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Technology in Banking >>

Commentary | Survey Results

Analyst Nancy Bush provides commentary on financial technology based on a survey of bank executives. Look after her commentary for a bonus set of results from a recent survey Banks Street conducted of bank executives in the Southeast.

Article By: Nancy A. Bush, CFA
NAB Research, LLC
Survey and Distribution By: Banks Street Partners, LLC

If you want to bring conversation with a banker to a halt—just ask a question about technology. (Ditto for a regulator, BTW.) I find that it's not because they don't want to talk about it; quite the opposite. They all seem to want to explore the subject ad nauseam, but we suspect that this curiosity is not because they are setting loose some inner geek or are breathlessly awaiting the killer technology app that will change banking forever. It's likely because there are no hard and fast answers to the two tech questions of greatest importance presently to the banking industry: What uses of technology are most important right now—and how much technology is enough?

As we spoke to different banks to get some sense of the present-day state of technology in the industry, we encountered some interesting divergences among companies. For one thing, the larger regional banks consider technology to be a subject of greater import than do the community banks. (Perhaps no surprise there.) And secondly, those banks that have more commercial customers and a smaller retail depositor base see even less importance to being "technology forward" and instead see good old-fashioned, high-touch relationship banking as remaining the key to retaining customers. And none of the companies with whom we spoke—large or small—saw a need to be on the "bleeding edge" when it comes to tech spending, but instead saw the need to be "fast followers" of significant and popular technological advances.

Beyond those rather sweeping statements—it's pretty hard to generalize about anything related to the banks and their uses of technology. Our sense is that the experience of the Financial Crisis and the need to repair credit and rebuild capital have only recently given way to the freedom to begin to rethink the technology infrastructure of the banking industry, and many new technological applications are still in the testing stages. Several large banks mentioned that they are redoing ("refreshing") their web sites currently, and are adding functionality in the process.

The most-mentioned new functions seem to deal mainly with the ability to move money among accounts—including those housed outside the banks—and the concept of account aggregation seems to be gaining a second wind. (If memory serves us correctly, the first attempts at aggregation were made in the early '00's, when technology as a bank differentiator was in its first, more faddish stage.) We also had an interesting conversation with one large Southeastern bank on the subject of their account aggregation product aimed at their private banking clients, which will also incorporate financial planning tools—an attractive option for Baby Boomers nearing retirement, an ever-widening group. Our expectation is that such planning products, while beginning their lives at the higher end of the wealth spectrum, will eventually find their way down the wealth ladder and become more widely available to the "mass affluent" and others.

Two subjects have dominated the discourse about banking technology in recent months, and our conversations with banks revealed that these two subjects are not as pressing as the media would have the public believe. The first is the mastery of social media by banks, which has been represented by some in the press as being an absolute must-have for communication with younger customers. Well, for the banks with whom we spoke—not so much. While they all see social media as a useful tool in keeping touch with all their customers, both young and old, we found no bank (large or small) that regards their social media strategy as a make or break endeavor. Indeed, we found the greatest applicability of social media in banking to be a rather old-fashioned one—to keep track of what customers and competitors may be saying and to get out in front of any issues with service or reputation that might arise. (Rather like an updated version of the old and wacky Yahoo company message boards…)

The issue of social media leads, of course, to the second issue dominating the banking media discussion—those Mysterious Millennials and how (or whether) they might impact the future of banking. The millennials—defined roughly as young adults aged 16-34—are expected to become the nation's largest demographic group this year with 75 million members (versus the 74 million-plus of the aging Baby Boomer cohort.) This massive group is bringing with them some unique challenges—high levels of student debt, an aversion to buying homes, and a marked preference for mobile banking chief among them—and there is lots of angst being expressed by industry pundits about the way the coming dominance of this generation may impact bank profitability and growth.

We must admit that we did not find a similar amount of agita regarding the millennials in our conversations with bankers, and we're not quite sure if this sanguine attitude marks a "whistling by the graveyard" posture or results simply from long industry experience with predictions of massive change that was to be wrought by generational changes. Those with whom we spoke acknowledged that this new generation has indeed begun to change banking through its preference for mobile product delivery and its aversion to entering branches for any other than the most extreme circumstance. But we did not find the industry to be slavishly devoted to the wishes of this age group, and indeed bank managements are at an unprecedented point in industry history—they must continue to serve those customers born in the first half of the twentieth century (who still prefer branch delivery) at the same time that they count the Boomers (some branch usage, some mobile usage) and the millennials (mostly mobile) among their most active consumers. No easy task, this.

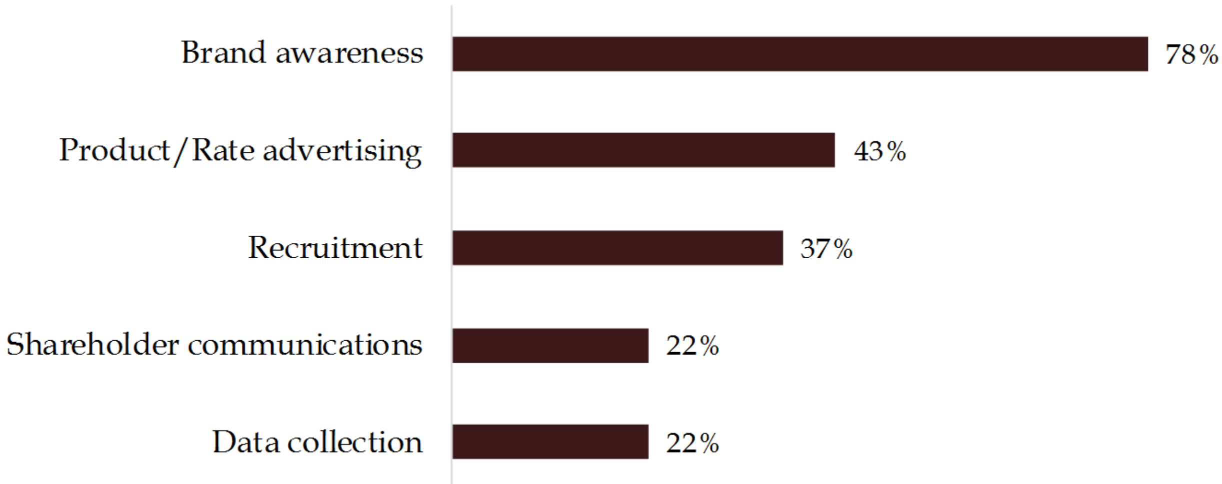
We must also express one view here—those who seem to be writing in such absolute terms about the younger generation should really think about the way that Americans have tended to evolve in their financial lives over time. While the millennials may indeed be averse to branch usage and home ownership presently, that may not always be the case. As their student debt burden lightens, as they begin to have children and move from urban centers, and as their incomes advance, the odds are good that their banking preferences will evolve as well.

While it is unlikely that they will wholly abandon mobile banking and their beloved "apps", it is also highly unlikely that they will remain wholly branch-averse as well as their need for banking services grows.

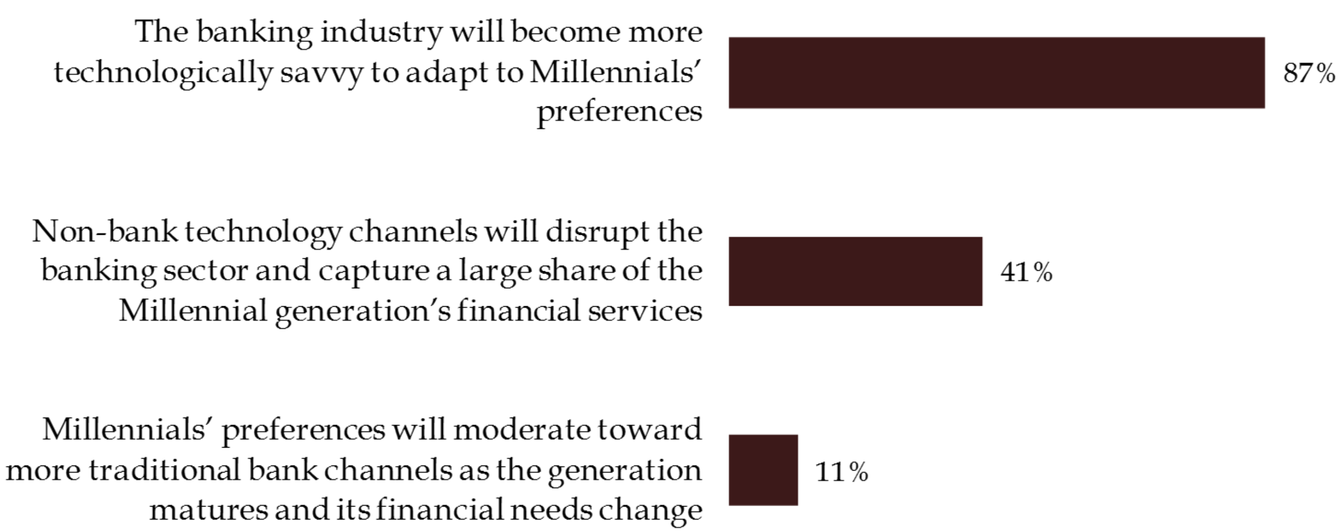
And indeed, that brings us to the most important of all bank tech-related questions—what is the future of the branch? After asking this question of our survey respondents, here's the only answer that we have—there will be fewer of them, although they may be smaller (or larger) than they are now. Unless of course, the coming of higher rates presages some change in consumer behavior that is now unforeseen—in which case, all bets about everything are off the table.

Banks Street Partners recently conducted a brief survey of community bank executives in the Southeast on the topic of Financial Technology. The data below reflects the responses of the roughly 100 survey participants.

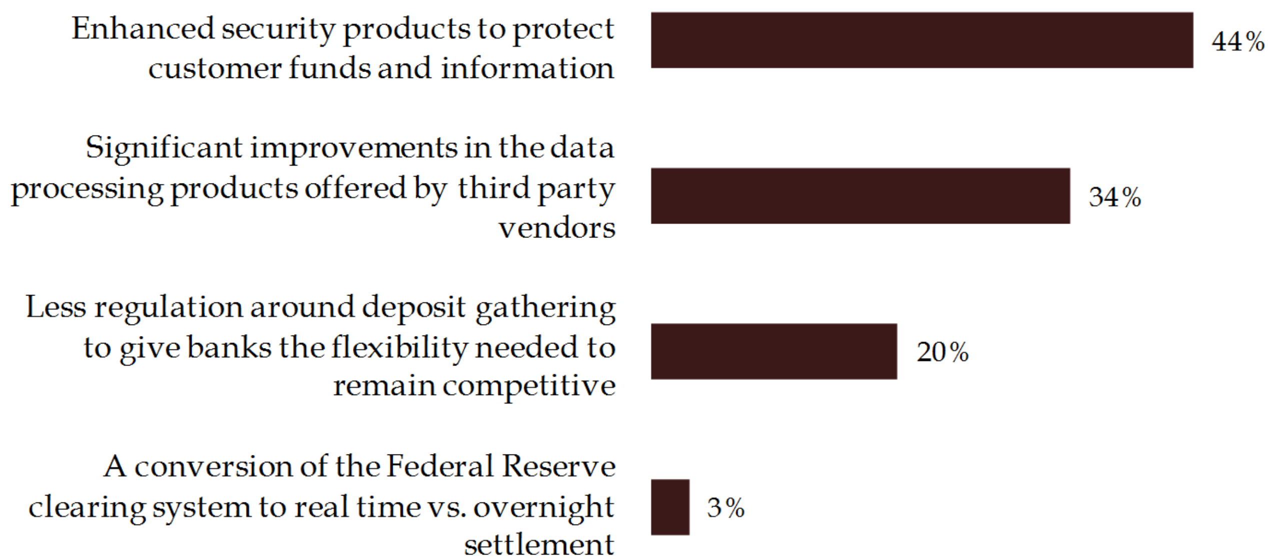
1 Does your company leverage social media for any of the following? Choose all that apply.



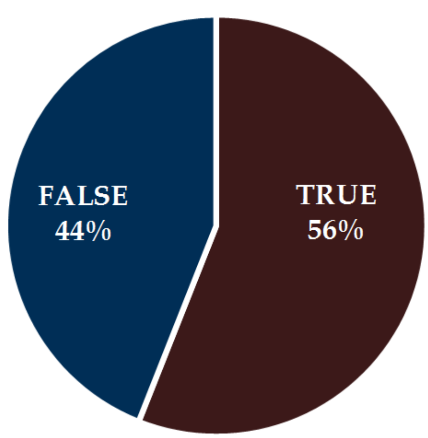
2 In your opinion, which of the following is most likely to occur with respect to Millennials and banking? Choose all that apply.



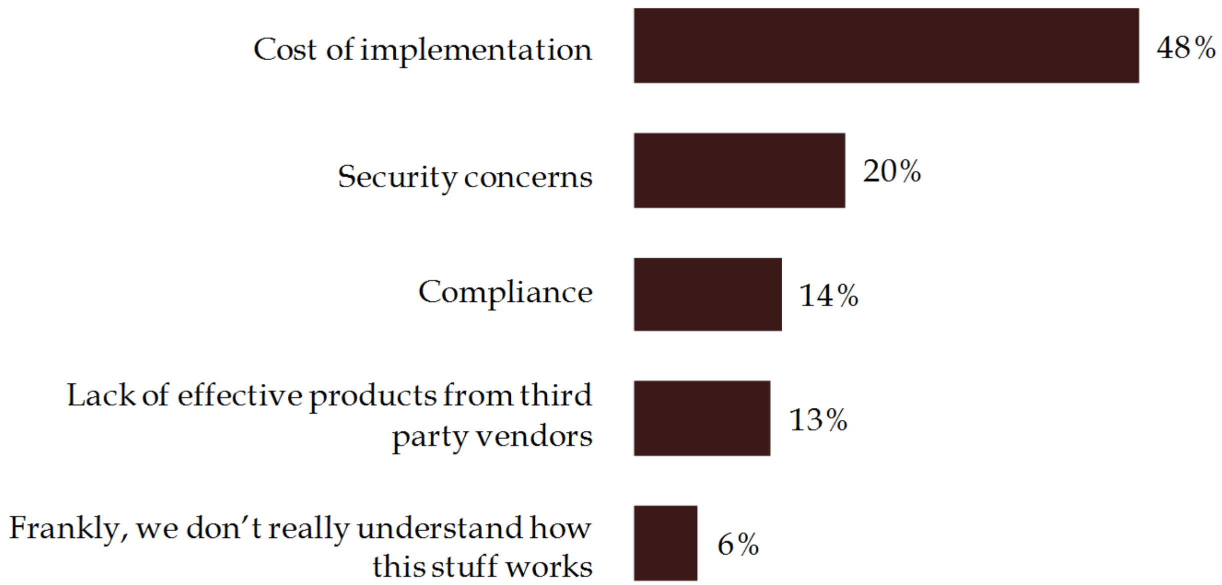
3 What is the most critical structural change needed in the banking system to adapt to the pace of financial services technology?



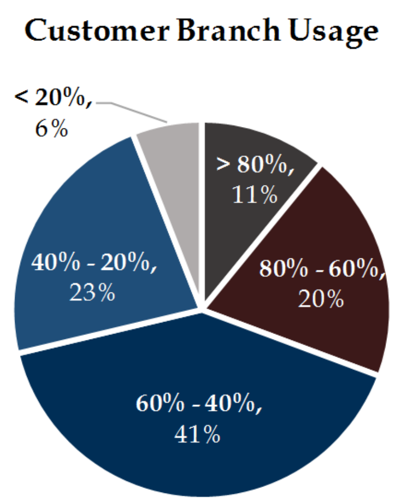
4 Bank executives have typically risen through the ranks in lending and/or credit functions. True or False, do you see a meaningful portion of the sector's future leaders rising through technology functions during your lifetime?



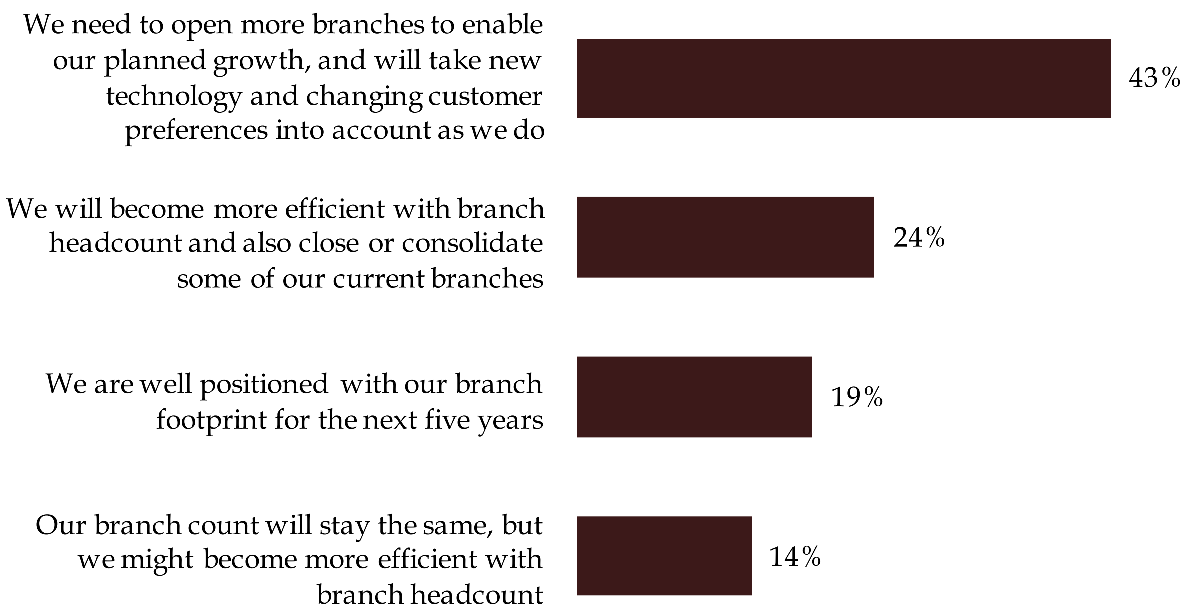
5 What is your company's biggest barrier to technological innovation?



6 What percentage of your customer base actually sets foot in a branch in a given year (excluding ATM usage)?



7 What kind of changes do you expect in your branch network in the next five years as a result of technological advances?



8 Select the statements you believe are true regarding technology and the regulatory environment as they relate to banking. Choose all that apply.

- Depository regulations constitute a high barrier of entry that will prevent so-called disruptors from eroding the sector's core funding
- Technology is going to offer the ability to reach customers on a broader scale, but regulatory emphasis on serving local geographies will hinder any real opportunities
- Examiners are spending more time reviewing technology systems and functions than they did five years ago