster First Federal Credit Union case study.

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PILLAR 02 Increasing Acquisition: Beyond CRM Metrics

Growing the existing customer base differs from acquiring new customers. That said, marketers often approach acquisition campaigns with CRM metrics in mind, leading to unexpected and occasionally disappointing results. As Quinn Jalli, SVP of Email Products at Claritas, noted during a recent podcast interview, acquisition campaigns require a completely different set of realistic key performance indicators and the leveraging of insights gained from growth opportunity segments.

Remember, prospects are less likely to "open" marketing messages but they often engage more than an existing customer once they do. Refer to the institution's segmentation analysis: the insights used for existing customers are equally valuable for acquiring new ones.

Personalization with a Conscience: While personalization is key (Segment reports 45% of consumers switch brands due to lack of it), a fine line exists between effective and creepy. For example, seeing familiar geography-specific TV commercials or blended family unit portrayals that match one's own family makeup can work. More intrusive tactics like a pop-up ad mentioning a person by name and asking how they liked their morning cup of coffee bought from a local chain is off-putting and may backfire. Respect consumer privacy and ensure third-party data providers comply with regulations.

Data-driven Optimization: Let data guide campaign refinement. If a channel underperforms adjust ad spend to boost successful channels. We recommend accurately determining with multi-touch attribution, not just first/last touch attribution.

Acquisition campaigns **require a completely different set of realistic key performance indicators** and the leveraging of insights gained from growth opportunity segments.

Case Study Spotlight

When local mergers and acquisitions caused churn within neighboring financial institutions, Lake Michigan Credit Union, recognized an opportunity. Already adept at understanding the existing member base and acquiring new members in market, the credit union embarked on a "switcher" campaign. Acting swiftly, it delivered over 30,000 direct mail pieces within its targeted service area. Leveraging the intelligence of identity graph technology, it strategically linked email addresses to corresponding postal addresses, enabling a multichannel approach. This dual-pronged strategy — physical mailers followed by targeted digital outreach — resonated with its audience, yielding a post-campaign conversion rate of 8.3%, nearly double the industry average. This success underscores Lake Michigan's keen understanding of its target demographic and its ability to utilize cutting-edge technology to effectively reach them, establishing itself as a compelling alternative during periods of banking disruption. Read the full Lake Michigan Credit Union case study.

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PILLAR 03

Building Loyalty Through Exceptional Customer Experience

CX isn't just a buzzword — it's the bedrock of lasting success in the financial sector. Institutions with optimized CX witness accelerated growth, forge deep bonds with their customers and tap into a powerful source of new business: enthusiastic advocacy. So, how can the financial institution transform its CX landscape into a customer magnet?

Listen and Learn: Start by actively gathering customer feedback. Go beyond internal surveys — delve into external reviews, social media conversations and even focus groups. Incentivize participation —showing the financial institution values their voices builds trust and strengthens relationships. Remember, feedback isn't a criticism, it's a roadmap for improvement.

Unmasking the Mystery "Shoppers": Don't let anonymous website visitors remain strangers. Employ identity graph technology to connect identifiers to their browsing behavior. This unveils their interests and needs, allowing the financial institution to retarget them with laser-focused content and relevant offers. Imagine greeting them by name (in a non-creepy way) and recommending solutions tailored to their browsing history — now, that's personalized service that resonates.

AI-powered Precision: Take personalization to the next level with artificial intelligence (AI). Leverage AI tools to analyze customer data and deliver real-time, hyper-relevant experiences. This extends beyond static recommendations — imagine a banking app that proactively suggests a savings plan based on spending habits or offering a pre-approved loan for
that dream car the customer was browsing online. Human interaction remains irreplaceable, but AI adds a layer of intelligent assistance that elevates CX to a whole new level.

By proactively gathering feedback, unveiling browsing patterns and embracing AI-powered personalization, a financial institution can craft a CX that goes beyond convenience, fostering loyalty and turning the existing base into ardent advocates. Remember, happy customers are not just satisfied; they become brand ambassadors, driving organic growth and propelling the institution towards lasting success.

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Case Study Spotlight

Driven by a strategic objective to deepen customer relationships and expand existing share of wallet, Alltru Credit Union implemented a targeted auto loan campaign for its current members, leveraging social and digital display advertising. The internal marketing team leveraged identity graph intelligence to identify and strategically retarget website visitors whose online journeys hinted at potential interest in auto loans. The creative messaging for the campaign was meticulously crafted to resonate with these specific audiences, utilizing data on their preferred online channels to ensure optimal message delivery. This data-driven approach yielded impressive results: Compared to the previous year, website traffic to the dedicated auto loan landing page surged by 623%, a direct consequence of the targeted retargeting efforts. Furthermore, within a mere three months, the campaign demonstrably drove over 100 conversions, highlighting its effectiveness in influencing purchase decisions and cementing Alltru's position as a trusted financial partner for its members' automotive needs. Read the full Alltru Credit Union case study.

> **Adapting to market shifts, focusing on data-driven insights and prioritizing customers' experience** are key ingredients for lasting success in the financial services industry.

While many successful strategies exist, implementing these initial steps can put a financial institution on the right path to achieving growth, acquisition and CX goals. Remember, adapting to market shifts, focusing on data-driven insights and prioritizing customers' experience are key ingredients for lasting success in the financial services industry. ■

About Claritas

Claritas is a trailblazer in understanding American consumers, resulting in the industry's most embraced audience segmentation. Our solutions enable marketers to pinpoint audiences, execute multichannel engagements and optimize media spend. The Claritas Identity Graph drives these solutions and the integration of advanced AI technology enhances their accuracy, speed and scale. Learn more at https://claritas.com/.

WINNING SMALL BUSINESSES WITH 'JUST RIGHT' SOLUTIONS

UNDERSERVED AND LOST IN THE MIDDLE, SMALL BUSINESSES ARE HUNGRY FOR THE PERSONALIZED SERVICE THAT LOCAL FINANCIAL INSTITUTIONS OFFER.

By Carlos Carvajal
Chief Marketing Officer at Q2

Small businesses have traditionally been underserved by local banks and credit unions, driving most to bank with larger financial institutions. However, recent research reveals that small businesses would rather bank with community or regional institutions. That creates a huge opportunity for banks and credit unions to win small business accounts.

Remember Goldilocks, who struggled to get everything just right? Well, in the financial services industry, small businesses are like Goldilocks when it comes to finding financial solutions that fit them just right. That's because the industry has historically offered a choice of only two digital solutions — one for retail and one for larger commercial businesses. Small business owners can use the retail platform, which is easy to understand but doesn't have the necessary capabilities to run the financial aspects of their businesses. Or they can turn to the commercial offering, which has more capabilities than small businesses need and is overly complex.

Like Goldilocks, small businesses are stuck in the middle, searching for a financial solution that fits them just right.

This creates a huge opportunity for banks and credit unions. Because the majority of small business deposits are needed to run the business, financial institutions that win the operating account will be in a position to grow and retain those deposits. This also creates opportunities to drive fee income from traditional banking products such as ACH, wires, positive pay and other financial

> Banks and credit unions that can provide small businesses with the right combination of capabilities and a tailored digital experience can **compete and win deposit-rich and profitable relationships.**

management tools through fintech partnerships. Banks and credit unions that can provide small businesses with the right combination of capabilities and a tailored digital experience can compete and win deposit-rich and profitable relationships.

Where Are Small Businesses Banking?

70% of small businesses that are early tech adopters bank with a Big Four Bank, compared to only 13% who bank with a community bank or credit union.

As small business owners' preference for digital has dramatically spiked in recent years, they've turned in increasing numbers to larger financial institutions. According to data from Javelin Strategy & Research, 56% of small businesses bank with a Big Four Bank. It's worth noting that the number moves to 64% among Millennial and Generation Z business owners. Another study found that the Big Four's share of primary banking relationships among small businesses grew by 9% between 2018 and 2023.

Why?

Small business owners have long selected their financial institutions based on branch location. However, as the prevalence of digital banking has dramatically increased in recent years, small businesses prioritize digital solutions as a major criterion when selecting a financial institution.

> 65% of small business financial decision-makers **would be very likely or likely to bank with a community or regional bank** that offered comparable products, services and an online customer experience.

Small businesses assume larger financial institutions are investing the most in digital technology and offer more solutions for running the financial aspects of their business. Small business owners also perceive them to be more innovative (and quicker to partner with fintechs to expand their offerings) than their smaller financial institution counterparts.

Data from Datos Insights reveals that 19% of small businesses will definitely or probably switch financial institutions in the next two years and 33% would consider switching for better online tools to help them with their cash management. The same survey found that 65% of small business financial decision-makers would be very likely or likely to bank with a community or regional bank that offered comparable products, services and an online customer experience.

This represents an incredible opportunity for banks and credit unions to grow deposits and build meaningful relationships with small businesses.

Five Ways to Turn the Tables

Studies show that banks and credit unions with the right strategies and digital solutions can win significantly more small business accounts in the target markets they serve. Here's how.

STRATEGY/SOLUTION 1

Use data to uncover hidden gems.

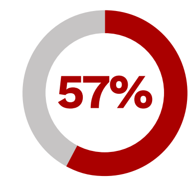
One way to uncover potential small business targets within your existing accountholder base is through data. For example, identify industry segments with high average deposit balances, such as dentists, real estate agents and lawyers. Later in this article, we'll cover how to target these segments with differentiated solutions that can provide a competitive edge.

However, many small businesses have accounts at more than one bank or credit union, so simply looking at deposit balances may not tell the full story. Some of the businesses you've identified may appear smaller than they are because they've spread their financial relationships around.

To find the hidden gems, you also need to analyze transactions and online behaviors. While a business may have lower average deposit balances than other small businesses in a particular industry, you may see patterns in their behaviors that indicate that they have balances at other financial institutions. This is often an indicator that you don't have a full relationship with them, which may be an opportunity to expand and deepen that relationship.

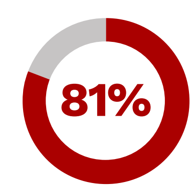
STRATEGY/SOLUTION 2

Offer curated digital solutions that go beyond traditional banking.



57% of small businesses believe their primary financial institutions offer only a few products and services they would be willing to pay for. And 79% of small business financial decision makers say it is required, very important or important that their bank or credit union provide solutions tailored to small businesses. Only 4% say it's not important.

Small business owners expect a digital experience that is tailored to their needs. For example, they look to their bank or credit union to understand their full relationship and expect that they're capable of managing both their personal and business accounts from a single login. They're also looking for financial institutions to provide solutions that go beyond traditional banking to help them operate their business effectively.



47% of small businesses go to a fintech company for faster payment capabilities, but **81% said if the same capabilities were offered, they'd prefer to get them from their bank.**

Depending on their size, 44% to 66% of small business owners surveyed by Datos want their primary financial institution to work with more fintech companies. A small business may not know what services to buy and even if they do, those services are unlikely to be integrated into their banking experience.

This creates an opportunity for banks and credit unions to be the aggregators of fintech services, such as accounting, payroll and expense management solutions, bringing them together in a package that works in concert with their traditional banking offerings.

> Since small businesses trust their financial institution to look out for them, **banks and credit unions can leverage that expectation to win their business** — starting with educating their customers and members about fraud.

STRATEGY/SOLUTION 3

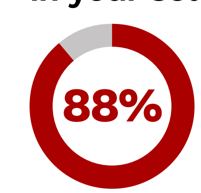
Make it easier for small businesses to do business with you.

There's a perception among financial institutions that small businesses don't need cash management solutions because, historically, banks and credit unions haven't been able to sell them effectively. But that's because these products were never put in a context that would make sense to a small business owner.

Diving into a conversation on ACH, control disbursements, positive pay or wires will likely overwhelm a small business owner. Instead, offer easy-to-understand bundled solutions that combine the right mix of traditional banking and fintech products for your target market segments. Then make it easy for them to buy the bundled offerings with a single monthly price instead of traditional cash management "P times V" pricing.

STRATEGY/SOLUTION 4

Include fraud prevention services in your solution bundles.



88% of small business owners cited fraud as their top consideration when choosing a payment type.

Ironically, small businesses have the highest risk of fraud but the least protection in place. In fact, in 2023, nearly one-third of small businesses were victims of check fraud. Many small business owners simply don't have the experience or tools to recognize let alone stop fraud, which can severely curtail a business's ability to operate or even put it under.

> Combining data and digital marketing enables banks and credit unions to **target the right audience with the right solutions.**

Since small businesses trust their financial institution to look out for them, banks and credit unions can leverage that expectation to win their business — starting with educating their customers and members about fraud.

The key is to offer fraud prevention solutions that are easy to understand and use. For example, use language like “check fraud prevention” instead of banking terminology like “positive pay” and remove the need to send check issue files by directly integrating with their accounting system.

The next step is to make it easy for small businesses to purchase these fraud prevention solutions by bundling them with other value-add products rather than selling them individually.

> Both digital marketing and personal encounters should **emphasize the unique advantage you have as a bank or credit union** that’s part of the same community as the small business.

STRATEGY/SOLUTION 5

Combine the power of digital marketing with personal service

Gone are the days when small business owners regularly visited their branches, especially since digital banking provides time-saving options for small business owners to do their banking anywhere and anytime. This is a silver lining for financial institutions — trying to cover all your existing and potential small business accounts with your relationship team is unrealistic since they can only speak with a limited number of accountholders and prospects personally.

Modern financial institutions use data to better understand small business owners’ needs throughout their financial journey. Combining data and digital marketing enables banks and credit unions to target the right audience with the right solutions. Digital marketing provides a scalable way to reach target businesses with tailored messaging that can result in higher-quality leads for your relationship managers. You also have the option to promote digital account opening solutions for specific segments of the market like micro-businesses.

Both digital marketing and personal encounters should emphasize the unique advantage you have as a bank or credit union that’s part of the same community as the small business. Business owners talk to one another and positive word-of-mouth references can be invaluable for growing your small business portfolio.

Combining the power of data, digital marketing and personal connections in your community is another way to turn the tables on the mega banks.

Getting It Just Right

Small businesses have long struggled to find financial solutions that fit them just right. And though many small business owners use products from larger financial institutions, more than half say they would prefer to bank with a local financial institution that meets their needs.

Having digital technology with proven best practices can level the playing field for you to acquire and grow small business relationships. For example, by providing a tailored digital experience to their small business and commercial members to quickly process payroll, handle remote deposits, and offer payment and ACH capabilities, Indiana-based Hoosier Hills Credit Union increased its business membership nearly three times and more than doubled its business deposits.

Banks and credit unions that don’t offer curated digital solutions with the right mix of traditional banking and fintech products that are easy to buy and use will be left with cold porridge. ■

FUELING **REVENUE** WITH **DATA-DRIVEN** MARKETING CAMPAIGNS

IDEAL CREDIT UNION GENERATED $330,000 IN NEW MONEY IN JUNE 2022. IN JULY, IT EXCEEDED $5 MILLION.

HOW?

DATA.

Financial marketers are under pressure to grow deposits and retain their accountholder base. One important key in doing that is using data analysis of accountholder behavior. But it's challenging without the right tools. Done right, as Ideal Credit Union found, the growth can be significant, exceeding company goals. It's about democratizing data, getting buy-in from the right decision-makers and optimizing campaigns using competitive intelligence.

By Alkami

> 58% of digital banking consumers say that receiving **relevant product recommendations gleaned through data is important to them.**

This year, marketers at financial institutions need to focus on two key goals: bringing in new depositors and engaging and maintaining their current accountholder base. It's a challenging task, but with the right tools, marketers can find many opportunities to achieve it.

Mining and catalyzing accountholder transaction data equips a marketer with rich behavioral insights to build campaigns with individualization and relevancy. But a dichotomy exists, especially in respect to regional and community financial institutions. As discussed on a recent webinar titled "How Financial Marketers Impact Revenue with Data-Driven Campaigns," 58% of digital banking consumers say that receiving relevant product recommendations gleaned through data is important to them. But only 29% of regional and community financial institutions say they're effective at doing it.

In an industry where marketers are striving for a technology stack that delivers integration and efficiency, they face common hurdles, including:

- **Ability to harness data.** It is a matter of using the right platform that provides data enrichment and behavioral insights for effective audience building. Without those, data is stuck in siloed architectures that aren't easy to penetrate.
- **Lack of ease and intuitiveness of marketing technology data tools.** There are many marketing technology (martech) tools out there to help marketers decipher data. Some are easier to use than others, so it's vital to test before a purchase is made.
- **Ability to manage compliance.** Unlike most other industries, financial services is highly regulated. The due diligence process with choosing a third-party vendor should include inquiries on keeping the financial institution compliant, in accordance with bank and credit union regulations.
- **Prove return on investment (ROI).** A financial institution can maximize its martech stack by having end-to-end, full attribution reporting including campaign spend, key performance indicators (KPIs), conversions or product openings, utilization behaviors and economic value data to determine the success or where there may be a need to pivot.

Using the data they already had and executing digital tactics, read how one credit union in the Midwest shifted gears mid-campaign pulling audiences using a martech tool that narrowed in on behavioral indicators, which resulted in record deposit growth.

Ideal Credit Union: Exceeding Goals With Transaction Data

Alisha Johnson, chief growth officer at Ideal Credit Union (Ideal), is behind the incredible success story about how Ideal used transaction data to drive revenue and exceed goals during a challenging economic time.

Back in 2022, the entire industry was dealing with the unprecedented rate increases that grew out of a high inflationary environment. Financial institutions had to shift from growing loans to growing deposits to remain profitable. Ideal set what it thought was an achievable goal for new money growth for the year, $21.6 million. **But by mid-year, it was sitting at only 11 percent of that goal.**

In June 2022, Ideal grew new money by only $330,000. With the goal seemingly out of reach, Ideal pivoted and put five campaigns in motion in July, all using member data based on behavioral insights.

By the end of July, the credit union hit $5.2 million in new money growth in that month alone.

The data-based campaigns propelled Ideal to exceed its 2022 goal of new money growth, hitting $21.8 million by year-end.

For 2023, the goal for the branch staff combined with the contact center was $40 million in new money. **Ideal finished the year with $64.2 million in new money**, with the contact center contributing approximately $2.8 million of those dollars. In the latter part of the year, Ideal also set member deposit retention goals. By proactively using data to target members with maturing CDs and utilizing interstitials and banner ads, Ideal retained the majority of the maturing CD money while continuing to grow new money.

"When we initially launched the specials, we were very concerned about cannibalization of deposits," Johnson said. "I attribute the early success of the program to being able to target our members who had money elsewhere and, using interstitial and banner ads along with some direct mail and email marketing, introduce those members to Ideal's deposit specials to incent them to bring that money to Ideal."

Johnson continued, "In addition, using that same data we were also able to provide leads to the front line staff encouraging them to share the product specials specifically with members whom we had identified as having money elsewhere."

> The value of data isn't just in knowing what customers buy; it's about **helping them make smarter financial decisions.**
>
> **— Jim Marous**
> **The Financial Brand**

Using the data, Ideal's outreach to members included messaging for offers and notifications that they were qualified. Additionally, the credit union's contact center tapped into the data and brought in an extra $1 million by the end of the first quarter.

3 Tips: Incorporating Data Insights in 2024 Plans

Jim Marous of The Financial Brand recently stated, "The value of data isn't just in knowing what customers buy; it's about helping them make smarter financial decisions."

The martech stack of a financial institution that is fueled by data and the decision-makers buying and using these platforms are as important as the data itself. The rich insights that transaction data provides can feed a financial institution's marketing strategy and empower the entire ecosystem with accountholder intelligence to drive relevant engagements at all levels. Start with these three tips as a foundation to incorporating data insights into 2024's marketing campaigns and business operations.

TIP 1

Democratize Data

As Ideal Credit Union found, data isn't just for marketing. It can be used to level up processes throughout the institution.

"On my team, I have marketing, sales, the contact center, wealth advisors and business intelligence," said Alisha Johnson, Ideal's Chief Growth Officer. "And I can tell you this technology touches all of those different areas."

Ben Udell, senior vice president at Lake Ridge Bank, agrees, stating that spreading the wealth of data is vital. "You need to keep selling people on what the new technology can do for other departments," he said. "It's how we better leverage our systems to make us more successful."

TIP 2

Get Finance's Buy-In

During martech evaluations, providers often calculate potential ROI from using the platform. At this point, it's imperative to bring in the finance team so they understand the ROI calculation to rationalize the upfront cost of the new technology.

"When you are presented with an ROI calculation from a potential provider, include your finance team right away," Johnson advised. "Your organization's profitability is determined and managed by your finance team. Don't fight for the potential partner's profitability calculation. Work in tandem with finance to determine the true ROI for your organization."

Additionally, to get buy-in from the finance team for new marketing technology, learn their lingo.

"This is a hot tip: If you're talking to your chief financial officer, do a little research on marginal cost of funds," Lake Ridge Bank's Udell said. "That's what the CFOs want to know."

Marginal cost of funds refers to the additional cost a financial institution incurs for each extra dollar of funding it acquires. This concept is critical to marketers, as it influences the types of campaigns they can choose. For example, offering a high interest rate on new deposits might seem appealing, but if it significantly increases the institution's funding costs, especially when shifting existing low-rate accounts to this higher rate, as it could be financially unfavorable. Understanding this concept helps in creating financially sustainable, targeted marketing campaigns.

To maintain a healthy marginal cost of funds, promote the best deposit opportunities, like a high-yield savings account or certificate of deposit, to accountholders who only have checking accounts with the institution. This will allow the financial institution to avoid cannibalizing its own products and keep marginal cost of funds low. That's the power of hyper-targeted, data-driven marketing campaigns.

TIP 3

Use Competitive Intel

When an accountholder banks with a competitor, that transaction history can give an institution information about that person's financial journey and product needs. Discovering who are the true competitors, how much money is leaving the institution and where products and services could be improved is intelligence that can drive product innovation as well as campaigns to increase share-of-wallet. Using transaction data, a financial institution can identify accountholders that have a competitive engagement and provide relationship managers with insights about accountholders' held-away assets or the competing institutions to which they send payments.

> Harnessing the data that already exists within a financial institution is the key to creating personalized marketing offers **that resonate with accountholders that impact revenue.**

The Takeaway: Driving Revenue Starts with Data

Harnessing the data that already exists within a financial institution is the key to creating personalized marketing offers that resonate with accountholders that impact revenue. And it's not just for marketers. The relevant insights that live deep in transaction and payment data should be the basis for activating a data-driven strategy that can be used beyond marketing in a variety of ways to build customer relationships, improve communications, provide a better user experience and innovate products and services.

Interested in learning more about how Alkami makes personalized marketing simple? Watch now. ■

3 QUESTIONS: INSOURCE OR OUTSOURCE?

HERE'S HOW FINANCIAL INSTITUTIONS CAN ASSESS WHETHER IT'S MORE EFFECTIVE TO ISSUE CREDIT CARDS IN-HOUSE OR FIND A PARTNER TO HELP.

By Elan Credit Card

As regulatory, competitive and economic pressures mount, banks and credit unions have decisions to make about their credit card strategy. Understanding changing customer needs and getting a handle on the true costs of operating a credit card program are critical steps for financial institutions as they consider insourcing versus outsourcing.

Ongoing changes in the regulatory, competitive and economic landscape are driving many financial institutions to review their credit card strategy and evaluate whether to invest in growing an internal program or explore an outsourced solution.

As leaders begin an evaluation, consider these three questions as a guide when deciding whether maintaining in-house issuing or seeking an outsourced partnership is best for the financial institution and cardmembers.

QUESTION 1

What is the true cost of a credit card program?

Let's start with profitability. Financial institutions often discover the total cost of an insourced card program is considerably higher than initially assumed. To accurately evaluate a card program's total return and efficiency, it is critical to examine program financial statements with all expenses to clearly understand each account's contribution to the bottom line.

In addition to easily identifiable items such as processing costs, rewards program management and network dues, consider costs related to changes in regulations (for example, current expected credit losses methodology, or CECL), variable interest rates and capital reserves.

Be sure to count administrative costs necessary to support the program toward the profitability equation; these include managing risk, fraud, collections, disputes, third-party provider relationships and more. The number of employee hours required alone can account for about 60% of non-interest expenses. Another potentially overlooked expense, which must be considered relative to the card program's profitability, is the cost of ongoing investments in product upgrades and technology to facilitate digital integration.

QUESTION 2

What do customers need?

It shouldn't be a surprise that customers rank a digital-forward experience highly. But they also consider strong reward programs and fraud protection as close, if not equally important.

Technology

From account acquisition to reward redemption, financial institutions should offer the entire cardholder lifecycle digitally. Nearly 80% of cardholders are enrolled in their card's mobile app, with adoption rates even higher for consumers under age 65.

The cost and resources of implementing these features is significant and the investment in ongoing technology management and updates can be daunting or even unexpected, as technology evolves. A recent report said smaller financial institutions invested an average of $425,000 per $1 billion in assets in digital transformation in 2023, more than double their $200,000 investment in 2021. Credit unions and community banks often lack the resources and capital to invest in technology for members, and risk losing business to competitors as a result.

> A quality partner is attuned to concerns about maintaining control over the customer experience and can ensure that the credit card program **reflects the financial institution's culture and objectives.**

Rewards and products

Offering an array of products to meet the unique need of the consumer is also important. From secured cards to high-reward products, matching the right products with the different lifestyles of members is key. A recent report showed that 81% of surveyed cardholders ranked rewards and cash-back programs as a top reason for choosing one card instead of another.

Financial institutions should review their current program with these questions in mind:

- Does it provide a product suite to meet customer needs across the credit score spectrum?
- Can the program's products and rewards compete against national issuers?
- Does the financial institution have the resources to market cards effectively?

Fraud protection

Cybersecurity and fraud are top of mind for consumers. In December 2022, the Nilson Report forecasted that U.S. losses from card fraud would total more than $165 billion over the next 10 years.

Investment in the management of fraud protection can be expensive and time-consuming. Many national issuers provide real-time, artificial intelligence-managed tracking to their consumers. Offering a similar option will keep a financial institution's cards competitive. Be sure to consider the cost of adding this type of tracking in the evaluation, as well as easy-to-use mobile app features for members if they are at risk, such as turning their card on or off as needed. Additionally, understanding the average cost of each fraud event is key to planning a program and how that will affect the revenue stream.

QUESTION 3

When is it time to consider outsourcing?

Whether staffing, liquidity or resources is prompting an evaluation, the time is now. Initiating a review of the existing program or the need for a new program, will be the ideal starting point.

While considering options, review the following questions:

- Can the financial institution maintain a competitive credit card program long term?
- Does it have the capital to invest in digital capabilities to meet customer expectations?
- Can the financial institution allocate the resources needed to manage the program's profitability and risk in a changing economy?

If a financial institution is dissatisfied with the answers to these questions, it may be time to evaluate the benefits of an outsourced partnership.

Many financial institutions are hesitant to explore outsourcing because they fear losing control over the customer experience. The key to mitigating this concern is to choose the right partner. A quality partner should understand the financial institution's culture and provide program visibility and ownership.

Benefits of an Outsourced Partnership

A successful partnership allows financial institutions to leverage the expertise, scale and investment of the issuing partner. It minimizes risk, cost and time commitment for the financial institution. Cardholders will likely benefit from a larger product suite, a more robust rewards program, stronger technology and enhanced fraud protection. ■

About Elan Credit Card
Elan Credit Card is a trusted partner to more than 1,300 financial institutions and has been a leader in the industry for decades. Learn more about a partnership with Elan and view all sources here.

4 WAYS **PERSONALIZATION** IS **EVOLVING** AT TOP BANKS

THE ABILITY TO USE AI TO LEVERAGE DATA IN REAL-TIME IS A TOP PRIORITY FOR BANKS LOOKING TO OFFER PERSONALIZED USER EXPERIENCES.

By Sean Allocca
Writer at The Financial Brand

The quest for the perfect customer experience is driving digital transformation at top banks and new strategies that take advantage of generative AI and real-time data sets are creating real opportunities.

Financial institutions are increasingly focused on new ways to interact with consumers and are now leveraging large swaths of data to do it. Technologies like cloud computing and open banking are already helping banks improve digital experiences and connecting client data to all parts of their business lines. The challenge is quickly becoming how to best capture that data and utilize it in real time.

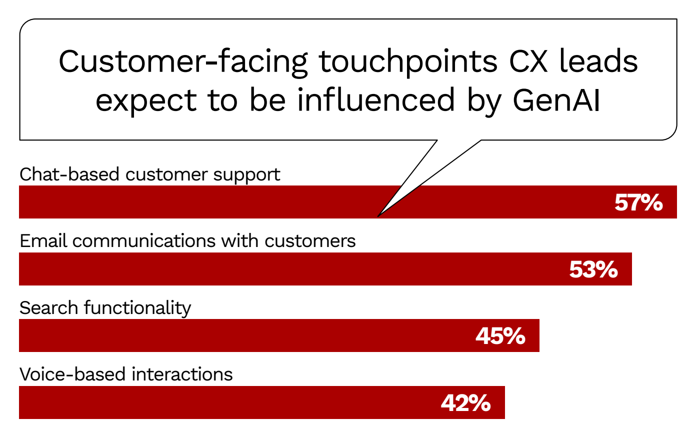
"Personalization is absolutely critical," says Leslie Gillin, former JPMorgan Chase Global CMO and current Chief Growth Officer at the lending fintech Pagaya. "It's the expectation in the world of Amazon – you need to be anticipating people's needs."

In a recent survey of 7,000 global participants by the financial consultancy Zendesk, more than seven in 10 customers (72%) said personalization is "highly important" to them and almost eight in 10 (77%) banking leaders said it leads to increased customer retention. While personalization is nothing new, there are trends emerging that create stickier engagements and turn casual users into life-long customers.

"Deepening existing relationships is priority number one with every bank," Gillin says.

Offering personalized product recommendation in real time is one avenue and can be a highly effective way to cross sell products, she says. Customers with multiple accounts create a "halo effect" and generally have higher deposit rates, lower delinquencies and pay back debts earlier.

To deliver these hyper-personalized experiences, banks will need to analyze and house large stores of client data, which could also bring privacy concerns.



THE FINANCIAL BRAND © February 2024 **SOURCE:** Zendesk

These customer profiles will have to be robust and use AI to collect and analyze the data.

"People think personalization and customization is only for sophisticated ultra-high worth customers," says Olivia Eisinger, General Manager at the custodian Apex that lists top digital banks like M1 Finance and Stash as clients. "I would argue that everybody wants personalized interactions and firms should be considering how they can use tech to enable those personalized experiences."

Creating Real-time Interactions with Customers

The ability to use AI to leverage data in real-time is becoming a top priority for companies that are looking to offer personalized user experiences. One prominent example is point-of-sale lending options – like Apple's Pay Later, Klarna and Afterpay – that offer lines of credit to pay off purchases right as the transaction is taking place.

These POS lending options (including BNPL) have quickly become the fastest growing asset class, according to Gillin, and are starting to take market share from the traditional credit card environment. "If you're not talking about something relevant to your customer, you're going to lose the opportunity and that impacts your bottom line," Gillin says.

Seventy percent of the global companies in the Zendesk research said they are actively investing in technologies that automatically capture intent signals. The benefits are clear. Instantaneous interactions create better customer service, enhanced customer loyalty and satisfaction, and more revenue from highly individualized and relevant recommendations.

However, more than 60% global banking leaders said they feel their companies are behind the curve in providing those instant experiences to customers. "The question remains however, will [customer experience] leaders have the vision and commitment to take full advantage of these tantalizing opportunities?" according to the Zendesk survey.

Personalization is Fostering Financial Inclusion

While personalization is helping banks boost their bottom lines, it's also opening banking options to traditionally underserved communities. That means serving more customers.

It comes as no surprise that people of color face inequities in the financial services landscape that other Americans simply don't. This includes lower access to financial institutions in their communities, lower approval rates and less availability and participation across a range of financial products and services, according to a recent report by McKinsey. Black Americans today constitute just about 1.5% of the nation's wealth, and the median Black family has about 13% of the wealth of the median white family.

One of the major structural issues is that data has not been fully leveraged to be able to serve more Black and Latinx customers, Gillin says. "That's really important from a financial inclusion perspective," she says. "Especially bringing more people into the mainstream economy."

Companies are now using broader data sets to go beyond traditional FICO credit scores to personalize financial products that help serve minority groups. By analyzing additional customer data points, like rent , phone and utility bill payment histories, fintech companies are offering more financial services to historically underserved segments than in past decades.

That's a win-win for the industry and opens necessary avenues to better financial products for more Americans. "It's the ability to leverage personalization to make sure that you're front and center in your customer's lives when and where they need you," Gillin says.

How to Harness AI Using Customer Data

With all the potential and hype around generative AI, banking executives are still in the early innings when determining the most lucrative ways to incorporate the technology into their organizations.

Traditionally, AI has been used to create operational efficiencies, and has evolved into a tool to gather insights from large data sets. But as the amount of customer data being gathered today continues to grow, the technology will also help businesses offer more humanlike and personable interactions.

"Data really is the new oil," says William Trout, director of securities and investment at the consultancy Datos Insights.

The technology can currently automate product offers to send to clients based on data, create wealth management recommendations about portfolios or investments, and is now recognizing customer intent. By looking at past behavior, however, AI is also beginning to piece together a more robust picture of the customer.

"It's becoming more like a service concierge based on customer profiles and grouping customers as part of an affinity groups, like health enthusiasts or sports fans, and marketing to them appropriately," Trout says. "It's gotten really tactical."

AI is now surfacing insights in real time that would otherwise have to be generated either by a human or manually on a one-off basis, creating a more human experience for customers, he said. The transactions could be linked to personal interests, like vacation spots or leisure offers.

"The secret sauce is to enable AI to have the capability to find the insights, and for that, you need robust data integrations," Trout says.

Open Banking Still Faces Major Hurdles

With the rise of larger and more robust data sets, the open banking movement is continuing to pick up steam in the U.S., and may revolutionize how customer data is shared between financial institutions and market segments. The ability to source data from multiple places will make it easier for many Americans to access financial products.

However, this utopian vision of the future of banking data still has major hurdles to overcome before becoming the way mainstream America banks. "The fact of the matter is you need consent," Gillin says.

She puts the percentage of Americans that have agreed to share their financial data at around 35% to 40%. As the trend continues, organizations will start to ask customers if they would like to opt into the data sharing, likely at the end of normal business transactions. Some top firms, like American Express, are already using similar tactics, she says.

"Having that additional information is a way for top companies to give healthier and better answers to customers," Gillin says. ■

OVERCOME PHANTOM GROWTH TODAY'S BANKING VILLAIN

By **Kasasa**

WHEN PURSUING DEPOSITS, TRADITIONAL APPROACHES LIKE CDs CAN GIVE THE ILLUSION OF GROWTH. WHY NOT AIM FOR **REAL** GROWTH THAT LASTS?

In the battle for consumers and deposits, certificates of deposit, borrowings and standard money market accounts may solve an immediate need for liquidity. But they can also be as fleeting as a ghost when rates and sentiments shift. Uncover the steps that will allow you to increase your deposits and decrease your cost of funds to create **real** growth.

The battle for consumers and deposits is a constant challenge — and one that doesn't look to be easing anytime soon. Deposits might be flowing in, but many are too expensive and don't last.

Many institutions have relied on high-yield CDs, borrowings and standard money market accounts to grow deposits. And while this approach may bring in consumer dollars, it also attracts rate shoppers and creates unsustainable funding costs, high attrition, constant repricing, ongoing liquidity struggles and more.

When you break it all down, community financial institutions are faced with three main challenges:

CHALLENGE 1

It's extraordinarily expensive to obtain new deposits

The traditional way to bring in new deposit dollars is to advertise a higher CD rate than your competitors — which also means a high cost of funds on your balance sheet. In the past, you'd advertise a high rate and pull in deposits from another institution that was paying little or nothing. But today you aren't poaching free money — you're actually poaching money that has a rate already attached to it.

CHALLENGE 2

CD terms are coming due, and you'll have to reprice them

When the rates started going up in the summer of '22, there was a shift from five-year CDs to one-year CDs in an effort to pump up rates there. Fifteen months later, those continue to be the highest rate product. And every time they come due, you have to worry about having the highest rate again, increasing the amount of your balance sheet that's tied up in one-year CDs.

CHALLENGE 3

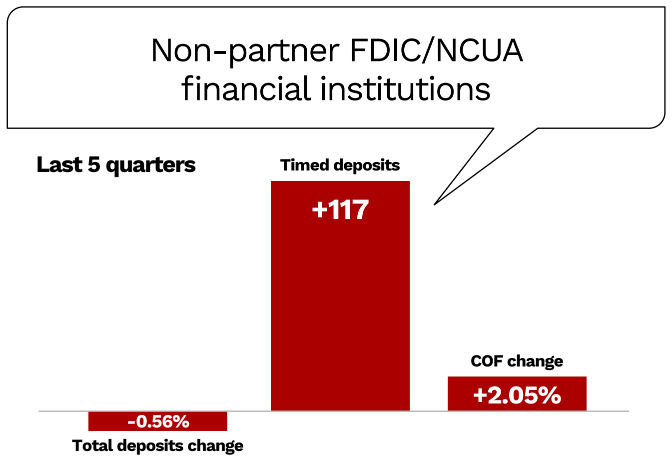
Deposit need isn't going away

Big-name brands have entered the fray. Major players that weren't there five years ago are now competing for — and they have a TON of money behind them to gobble up consumers. For example, Apple launched their savings account with Goldman resulting in $10 billion in three and a half months. In fact, 46% of new accounts were opened at fintechs in 2023. If you want consumers today, you're going to have to fight for them. Easy money isn't coming back.

The Low-Cost Demand Deposit Runoff

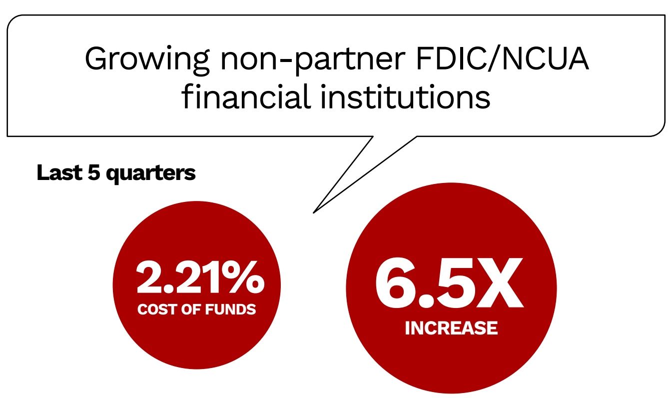
An analysis of Kasasa's non-partner FDIC/NCUA financial institutions over the last five quarters found a significant runoff in liquid low-cost demand deposits — to the tune of 9.5% for the entire industry. Some of that can be attributed to consumer spending, some to fast-moving fintechs. But the fact is, that number represents a large portion of deposits that probably aren't coming back.

Those deposits were and are being replaced by a 117% increase in CD funds. With most CDs yielding 5%+ across the country, this has created an overall industry cost of funds increase of 205 basis points. And whereas you may only see a net overall decrease of 0.58%, that still represents over half a trillion dollars.



THE FINANCIAL BRAND © February 2023 SOURCE: Kasasa

However, there are some non-partner institutions that did continue to grow. They accomplished that by not being as reliant on CDs as their peers. Instead, they leaned on CD rates, resulting in more than a sixfold increase in yields and a cost of funds of 2.71%.



THE FINANCIAL BRAND © February 2023 SOURCE: Kasasa

With deposit dollars moving out at an alarming rate, the constant need to bring in new deposits is always priority one. The constant effort by many institutions to increase those deposits has led to high cost of funds, high attrition, rate shoppers, ongoing liquidity struggles and much more.

That's not real growth. That's phantom growth.

What Is Phantom Growth?

It's happening at financial institutions every day, in a number of different ways:

- The high yield you advertised brought in new deposits, but the cost of funds ate up every penny of margin.
- The new CD promotion brought an influx of customers, but they all left for a higher rate as soon as the term was up.
- The consumer signed up for a new account, but then closed it when the fancy new fintech offered more.
- The signup bonus resulted in a lot of new accounts, but the deposits never followed.
- You were making good money on loans when the rates were good, but that all dried up when rates changed.

So, even though you may have been seeing more deposits and an influx of new accountholders, the balance sheet wasn't showing the same growth. And in many cases, just the opposite.

It's Time for a New Approach

In a world where it's getting harder and harder for community financial institutions to survive, there must be a way to drive profitable, lasting growth while protecting margins and gaining consumers for life.

There is. To drive **real** growth and gain consumers for life, you need to:

- Change the math
- Perfect the offer
- Manage the surprises

Change the math

The current math is definitely not adding up. The big special promo that's supposed to bring in all kinds of profits never shows up on the bottom line. New deposits come in, but the cost is too high and the customers take off as soon as the term is up.

Changing the math means increasing your deposits at a lower cost of funds by:

- Dividing your promoted rate and your cost into two separate, manageable variables.
- Offering a high annual percentage yield checking account rate with a true funding cost of less than half of that rate.
- Increasing transactions and e-statement adoption with set monthly requirements.
- Making every account more profitable by driving consumer behavior that generates significantly more noninterest income.
- Attracting younger, more engaged consumers with incentives for every type of account consumer.
- Gaining a stable funding source with a much lower attrition rate than typical free checking accounts.

Perfect the offer

Having a new product to offer is always exciting. The trick is being able to train and motivate your frontline staff to sell it. You've got to make sure you have the right message, the disclosures, the online presence — the list goes on and on. If you don't have all these in place, your product won't get the needed traction.

Perfecting the offer means going to market in a proven way that drives results:

- Equipping every team member to sell confidently with an on-demand learning portal, on-site retail training and ongoing support.
- Creating more compelling campaigns with best practice recommendations based on proven marketing plans and rich demographic data.
- Getting advice on the right product mix to help you achieve your unique goals.
- Testing out ideas and potential strategies with "what if" scenario reporting and sensitivity modeling.
- Creating all disclaimers and disclosures efficiently and effectively.

Manage the surprises

It happens all the time. You finally get everything up and running smoothly and BOOM — one change throws the whole thing off. Maybe it's a rate. Or a regulation. Or some shiny, new neobank hitting the market with sky-high yields (plus an iPad for signing up). The problem is, you never know what or when it will show.

> Gathering traditional time deposits may look like growth on the surface, **but all too often it's an apparition.**

Managing the surprises means optimizing program performance through regular analysis and consultation:

- Working with experts who understand community banking.
- Tracking exactly where you stand through evaluations and profitability.
- Creating the best response to market change using nationwide institution data.
- Leveraging decades of experience in multiple rate environments.
- Getting data-backed recommendations from peer benchmarking across nationwide accountholders.

Time to Get Real

When it comes down to it, you know how to get deposits when you need them — just advertise a CD with a higher yield than the institution down the street. But you also know how costly this strategy can be. CDs don't offer much margin (if any), don't translate into other profit centers, don't drive debit card interchange and don't retain consumers when the term is up, resulting in phantom growth.

Gathering traditional time deposits may look like growth on the surface, but all too often it's an apparition. Look closely at it and it disappears. What you really need is a proven way to drive consistent deposit growth while protecting margins. And that won't happen with CDs.

What community financial institutions need right now is **real** growth with stronger noninterest income, greater operational flexibility, broader consumer appeal and interest margins that widen versus peers who depend on funding sources more sensitive to interest rate risk.

And all of those can be accomplished with a unique approach to retail checking and savings. To learn more, be sure to download the ebook — **Creating real growth in the funding gap crisis.** ■

About Kasasa
Kasasa is a financial technology and marketing provider whose branded retail products, world-class marketing and expert consulting services help community banks and credit unions nationwide grow and retain low-cost deposits while creating deeper, more profitable relationships with their accountholders.

ESTABLISHING A ROBUST DIGITAL PRESENCE IS THE FIRST STEP ON A STRATEGIC JOURNEY THAT POSITIONS FINANCIAL INSTITUTIONS FOR THE FUTURE.

THE PATH TO **DIGITAL MATURITY**

ARE YOU THERE YET?

By **MeridianLink**

A digital transformation journey is a strategic roadmap, much like a board game that must be navigated. Financial institutions must pass essential checkpoints and milestones to achieve digital maturity. A trusted guide can help banks and credit unions achieve long-term, cost-effective growth.

As the financial services industry undergoes rapid evolution, adopting digital strategies has never been more critical. Tech-savvy consumers constantly demand more; fintech startups are delivering superior experiences. To compete and succeed, financial institutions must embark on a transformative journey toward digital maturity. This journey, like a well-played strategic board game, requires meticulous planning and attention to crucial milestones along the way.

The game is on and the stakes are high. Fortunately banks and credit unions can make several key moves to gain the positional advantage needed to emerge as leaders and winners.

Setting the Foundation

To begin the journey, financial institutions must establish a robust digital presence. This involves building user-friendly websites, mobile apps and online platforms that resonate with the preferences of today's digitally adept consumers. But as in any game of strategy, the first move is only a start. Creating a solid foundation is crucial for successful digital initiatives — but merely having a digital banking platform is not enough. It's crucial to constantly build and, when necessary, adapt.

> To meet the demands of today's digital-first audience, banks and credit unions must adapt their offerings to **minimize human error and effectively utilize digital apps.**

In a recent survey conducted by MeridianLink®, approximately 100 financial institution customers shared their 2024 expectations, revealing a compelling shift in focus.

42%

A significant 42% of respondents believe that credit unions and banks will prioritize the seamless omnichannel experience for consumers. What's more, almost 64% foresee a diminished role for in-person banking in consumers' daily lives.

The significance of those numbers prompts a closer examination of what it takes to achieve digital maturity and the execution of omnichannel banking — a strategy that offers consumers a wholly integrated experience across various touchpoints, including online, in-person, mobile, phone, email and even video.

Playing Your Cards Right

Digital maturity can be mutually advantageous for both consumer and financial institution. Consumers want to bank in their preferred format without any disruption or loss of information. With this approach, financial institutions can gather data at all touchpoints to personalize every interaction along every step of each consumer's unique financial journey.

As financial institutions progress toward digital maturity, especially through the implementation of an omnichannel strategy, the enhancement of each consumer interaction benefit becomes more pronounced. This evolution involves integrating various channels — including online, mobile, in-person and others — into a unified and cohesive experience. This not only meets consumer expectations but also maximizes the impact of each interaction, fostering satisfaction and loyalty.

Consider this holistic understanding of consumer behaviors and preferences as a financial institution's strategic asset, helping it to keep consumers actively engaged and invested in their financial journey. This knowledge positions the financial institution to offer tailored recommendations, products and support, fostering a deeper connection with consumers.

Swift Moves for Success

20%

Digital banking is here to stay: **20% of surveyed customers expect enhanced mobile banking apps in 2024.**

Millennials and Generation Z expect their banking providers to deliver seamless experiences, from streamlined digital applications to automated loan decisions powered by artificial intelligence.

To meet the demands of today's digital-first audience, banks and credit unions must adapt their offerings accordingly. This involves ensuring the best user experience, minimizing human error and capturing consumer interest through the effective utilization of digital applications.

Clearly, automation stands as the key to implementing a frictionless end-to-end workflow.

34%

So it is surprising that the 2023 Jack Henry Strategic Priorities Benchmark Study reports only 34% of surveyed financial institutions prioritizing automation in the coming year.

Streamlined processes are critical for financial institutions to swiftly extend relevant offers to consumers. Picture this as strategically planning to outmaneuver opponents. Speedy processing and underwriting are crucial for gaining a competitive edge and preventing consumers from seeking alternatives.

Harmonize Experience and Expectation

72%

According to Capco research, **nearly three-quarters (72%) of consumers believe a personalized banking experience is "highly important."**

On the path to digital maturity, leveraging data and analytics can be game-changing. Financial needs are varied across segments and today's consumers gravitate to messaging that resonates with their individual journey and preferences. The challenge, however, lies in overcoming legacy technology constraints that hinder the ability to modernize and deliver experiences aligned with those expectations.

Financial institutions are sitting on a gold mine of data but often lack the tools to understand how to increase the appeal of their products. Digital maturity can help a financial institution access these operational insights to strategically optimize efforts and transcend basic banking transactions to deliver superior consumer experiences.

Data serves as a strategic guide, supporting the financial institution in surveying the playing field and making informed moves, essential for showcasing a tangible return on investment.

End-to-End Optimization

Efficiency ratios are one of the top three performance metrics that financial institutions monitor. Think of streamlining processes as the opportunity to remove obstacles from the playing field. This is the point where a financial institution must identify and prioritize areas causing delays to ensure a fast, frictionless experience for both consumers and staff. This move accelerates the institution's competitive advantage, creating a smoother journey for everyone involved.

Beyond the immediate benefit of enhancing consumer satisfaction, the pursuit of digital maturity yields broader advantages, contributing significantly to operational efficiencies and cost-effectiveness. This shift equips financial institutions with the tools they need to allocate resources optimally and eliminate redundancies. Digital maturity unlocks deeper data insights throughout the consumer journey, empowering financial institutions to maximize the impact of their staff by automating tedious, repetitive tasks. Doing so results in more time for staff to engage in high-value support and proactive problem-solving.

> With a finely tuned digital operation, the financial institution can now **amplify its impact across diverse channels and markets.**

Ready for Action

The goal is in sight. With a finely tuned digital operation, the financial institution can now amplify its impact across diverse channels and markets. This is not just a moment to expand—it's a moment to leave an enduring mark, shaping the future trajectory of the financial institution with innovation and strategic prowess.

To catalyze these efforts, consider leveraging advanced tools like marketing automation and business intelligence solutions. These transformative technologies can streamline and accelerate the financial institution's demand generation through dynamic data analysis and audience segmentation, creating personalized outreach quickly and thoughtfully while uncovering additional insights into consumers to generate a full picture profile — and support achieving results such as a 910% increase in debit card monthly spending or a targeted deposit campaign with 699% ROI.

Preparing for Digital Maturity

The future of banking is undeniably digital. Consumers expect seamless, personalized and secure interactions across all touchpoints and the MeridianLink® customer survey highlights the growing importance of omnichannel and digital-first experiences.

So, from envisioning the digital transformation as a strategic roadmap to navigating it with seasoned expertise, this journey toward digital maturity is about strategic moves and pivotal milestones. ■

About MeridianLink

MeridianLink's software solutions offer streamlined capabilities that can help financial institutions achieve their digital-first goals. We're committed to serving as the trusted guide on this journey, ensuring each move leads to long-term, cost-effective growth. Contact us to learn more or schedule a demo.

GOING FOR THE GREEN

HOW LENDERS ARE EMBRACING NEW APPROACHES TO AUTO FINANCE AS ELECTRIC VEHICLE SALES RISE AND BORROWERS DEMAND DIGITAL LOANS.

By Origence

The way consumers interact with the auto financing process is being redefined and it's closely tied to the growing electric vehicle (EV) market. Auto financing is going digital, beginning at the point of purchase and relying heavily on a seamless online experience. This new way of financing goes by many different names: embedded finance, point-of-sale financing and top-of-funnel lending, to name a few. Any way you slice it, providing financing at the top of the sales funnel is changing the game and lenders need to be positioned for success.

Top-of-Funnel Lending

Although the traditional auto financing model is still very relevant, companies such as Tesla have leveraged a mastery of the digital experience to engage the consumer at the initial stages of research and consideration. Traditionally, the focus was on closing deals at the dealership, but the landscape has evolved and lenders must cater to consumers earlier in the process.

This approach holds great potential for lenders to not only capture a larger share of the auto financing market, but also to establish stronger relationships with consumers. By providing financing options at the top of the funnel, they can influence purchasing decisions and become trusted financial partners right from the beginning of the journey.

Catalyst for Change

EVs have become synonymous with innovation, not only in terms of their environmental impact but also in the way they are sold. For example, leading EV manufacturer Tesla has seamlessly integrated financing options into the vehicle purchase experience. This approach is not just about selling cars; it's about providing consumers with a holistic, streamlined process from research to ownership.

> Implementing this model requires a shift in perspective, recognizing that the digital space is the new showroom and **financing options are integral to the overall buying experience.**

This model has disrupted traditional vehicle financing by embedding financing options directly into the buying experience. Consumers are not only presented with vehicle options but also with financing choices. This financing experience simplifies the decision-making process for consumers.

The intersection of EVs and top-of-funnel financing represents a compelling shift in the auto industry's approach to the buying journey. EVs, with their forward-thinking technology and consumer appeal, provide a unique backdrop for the evolution of financing models.

Tesla's success with top-of-funnel financing underscores the increasing importance of incorporating financial considerations into the overall buying experience. It's not just about selling a product; it's about providing a comprehensive solution that includes both the vehicle and the financing plan. However, lenders provided are somewhat limited to a few key preferred players offered nationally.

Credit Union Strategy

For credit unions, embracing the top-of-funnel financing experience represents a strategic move towards meeting consumers where they are — online and at the beginning of their purchasing journey. Implementing this model requires a shift in perspective, recognizing that the digital space is the new showroom and financing options are integral to the overall buying experience. Credit unions that embrace top-of-funnel lending opportunities can position themselves as progressive financial partners for consumers navigating the EV market.

In addition, the concept of top-of-funnel financing aligns with the broader trend of providing consumers with a seamless and integrated experience. For credit unions, this means reimagining their role beyond traditional lending processes and embracing a more proactive and member-centric approach.

Getting Involved

The question then becomes: How can credit unions actively get involved in top-of-funnel financing? Origence launched a subsidiary, FI Connect, to bring borrowers, retailers and credit unions together for convenient financing at the point of sale. In December 2023, FI Connect announced a partnership with Tesla to offer credit union financing to EV buyers through the Tesla website. The partnership provides Tesla buyers seeking affordable monthly payments with more options through credit union financing.

By making credit union financing available at the point of purchase, EV buyers have easy access to competitive rates and extended financing terms — both important factors in providing EV buyers with options to lower their monthly payments. When a consumer finances their vehicle through FI Connect on the Tesla website, the contract will be purchased and serviced by a credit union.

The seamless process of funding loans and immediately passing them through to credit unions aligns with the efficiency and convenience members expect in the digital age. It also provides credit unions with the opportunity to help their members secure affordable loans with lower monthly payments.

> By getting involved right at the start of the lending process and focusing on making the whole financing journey seamless, credit unions are **positioning themselves as the frontrunners in this evolving scene.**

Credit unions partnering with FI Connect can participate in top-of-funnel lending opportunities that were traditionally inaccessible through conventional channels. It also opens credit unions to a new generation of members who otherwise might not be familiar with this type of financing option.

To actively participate in top-of-funnel financing, credit unions must look for ways to tap into these types of opportunities and adapt their strategies to align with the digital-first approach consumers increasingly prefer. This involves leveraging technology, optimizing online platforms and collaborating with innovative financial partners to create a seamless and user-friendly financing experience.

Looking Ahead

Credit unions have traditionally played a critical role in providing members with affordable vehicle financing. As the lending industry shifts, they can continue to be market leaders and play a central role in the top-of-funnel experience. It's not just a fleeting trend; it's a major shift in how borrowers connect to financing.

Credit unions that get on board with changing consumer needs are set to lead the pack. By getting involved right at the start of the lending process and focusing on making the whole financing journey seamless, they're positioning themselves as the frontrunners in this evolving scene.

This shift isn't just about keeping up with the times; it's about actively shaping what's next. As credit unions navigate these changes, they have a golden opportunity to lead the charge into a new era of auto financing. We're talking about a future that's all about smooth, all-inclusive and member-centered experiences. By diving into these new opportunities, credit unions are helping steer the whole industry towards a future that's innovative and really tuned into what consumers want. ■

WHY IT'S TIME TO HIRE A CHIEF AI OFFICER

By Caroline Hroncich
Writer at The Financial Brand

While banks aren't rushing to hire AI executives , they are investing in the technologies more frequently. Banks that are serious about making digital transformations when it comes to AI should consider having a centralized leader to take on the job. Here's why.

Hiring a chief AI officer, or CAIO, is an emerging trend that companies from hospitals to staffing firms are exploring as the utilization of generative AI increases. However, the chief AI officer title has been met with skepticism, with some claiming the technology could outpace the need for such a specific title.

Banks aren't necessarily rushing to fill these roles. Right now, they're mostly hiring data scientists, data engineers, prompt engineers and general AI experts to meet their needs according to Gartner research. More than half of banks (52%) say they plan to hire generative AI staff or experts this year, according to the Gartner data.

Banks do have big plans for this technology — and tapping a chief AI officer may become more prevalent soon. Roughly 22% of leaders from banking and investment firms say they are currently implementing or already implementing generative AI, according to research from Gartner. About 22% are piloting use cases, and 30% are planning to actively implement the technology in the next six months.

A leader whose sole focus is to implement and upskill staff on new AI technology and tools is needed at financial institutions right now, experts say. That said, hiring for a chief AI officer can be difficult, says Agustín Rubini, director analyst in the Financial Services and Banking team at Gartner.

Chief AI officers, he says, often need both advanced science degrees and experience in business strategy. That combination isn't always easy to find, Rubini says. But that doesn't mean the role isn't needed.

"We believe that the CAIO will start appearing more and more in this picture," he says.

Who Is The Boss?

The first challenge banks will have to address if they want to hire a chief AI officer will be understanding where that role sits within the broader organization.

At some companies, the chief AI officer may sit on the IT side, while in other companies, they may report to the chief operations officer. The role is a sort of hybrid between a chief technology officer and a chief information officer, Rubini says. But the internal focus of the role may make it slightly closer to a CIO.

"The CIO is a little bit closer to getting value for the business on the initiatives," he says.

What are CAIOs responsible for?

CAIO will be expected to perform the following functions:

- Partner with business leaders on AI initiatives.
- Orchestrate the design, creation, testing and deployment of AI technologies with technology leaders.
- Design, test and deploy AI policies with legal, risk and compliance objectives in mind.
- Measure the business and financial impact with the finance and operations teams. CAIOs must deliver quantifiable results.

AI touches every department in a bank in some way, says Sophia Velastegui, chief product officer at Aptiv, an automotive and technology company. Banks should make sure their CAIOs have a broad view of how the business functions, so they can better understand how AI can help workers in all areas of the business, from customer service to HR.

"For AI to be most impactful, it has to solve key business problems and goals," she says. "Bringing AI to every function and role of your company is key."

From the Top Down

Another reason why banks may need to consider hiring a chief AI officer is that many employees

> Nearly three-quarters of bank executives say the company's **AI strategies come from down the pipeline of leadership.**

expect their AI strategy to come from the top down. More than half of workers (57%) say they want training on AI from their companies, according to an Adecco survey.

AI strategy, in general, does tend to originate from the top, Rubini says. Roughly 74% of bank executives say their AI strategies originate from leadership, the Garner research found.

Banks also have to consider what their AI strategies will be long-term, Rubini adds. Do they want this individual to build their own team of experts who will then develop AI tools for the company internally? Or would the company rather outsource to consultants or vendors?

Wall Street banks are already building their own tools: Goldman Sachs, JPMorgan Chase and Morgan Stanley have all developed their own AI tools for a variety of functions. JPMorgan Chase, for example, has developed IndexGPT, an AI investment tool that analyzes and selects securities based on customers' needs. The bank is also experimenting with AI for document management.

But smaller and mid-sized banks will probably want to partner with a vendor or a consultant to bring in new generative AI technologies. "A great way is instead of trying to learn everything with AI, partnering with key tech providers, so you start understanding the different flavors of how AI can be," Velastegui says.

AI Needs to be Part of the Conversation

Generative AI is still new territory for many small banks — but the pressure to innovate is building. If community banks want to keep customers and avoid losing business to mega competitors, leadership will need to think critically about how they can shift the culture toward digital first.

Banks often have siloed business and IT departments, and that can make it difficult to shift the culture toward digital transformation, according to McKinsey research. Banks also have aging workforces, who may be less open to using new technology.

"While technology is a potent tool, it cannot single-handedly solve the deep-rooted cultural challenges that impede the evolution of banks," J.P. Mark, an equity research analyst and the founder of Farmhouse Equity Research, LLC, wrote in an article. "Actual progress demands a firm commitment to overturning established norms, setting the stage for a comprehensive digital transformation."

Banks may also struggle to recruit and retain strong tech talent. Software engineers, for example, may prefer to seek out roles at Big Tech firms like Facebook or Amazon. These companies often offer flexible work schedules and comprehensive benefits packages. If banks want to hire more tech talent, they'll have to start offering competitive perks.

"Talent doesn't see financial institutions as fast movers," says Anna Kooi, national financial services practice leader at the consulting firm Wipfli. "Historically, the pace of change has not been anywhere near the pace of change on the technology side."

Microsoft Didn't Start Out as an AI Company, Either

Even the companies leading AI today — like Microsoft and Google — didn't start that way. These companies invested in strong leadership and top talent that pushed their strategies forward, Velastegui says. Banks can do the same, but it may take some work on the talent side.

"Microsoft, Google, these tech companies, they were not AI companies [originally]," Velastegui says, who previously served as chief technology officer for AI at Microsoft. "But they have been leveraging AI for 20 years and have mind blowing innovation and growth."

Community banks may be somewhat newer players in the space compared to Wall Street, but with time and a few new hires, it's possible to make progress. Now, Velastegui says, is a good time for bank leadership to start making these decisions.

"If you don't innovate now, you won't be able to catch up later, let alone compete," she says. ■