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Digital Account Opening: You Can Only Improve What You Measure

Celent Retail Banking Digital Panel Series

Measuring the Value of Digital Account Opening

The past few years of pandemic turmoil have tested the digital transformation strategy of many financial institutions. Those that hadn't fully invested in digital banking technology now recognize the need to catch up quickly to remain competitive. Digital Account Opening (DAO) solutions emerged as table stakes in this environment — but now, when consumers can again choose where and how to open accounts, does DAO still resonate as a must-have for financial institutions to grow?

For those debating whether to implement a new or upgrade an existing DAO solution, it is imperative to understand how the channel is performing. This report from Celent, a leading research and advisory firm focused on technology for financial institutions, provides operational benchmarks and insights on DAO's effectiveness as an alternative to traditional account opening.

Analyzing data from 19 institutions of various sizes, the report uncovers strengths and challenges associated with DAO effectiveness today and ultimately acknowledges the channel's potential for growth. Within the report you'll find a blueprint for operational success, including the selection of a modern platform, regular measurement of benchmarks, and consistency across traditional and digital channels.

The report findings track well with Apiture's goal of providing modern, flexible DAO solutions that help financial institutions of all sizes grow. Strong DAO technology has huge potential to attract and retain key demographics, and as such, should be an integral part of every institution's digital banking technology strategy. As the report recommends, measuring and analyzing DAO operational results and implementing necessary adjustments should result in better traction from this technology.

We hope the following report provides valuable insights as you learn about DAO marketplace trends and how this technology can support your financial institution.

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DIGITAL ACCOUNT OPENING: YOU CAN ONLY IMPROVE WHAT YOU MEASURE

Celent Retail Banking Digital Panel Series

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08 September 2021

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EXECUTIVE SUMMARY

North American banks and credit unions are achieving widely varied results with digital account openings. The most effective institutions have two things in common: they follow well-established best practices and they rigorously track process and value metrics.

The research for this report is a direct result of banks asking Celent to help benchmark their Digital Account Opening (DAO) operational performance. To do this, we invited our Digital Banking Research Panel members who participated in our March 2021 survey[1] to share anonymized operational results around new account openings across the acquisition channels: digital, branch, and contact center. We compiled a list of key performance indicators (KPIs) collaboratively with several members of the panel.

Providing the information was a heavy lift for many institutions. Many on the panel did not have ready access to the data. Most had to enroll others in the bank to collect the information. In total, 19 institutions responded. Few supplied all the requested information. The idea that those responsible for DAO in many institutions do not closely follow KPIs that measure the efficacy of their efforts may help explain why so many banks underperform. However, this isn't the only reason.

Key Findings:
The wide variation in processes and capabilities uncovered in our March 2021 survey has produced a range of outcomes across most operational benchmarks among institutions on our panel—often by a **factor of five**. Some of our findings include:

- Too many banks still utilize outdated identity verification (IDV) approaches that are wholly unsuited for DAO. This shows up in the high rates of digital applications failing to adequately validate an applicant's identity. Branch-based IDV fail rates were uniformly low at roughly 1%. Digital IDV fail rates averaged 20%, with a high of 31%. Many of these failed at out-of-wallet challenge questions and resulted in application abandonment.
- Many institutions don't offer multiple account-funding mechanisms. With most new accounts funded using external ACH systems, banks that support real-time funding achieve demonstrably higher funding rates (and higher pull-through rates as a result). The delay and friction of trial deposits is a common customer experience killer, but a relatively easy one to fix.

[1] See the Celent report, State of Digital Customer Acquisition: Much Work Remains

- We did not observe significant differences in other operational metrics with small differences in the average time it takes to complete an application (between 4 and 6 minutes). Clearly, a fast and low-friction customer experience is important, but seconds don't matter here.
- For all their efforts in DAO, rare is the institution in which digital contributes more than one-third of new customer accounts. Those that have a higher percentage of digital customer acquisitions also excel in other operational metrics. In addition, they diligently follow up on abandoned applications and have a comprehensive, systematic digital onboarding program. These banks continually improve the process but recognize that the process serves a greater objective of creating thriving long-term customer relationships.
- Contrary to the narrative that "once customers go digital, they never go back," average new account mix changed modestly in favor of the branch channel over the past year. Across the panel, digital accounted for 22% of all new accounts in the most recent quarter compared to 27% one year ago.
- On average, digitally acquired customers have lower account balances and attrite at dramatically higher rates than customers that begin their relationship with in-person engagement. New account holders acquired through the branch had 90-day average account balances of $9,466 compared to $1,785 for those acquired digitally and experienced an annual attrition rate of 16% compared to 39% in the digital channel.

Celent created a research panel to examine banks' attitudes, progress, objectives, and priorities around the red-hot topic of digital. We recruited panelists from our client base and from industry contacts (respondents do not have to be Celent clients to participate). Celent is accepting additional requests for membership in the panel and expects to field ongoing research with surveys roughly every quarter. If you are a banker and would like to participate in future digital banking research panels, please register here. Panel members direct future research and participate in exclusive roundtable discussions.

Note: Celent believes the insights contained herein are a good yardstick for the attitudes and activities of North American financial institutions. However, the panel is not strictly representative of the North American financial services (FS) market for two reasons. First, like most surveys, a managed panel necessarily involves some selection bias. That is, individuals more concerned about the topic are likely to participate. While this is a known error mechanism, the extent of its impact is difficult to determine.

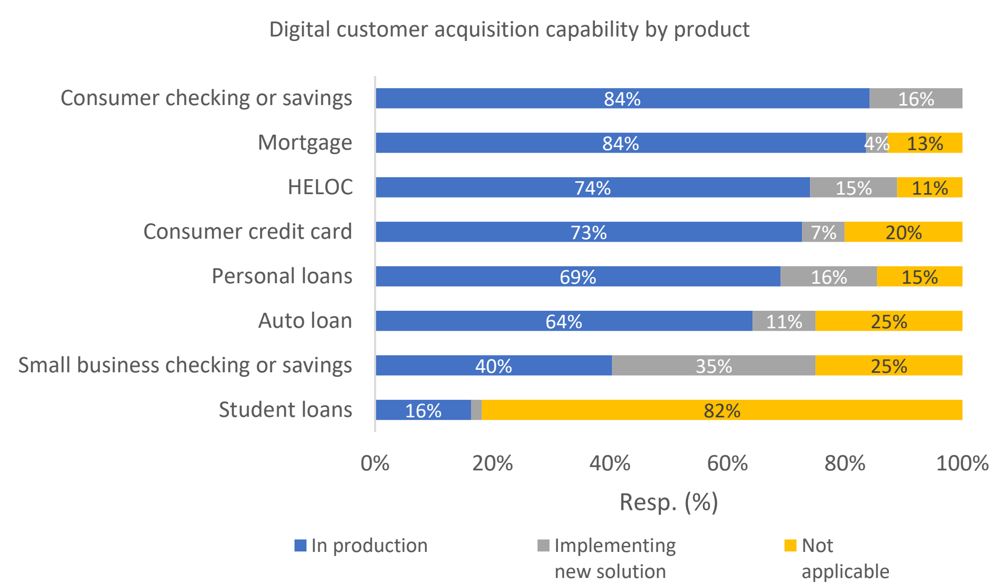
Second, the panel composition does not mirror the overall market in asset tiers. Very few surveys of financial institutions do so. Celent's Digital Panel is composed of North American (NA) banks and credit unions (financial institutions, or FIs) across the asset tiers with representation from several roles and functional areas.

MANY APPROACHES PERSIST

Our previous Digital Banking Panel survey (March 2021) found that, despite the rapid growth of digital customer acquisition and increasingly broad industry adoption, capabilities remain nascent. Digital customer acquisition is new for most institutions. The opportunity for improvement is large, and much work remains to be done.

As a result of the high priority given to digital customer acquisition, it is now relatively commonplace among North American institutions. Importantly, this is true across retail and business banking products. Roughly three-quarters of surveyed institutions are in production or implementing new solutions across retail banking products they offer. Small-business products are a keen area of focus, with 35% of institutions implementing new solutions. Not surprisingly, DAO for consumer checking and savings is the most broadly available capability (84%). After all, that is where most institutions began their digital sales efforts (Figure 1).

Figure 1: Digital Customer Acquisition Is Commonplace, Yet Much Work Remains

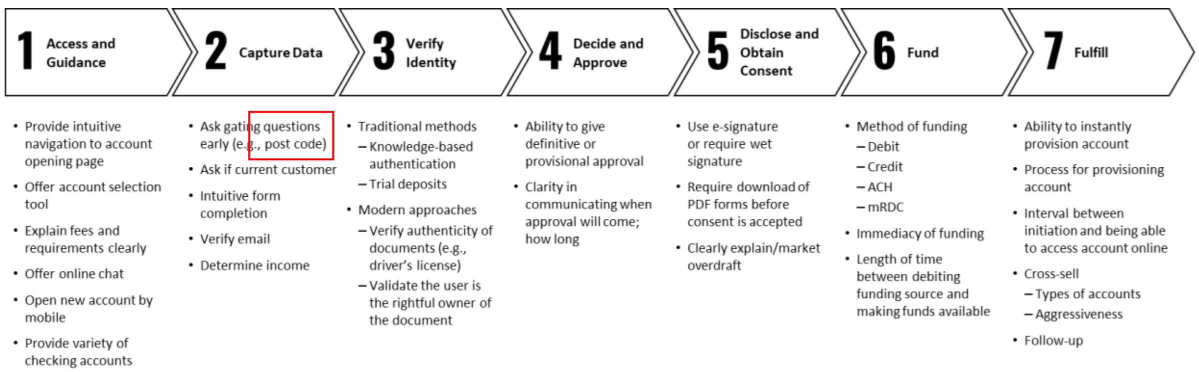


Source: Celent Survey of NA financial institutions, March 2021, n = 58. Q: Indicate which best describes your institution's digital customer acquisition capability for other retail and business banking products.

Just because an institution can digitally acquire customers across one or more products does not mean the customer experience is a good one or that results are in line with expectations. As we saw, there is much opportunity to improve the process and capabilities across the user journey at many institutions.

We examined institutions' current and planned capabilities to enable and automate customer acquisition for the most broadly offered capability and simplest process—consumer current account opening. The survey asked specific questions for each of the account opening process steps illustrated in Figure 2.

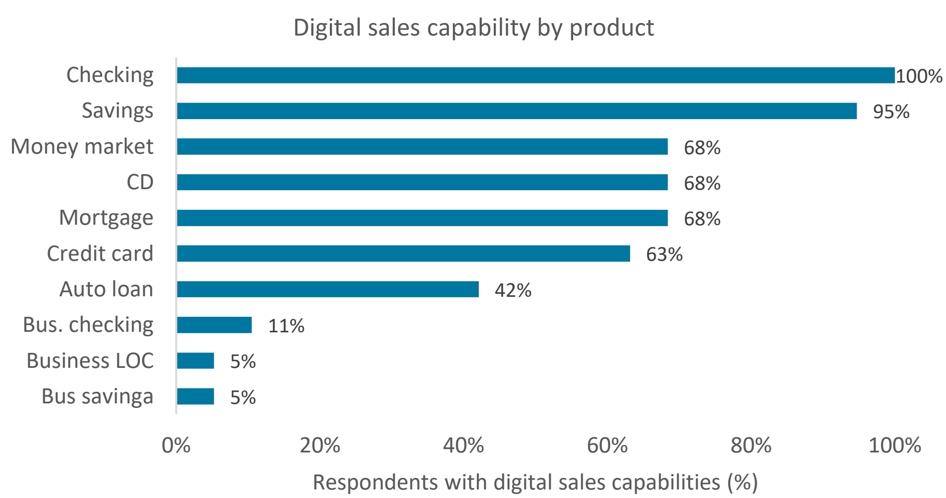
Figure 2: Digital Account Opening Process Steps



Source: Celent

The March 2021 survey found dramatic differences among responding institutions. Our August survey examined the resulting effectiveness by collecting anonymized operational metrics among a subset of financial institutions with visibility to detailed metrics and the willingness to share them with Celent. The survey had 19 responding institutions. Each institution offers digital account opening for consumer checking accounts. Most also enable digital acquisition of savings, money market, CDs, auto loans, and mortgages (Figure 3).

Figure 3: Two-Thirds of Our Sample Originate Multiple Products Digitally



Source: Celent DAO Benchmarking Study, August 2021, n = 19

The operational metrics gathered were those specifically requested by most participating institutions. Altogether, we collected 13 metrics to assess operational effectiveness across three areas (Table 1):

1. **Process effectiveness**: a collection of metrics that collectively indicate how well the DAO process is working.
2. **Sales effectiveness**: institutions' comparative ability across acquisition channels to open accounts and cross-sell other products.
3. **Customer value**: a set of measures that indicates the relative value of customers that have been acquired across different channels.

Table 1: We Gathered Operational Benchmarks in Three Areas

Area	Metric	Definition
Process Effectiveness	Completion rate (%)	% of digital applications that finish without abandonment
	IDV fail rate (%)	% of applications that fail IDV by channel
	Pull-through rate (%)	% of digital applications that result in funded accounts
	Self-serve rate (%)	% of digital applications that complete without bank intervention
	Funding rate	% of new accounts funded within first 30 days
	Funding method mix	Percent breakdown by funding method
	Time to complete	Avg. time to complete digital application
Sales Effectiveness	New account mix by channel	% of new accounts acquired by acquisition channel
	Cross-sell ratio	Avg. number of products sold per application
Customer Value	Average account balance by channel	Avg. 90-day account balance by acquisition channel
	Customer attrition by acquisition channel	% attrition among new accounts acquired by channel
	Fraud rate by acquisition channel	% of new accounts closed by channel due to confirmed or suspected fraud
	Fraud loss by channel	% of fraud loss attributed to each acquisition channel

Following the survey, Celent conducted telephone interviews among six responding institutions to capture additional context. In addition, by referring to individual responses to our previous survey, we could correlate differences in operational results with system capabilities and processes, such as an institution's approach to identity verification or post-account funding onboarding processes.

As we will see, the differences in system capabilities and processes exposed in our March 2021 survey produce dramatic differences in operational results. In the next three sections, we examine process effectiveness, sales effectiveness, and customer value while highlighting processes and capabilities that demonstrably achieve the best results.

HOW EFFECTIVE IS THE PROCESS?

With widely varying DAO processes and capabilities among NA institutions, it should be no surprise to also see largely different operational results.

Ultimately, DAO is about acquiring cost-effective deposits, growing new customer relationships, and enjoying the resulting profitable revenue. Achieving any of these objectives begins with an effective process. Once a prospective customer intends to open a checking account digitally, they are best served by clear product positioning; a fast and easy application, funding, and onboarding process; and seamless access to a banker if they have questions along the way.

Many industry voices suggest the key to DAO effectiveness lies simply with reducing friction in the application process. We see things differently. However important, the application process is but the start of a customer relationship. Equally important is the institution's ability to consistently demonstrate value to each customer after the account is opened. This begins with the application process and continues well afterward. In this section, we look at several metrics directly related to the application process effectiveness; namely completion rate, self-serve rate, pull-through rate, funding method mix, funding rate, and the time required to complete the application.

Completion rate:

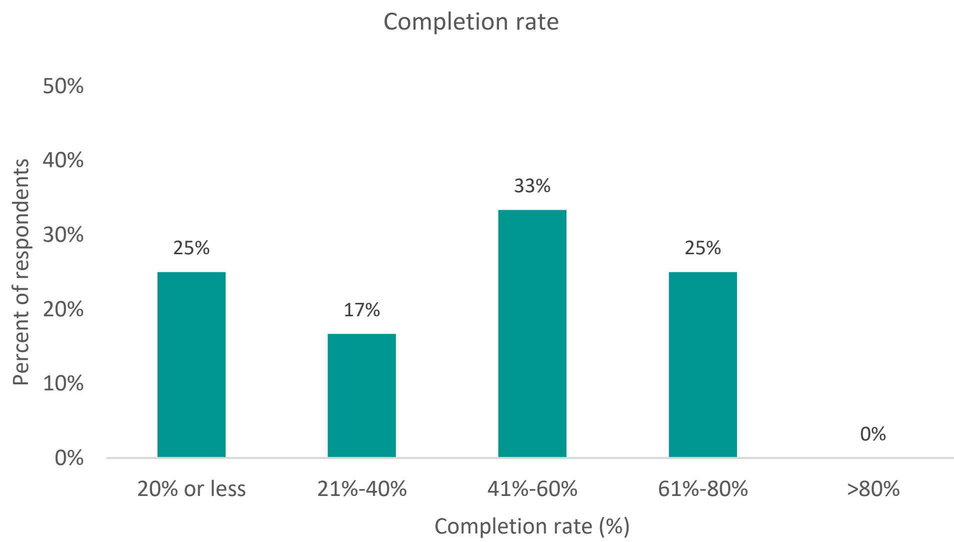
Completion rate simply refers to the percent of digital applications that are finished without abandonment.

Completion Rate

To be sure, completion rate is an important metric, and one that most institutions watch closely. It is a good general metric. By that we mean that completion rate is influenced by a number of other factors that also need to be examined to understand the user experience and the resulting impact on effectiveness. For example, a completed application may not be subsequently funded, and if it is, it may be closed later on due to confirmed or suspected fraud.

Completion rates varied widely among our sample, from a low of less than 10% to a high of 70%. Most were in the 40% to 60% range and averaged 47% (Figure 4).

Figure 4: DAO Completion Rates Varied Widely



Source: Celent DAO Benchmarking Study, August 2021, n = 19

Consistent with multiple sources, our panel's experience is that applicants for a new checking or savings account abandon the application at predictable points in the process. Most abandon at IDV and funding, although some may abandon earlier because of excessive information being asked for or because they are simply unsure about what product to select.

Higher completion rates are correlated with:

- **Good product documentation.** We in the industry may find it hard to imagine a prospective customer would have questions about checking accounts, but it happens. Many customers likely abandon an application because they really aren't ready to buy. Simple products and good documentation are essential.
- **Minimal data entry.** This refers to requiring only the data necessary to render a decision as well as making data entry easy, particularly as the percentage of mobile applications grows.
- **Modern IDV approaches,** particularly those that eliminate knowledge-based authentication (KBA). The importance of this is best understood by examining the percentage of account applications that fail IDV and thus cannot be completed. Branch-based IDV fail rates were uniformly low, at roughly 1%. Digital IDV fail rates averaged 20%, with a high of 31%.
- **In-process digital engagement—**being able to chat with a banker or chatbot during the application process to answer questions that may impact product choice.

Self-serve rate:

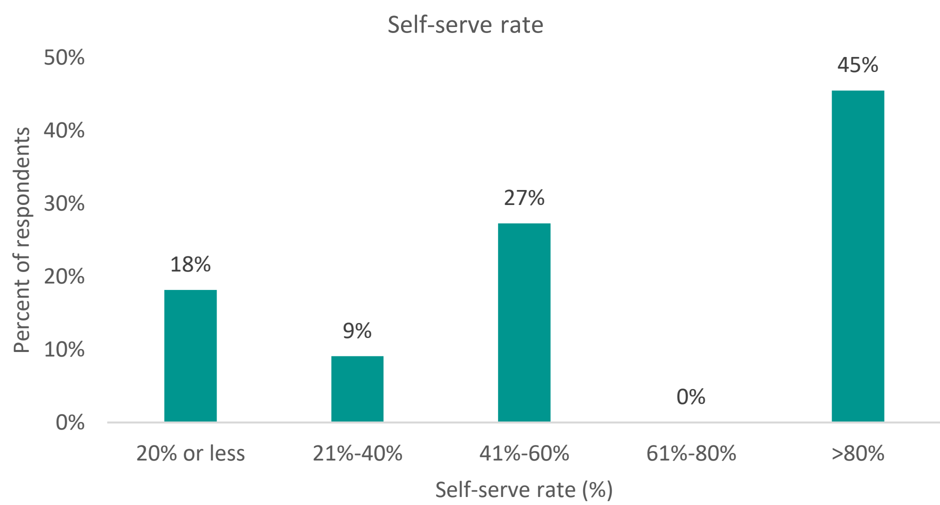
Self-serve rate refers to the percent of digital applications that are completed without bank process intervention.

Self-Serve Rate

Self-serve rate is measured by most institutions on our panel. It is a difficult metric to capture with high precision. One common reason is that many institutions do not use the same DAO system across the branch and digital channels. So, if an applicant is directed to a branch because of IDV failure in a digital application or simply wants to chat with a banker after beginning the process digitally, those banks cannot associate the multiple customer touchpoints with the same application. In those cases, measured self-serve rates overstate reality because any applications that involve the branch are typically attributed to the branch, not digital, where the process began.

Self-serve rates averaged 65%, but the average was weighed down considerably by several institutions operating dated risk systems that require back-office approval of all applications, resulting in a 0% self-serve rate at those institutions.

Figure 5: Modern Processes Are Required for High Self-Serve Rates



Source: Celent DAO Benchmarking Study, August 2021, n = 19

Higher self-serve rates are correlated with:

- **Modern IDV approaches**—those that render a composite "go"/"no-go" result as well as those that minimize latency when back-office review is deemed necessary. Most institutions on the panel utilize systems that render a decision based on multiple data sources and that render an overall confidence level. Applications are approved if the confidence level exceeds a specified minimum. Others use IDV approaches that rely on scanning a government-issued identity document and verifying its authenticity. Back-office review is needed in a small percentage of cases using that approach due to anomalies in the captured image, such as glare. In most cases, however, solution providers conduct those reviews, not the financial institution, so their review does not impact self-serve rates.
- **Risk assessments designed to optimize the customer experience,** including step-up approaches when needed. In Celent's opinion, the lowest-friction approach

for most applicants (resulting in the highest self-serve rate) begins with automated external database checks based on a minimum amount of required information. Scanning and validating identity documents is a friction-filled user experience and should be limited to those cases where automated external data providers do not produce requisite confidence levels.[2]

- **A willingness to abandon KBA,** otherwise known as out-of-wallet questions. These are user experience killers and are closely correlated now with self-serve rates.

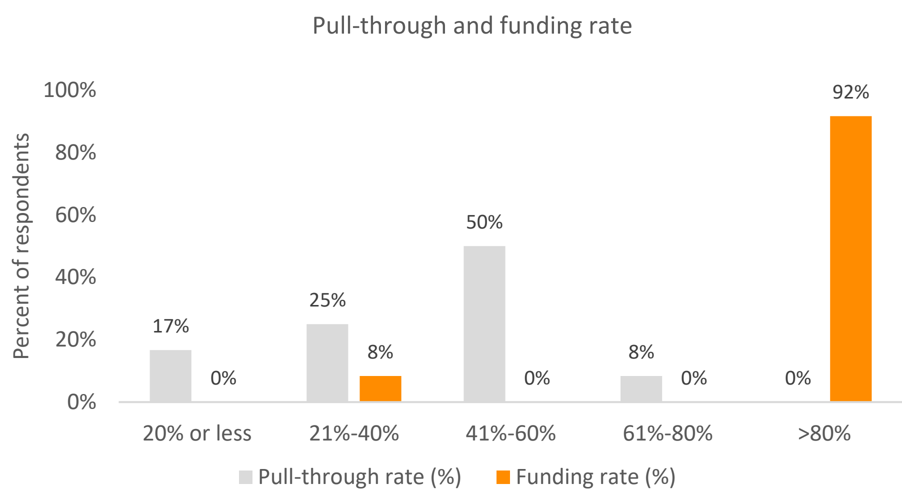
Pull-Through Rate

> **Pull-through rate:**
>
> Pull-through rate refers to the percent of digital applications that result in funded accounts. By definition, it will be less than completion rate.

Nearly every institution on the panel regards account funding as part of the DAO process, but many offer a "fund later" option that allows an application to be submitted without funding. Several on the panel cited pull-through rates as the most closely watched metric because attaining a hurdle rate of 40% or greater was required to justify marketing spend.

A related metric, funding rate, refers to the percent of new accounts that are funded within a defined time period, typically 30 days. Because pull-through rate refers to a percentage of applications and funding rate refers to a percentage of new accounts, funding rate typically exceeds pull-through rate.

Figure 6: Funding Rates Were Uniformly High



Source: Celent DAO Benchmarking Study, August 2021, n = 19

Higher pull-through rates are influenced by many of the same variables as completion rates. In addition, high pull-through rates correlate with the following:

[2] Two of many solution providers offering turnkey solutions for digital identity verification using this approach are Alloy and Socure.

- In addition to offering a variety of choices, institutions with high completion rates provide flexible funding options, including the option of delaying funding, and set comparatively low minimum funding levels.
- With most new accounts funded using external ACH mechanisms, banks that support real-time funding are achieving demonstrably higher funding rates (and higher pull-through rates as a result). The delay and friction of trial deposits is a common customer experience killer.
- These banks also have rigorous customer onboarding programs, including high digital banking enrollment rates and debit card fulfilment.

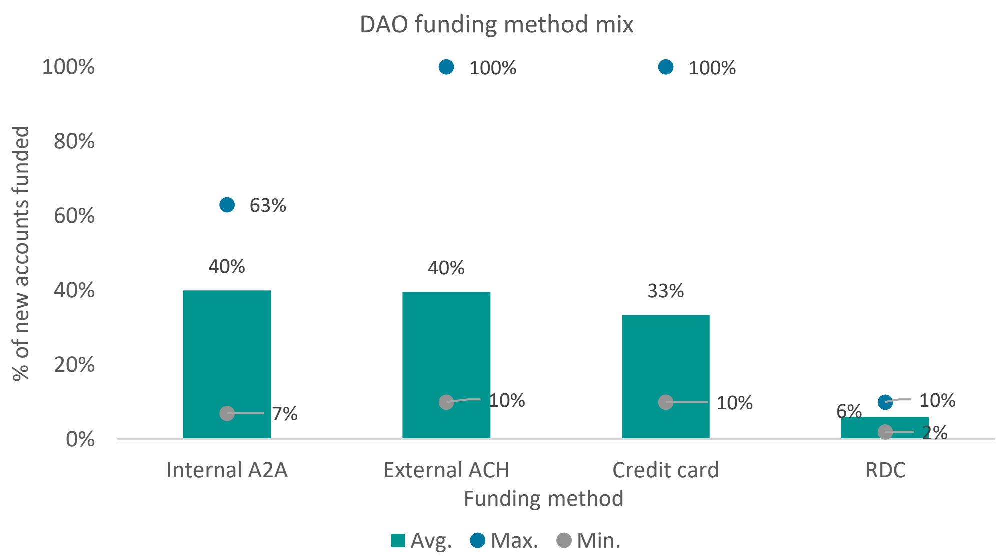
Funding method mix:

Funding method mix refers to the percentage of new accounts that are funded using each available method.

Funding Method Mix

While it may seem self-evident that it is in every institution's interest to offer new account holders a variety of funding mechanisms, not every bank feels that way. In our panel, while most banks offered at least three options (internal account-to-account, external ACH, and credit card), just four institutions offered funding via mobile deposit. More strangely, one bank only offered an external ACH funding option, and two credit unions only offered a credit card funding option. On average, however, customers have three funding mechanisms to choose from and use them with near equal propensity. Mobile deposit is the exception, composing just 6% of account openings among institutions offering that option. Figure 7 plots average funding method mix. Amounts do not add to 100% for the reasons stated above.

Figure 7: Mobile Deposit May Be the Only Funding Option to Neglect



Source: Celent DAO Benchmarking Study, August 2021, n = 19
Note: A max of 100% corresponds to an institution offering exclusively that funding option.

Application time to complete:

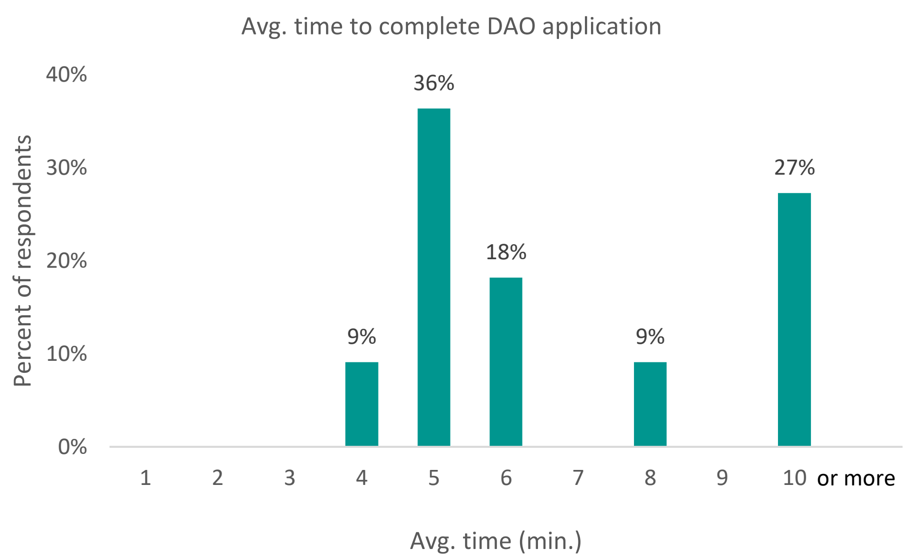
Refers to the average time in minutes from beginning an application to submitting a completed application.

Application Time to Complete

Perhaps no other DAO process metric has been cited as frequently as the time it takes to complete an application. In our view, the importance of this metric is often overstated. Among the panel, we do not observe significant differences in other operational metrics, with small differences in average time to open an account (between 4 and 6 minutes). There is no magic number that, if attained, will unlock dramatic gains in overall DAO effectiveness. Clearly, a fast and low-friction customer experience must be pursued, but we caution institutions not to value a fast time to complete so highly that attaining a low number sacrifices other aspects of the process. Seconds don't matter here.

Among the panel, time to complete varied by more than a factor of three among those that tracked this metric (all but two institutions). Figure 8 illustrates time to complete.

Figure 8: Time to Complete Varied by More Than a Factor of Three



Source: Celent DAO Benchmarking Study, August 2021, n = 17

The wide variation here and the very long completion time of 10, 12, and 15 minutes in three cases are examples of first-generation DAO processes that are, in fact, not very digital.

We now turn from DAO process metrics to comparative sales effectiveness across acquisition channels.

HOW WELL ARE BANKS SELLING DIGITALLY?

For all their efforts in DAO, rare is the institution in which digital contributes more than one-third of new customer accounts.

It would be hard to overstate the importance of an institution perfecting the customer onboarding experience or fine tuning its effectiveness. But the question remains, “To what end?” Listening to both banks and vendors discuss the topic of DAO, one would think that reducing friction, application length, or application abandonment is the endgame. It is not. Don’t forget the overall purpose of digitizing these important user journeys: establishing value-driven relationships with customers digitally while enjoying the revenue growth spurred by doing so. The other objectives are a means to an end, not an end themselves. This section looks at how effectively institutions are selling digitally through the lens of the new account mix and cross-sell ratio among the panel.

We sought to benchmark digital account opening results with sales results in the branch and contact center channels. This added complexity for the panel. Many who have responsibility for digital banking did not have ready access to branch channel metrics, particularly cross-sell rations.

New account mix:

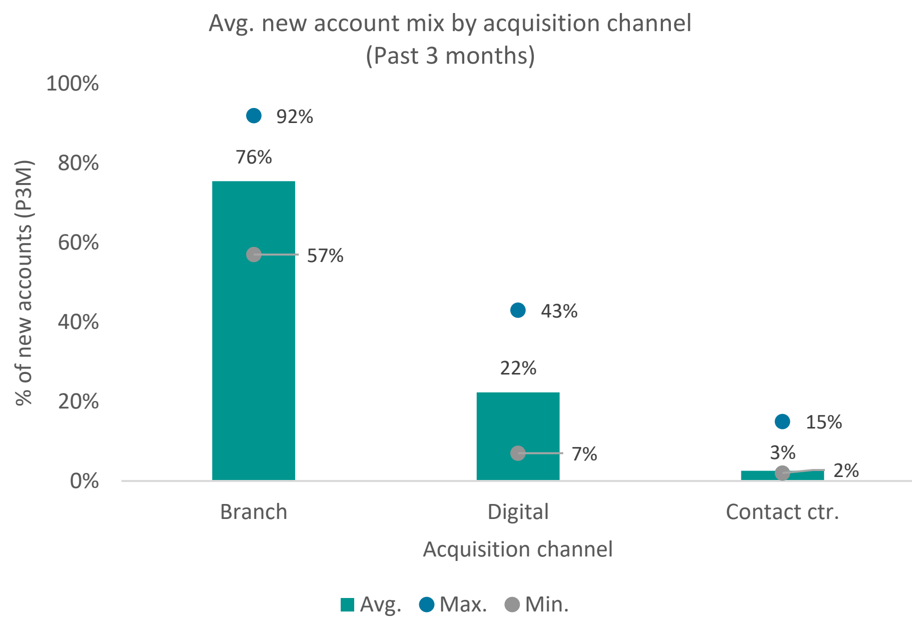
Refers to the percentage of new customer accounts attributed to each acquisition channel over a specified period.

New Account Mix

Panel members were asked to provide new account mix over three periods: past three months, previous quarter, and year ago. We did this to identify any timewise trends in sales mix since lockdown measures would likely have had an impact over the past year.

For the most recent quarter (April–June 2021), new account mix strongly favored the branch channel in every institution, from a high of 92% of new accounts to a low of 57%. On average, the panel attributes roughly three-quarters of new accounts to the branch channel, with digital accounting for just 22% (Figure 9).

Figure 9: The Branch Still Dominates the Sales Mix in Traditional Institutions



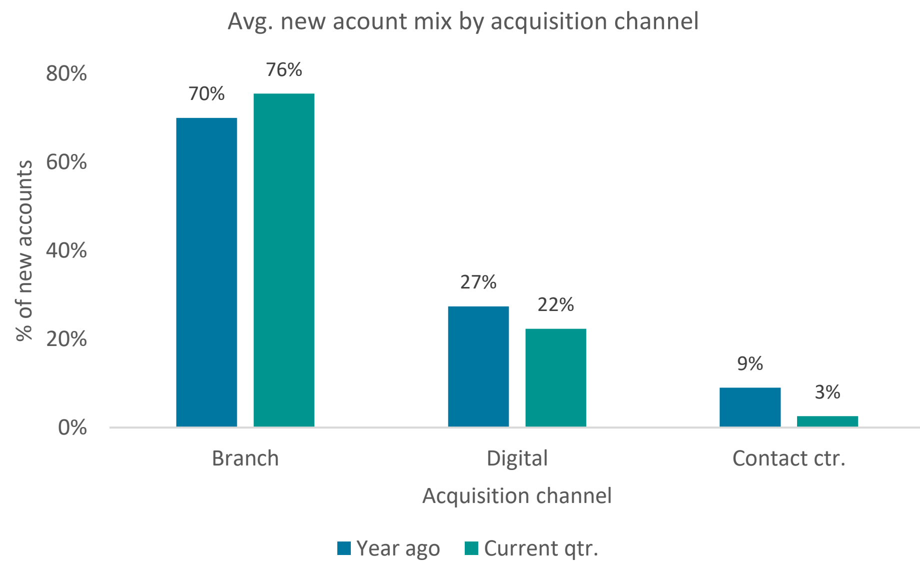
Source: Celent DAO Benchmarking Study, August 2021, n = 19

The low contact center attribution (3%) deserves some commentary. Most of the institutions we interviewed do not attribute sales to the contact center even if it is involved in completing an application. Instead, because the contact center is involved almost exclusively with applications that began digitally, banks consider involvement by the contact center as a “digital assist” and attribute the sales to the digital channel. Others on the panel do not originate accounts through the contact center. Apparently, in those cases, representatives have no visibility into digital applications and no ability to assist other than by answering questions. The remaining institutions on the panel (roughly one-third) see very little sales activity in the contact center.

Celent is a proponent of omnichannel customer origination processes and systems. In our view, there is simply no viable justification for operating different systems in each channel, nor for denying bankers or agents visibility into preexisting digital applications. That said, the long-term trend line is obvious; digital sales are growing at the expense of other channels.

But the short-term trend may not be what you think. For example, comparing past three-month sales mix, a period in which most U.S. branches were open, with year-ago measures (peak lockdown in most U.S. markets) reveals only a modest change in sales mix. Moreover, contrary to the narrative that “once customers go digital, they never go back,” average new account mix changed modestly in favor of the branch channel over the past year (Figure 10). This is consistent with reported growth in branch channel transactional activity post-lockdown.[3]

Figure 10: Sales Have Modestly Migrated to the Branch Channel Over the Past Year



Source: Celent DAO Benchmarking Study, August 2021, n = 19

Many customers are indeed returning to the branch. How long this will continue is worthy of debate, but we would not advise bucking the long-term trends.

Some would argue that sales attribution is flawed in many institutions for at least two reasons. First, many frontline personnel are incentivized to close new business. This would naturally lead to some branch bankers starting an application process over again if a prospect visited a branch after beginning digitally. While we do not have a quantitative measure of this phenomenon, most bankers with whom we speak flatly state that in-process channel switching is low for simple products such as checking accounts. Second, some institutions (a small minority at present) “force” their prospects to visit the branch if IDV fails digitally. This too represents a small minority of new account applications, as we will see later.

Higher digital channel sales attribution correlates to:

- **Higher pull-through rates** in the digital channel—those that invest in optimizing process effectiveness achieve comparatively higher digital sales results.
- **Sustained marketing spending** targeting digitally driven consumers.
- **Institutions whose customer or member base skews young.** Digital channel utilization is not as easily characterized by age demographic as it once was. Yet, younger consumers remain more likely to digitally originate new banking relationships than older demographics are. In our panel, the institution with the

[3] For more information, see the Celent report, COVID-19’s Impact on NA Branch Banking, December 2020.

highest digital sales attribution (46%) is a credit union serving a university population.

- **Omnichannel DAO systems and processes.** In these cases, applications that begin in the digital channel but are completed in other channels are properly attributed to the digital channel.

Cross-sell ratio:

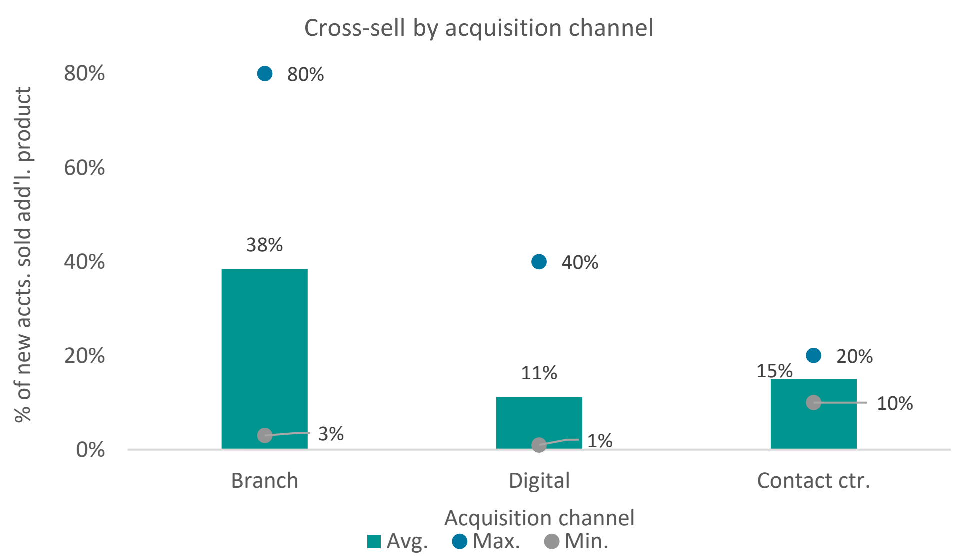
Refers to the percent of new account applications in which an additional product is sold over a specified period.

Cross-Sell Ratio

Bankers are divided on the merits of attempting to cross-sell other products as part of DAO. To be clear, we are referring to legitimate products such as a credit card, not account add-ons such as a debit card or digital banking enrollment, which some institutions may count internally as "products." In Celent's view, the DAO best practice can be aptly summed up by "less is more." That is, cross-selling is best relegated to onboarding and long-term relationship building. The rationale is simple. Any attempt to sell additional products beyond a DDA will necessitate collecting additional customer information and additional underwriting. Both of these actions will lengthen the application, add friction to the process, and result in higher abandonment rates. When this occurs, the cross-sell attempt fails and takes the new account with it.

In our panel, a minority of institutions had cross-sell metrics at their disposal. Some mentioned that cross-selling is not regularly reported or is examined infrequently, such as in an annual review. Others had digital measures but no visibility into branch results. This resulted in a small base of respondents (7) but yielded predictable yet imprecise results. Specifically, cross-sell rates are considerably higher in the branch than in the other channels—testimony to the value of human-to-human interaction in the sales process (Figure 11).

Figure 11: More Branch Originations Result in Cross-Selling



Source: Celent DAO Benchmarking Study, August 2021, n = 7

Arguably, DAO has little to do with selling, because a prospect does not start an application without the intent to buy. The sale is already complete. At least, that's the idea. But the number of applications that are abandoned prior to IDV across institutions suggests that some prospects are not confident in their decision. For this reason, it is imperative that institutions make it fast and seamless to engage a banker while in process and that they rigorously follow up on abandoned applications.

With such a small data sample, any attempt to derive correlations would be problematic. It may be worth mentioning, however, that two of the institutions with the highest cross-sell ratio also had below-average pull-through and self-serve rates. This suggests the cross-sell came at a price—precisely what the advocates of "less is more" would suggest.

We now turn to customer value metrics. That is, how valuable are digitally acquired customers compared to those acquired through in-person channels?

HOW VALUABLE ARE DIGITALLY ACQUIRED CUSTOMERS?

On average, digitally acquired customers have lower account balances and attrite at dramatically higher rates than customers that begin their relationship with in-person engagement.

A complete understanding of customer value cannot be obtained with a few metrics. We can, however, get a glimpse of short-term customer value based on average account balances and customer attrition over the first year of new account opening.

New account balance:

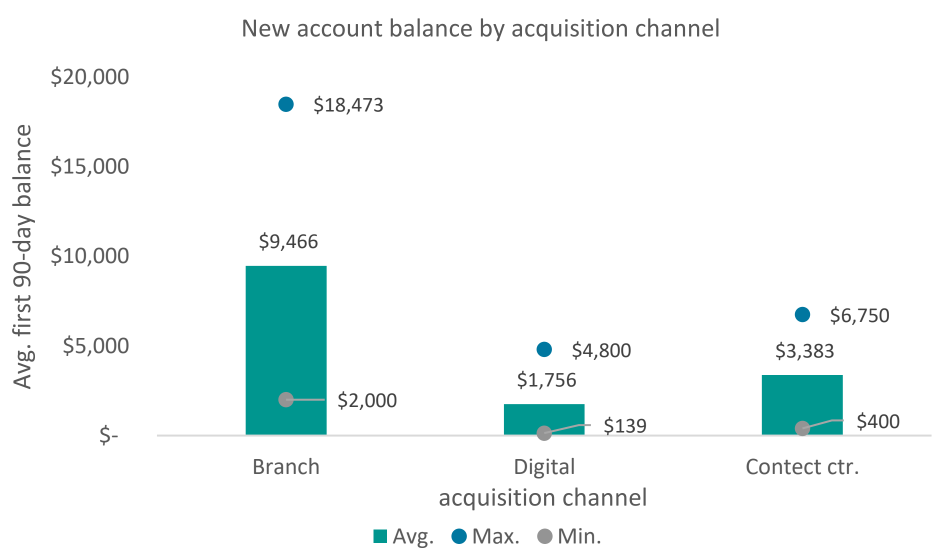
Refers to the average balance of all new accounts 90 days after account booking.

New Account Balance

Many panelists had ready access to new account balance information for customers acquired digitally and in the branch. We chose to measure average 90-day balances to give new accounts ample time to set up direct deposit and receive debit cards.

Because deposits represent a liability, large new account balances are not necessarily a good thing, depending on each institution's strategy. With one exception, the entire panel reported five-times-higher average 90-day balances among new accounts acquired in the branch compared with those acquired digitally (Figure 12).

Figure 12: In-Person Acquired Accounts Generate 5x the Deposits of Digital Ones



Source: Celent DAO Benchmarking Study, August 2021, n = 9

The one exception was a Midwestern bank reporting digital metrics for a separately branded digital bank that offered high-yield checking and savings accounts. Since the products being offered digitally in this case differed markedly from the bank's branch-based offerings, this datapoint is not included in Figure 12.

Several panelists were quick to ascribe the lower balances among digitally acquired customers to their younger demographic. Others commented that, although initial balances may be lower, digitally acquired customer balances grow over time and rival those acquired in other channels. Still others commented on intentionally low minimum and maximum initial funding amounts imposed on digitally originated accounts to reduce interchange fees on accounts funded from credit cards.

In Celent's view, all these factors contribute to the lackluster deposit-gathering performance of the digital channel. It really should be no surprise. With DAO's ease, some consumers likely buy on impulse, something much less likely in the branch, given the time and effort required to do so. The result is a higher percentage of these accounts representing additional, nonprimary DDAs for digitally acquired customers. This is not the fault of DAO, just a byproduct of its ease and convenience. The remedy, of course, is not to make DAO more difficult, but rather to implement a rigorous and well-managed customer onboarding program.

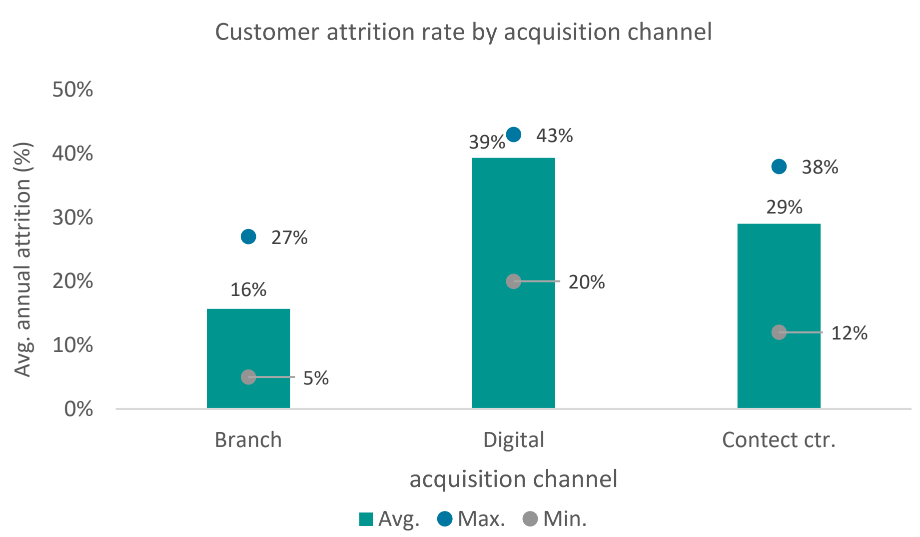
Customer attrition rate:

Refers to the percent of new customer accounts subsequently closed within a defined period.

Customer Attrition Rate

Unfortunately, few panelists had customer attrition rate metrics available for the survey. Those that did provided both six-month and annual attrition rates by customer acquisition channel. The results were not encouraging. In every case, attrition rates among digitally acquired customers exceeded those acquired in other channels—on average by a factor of three versus in-person acquisition (Figure 13).

Figure 13: Digitally Acquired Customers Attrite at an Alarming Rate



Source: Celent DAO Benchmarking Study, August 2021, n = 6

With 39% average annual digital attrition rate (and a low of 20%), it is difficult indeed to consider DAO a success story among these institutions. The missing ingredient among many of these institutions (in addition to the data itself) is responsibility. In most institutions with which we spoke, customer onboarding was someone else's job.

Fraud Rates

Fraud rates and fraud loss by acquisition channel rounded out our customer value metrics, but too few institutions provided information to be included in this analysis.

PATH FORWARD: SEVEN HABITS FOR HIGHLY EFFECTIVE DAO

Successful digital customer acquisition rests on more than sound technology. Celent recommends adopting seven habits for highly effective DAO that we distilled from multiple case studies documenting the industry's best practices and reinforced by examining the operational results of 19 institutions.

The seven-habits framework (Figure 14) was introduced in a previous Celent report.

Figure 14: Celent's Seven Habits for Highly Effective Customer Acquisition

Source: Celent

1. Begin With the End in Mind

Beginning with the end in mind means considering the DAO process (and process) metrics) as servants of a larger objective: thriving long-term customer relationships. Examples of higher-performing institutions manifesting this habit include:

- Closely tracking and analyzing operational metrics to optimize process effectiveness, sales effectiveness, and resulting customer value. As it is often said, "You get what you measure."

- Systematically following up on abandoned applications; some may still be in product discovery
- Operationalizing a rigorous, digital-first new customer onboarding program

2. Take a Holistic View of the Customer Journey

Too many bankers think that digital is the endgame for all customers in every case. Straight-through processes are efficient, but not every customer prefers to self-serve. Banks should design a splendid customer journey regardless of each customer's chosen path. In other words, digital self-service customer experiences should be perfected but not prescribed, as it is not the preferred customer journey in every case.

3. Minimize Friction in the Customer Experience

Friction is the enemy of successful customer acquisition. If friction is introduced as part of a branch experience, it may lead to customer frustration; in a digital self-service environment, it may lead to abandonment. Remember that for many customers, acquisition and onboarding constitute your institution's first impression. Make it a great one.

Examples of higher-performing institutions manifesting this habit include:

- Minimizing the amount of customer data demanded for DAO
- Utilizing commonly available tools to reduce keystrokes, such as Google Autocomplete
- Eliminating out-of-wallet questions for IDV

4. Challenge Historic KYC Practices

Traditionally, there has been a trade-off between CX and risk mitigation. The better the CX, the higher the risk assumed, and vice versa. Modern technologies lessen the historic trade-offs if implemented well, but more than technology is needed to optimize CX while effectively mitigating fraud. The team charged with bringing digital customer origination to market will need a license to do things differently—in some cases, very differently. For this reason, a champion with executive-level buy-in is imperative.

5. Take a Broad View of Digital

Digital is an increasingly widely used point of self-service customer engagement, but it is more than that. Banks should digitize as much of the customer acquisition and onboarding process as possible, regardless of the chosen customer journey. Said another way, digital does not mean just digital channels. One way higher-performing institutions manifest this habit is by implementing consistent processes across points of customer engagement managed by a single platform. Running slick DAO systems alongside a legacy branch platform sales application has no defense.

6. Walk Before You Run

Each institution must begin its journey somewhere. Every bank Celent spoke with emphasized the importance of not trying to be perfect at the start, because doing so inevitably delays the initiative, and that has its own downsides. Instead, we recommend putting your best foot forward with a minimum viable product and improving as you go, with an agile test-iterate-test continuous improvement regimen. Higher-performing institutions are doing this and are closely tracking a broader set of KPIs. Some institutions in the panel had limited access to the requested metrics, while others reviewed some of the KPIs annually.

7. Choose Your Solution Wisely

Clearly, several institutions in our panel are challenged with running dated systems. Modern digital customer acquisition systems are an imperative in today's market. Solutions may not be as differentiated as they once were but are highly differentiated in the breadth of retail banking products they can originate.

For a rigorous comparison of vendor solutions, see the Celent report Retail Banking Customer Acquisition Platforms: ABCD Vendor View, January 2020.

For a more detailed discussion of these best practices as well as several case studies, see the Celent report Best Practices in Retail Banking Customer Acquisition: Potholes Along the Road to Digital, November 2019.

LEVERAGING CELENT'S EXPERTISE

If you found this report valuable, you might consider engaging with Celent for custom analysis and research. Our collective experience and the knowledge we gained while working on this report can help you streamline the creation, refinement, or execution of your strategies.

Support for Financial Institutions

Typical projects we support related to banking and payments include:

Vendor shortlisting and selection. We perform discovery specific to you and your business to better understand your unique needs. We then create and administer a custom RFI to selected vendors to assist you in making rapid and accurate vendor choices.

Business practice evaluations. We spend time evaluating your business processes. Based on our knowledge of the market, we identify potential process or technology constraints and provide clear insights that will help you implement industry best practices.

IT and business strategy creation. We collect perspectives from your executive team, your frontline business and IT staff, and your customers. We then analyze your current position, institutional capabilities, and technology against your goals. If necessary, we help you reformulate your technology and business plans to address short-term and long-term needs.

Support for Vendors

We provide services that help you refine your product and service offerings. Examples include:

Product and service strategy evaluation. We help you assess your market position in functionality, technology, and services. Our strategy workshops will help you target the right customers and map your offerings to their needs.

Market messaging and collateral review. Based on our extensive experience with your potential clients, we assess your marketing and sales materials—including your website and any collateral.

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