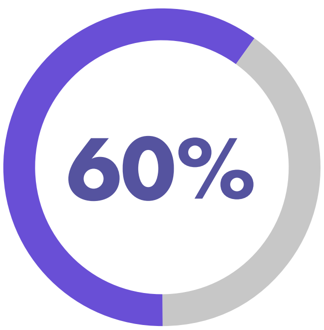
FINASTRA

MARKET COMMENTARY

Banking on the Homefield Advantage

Community Banks and Credit Unions are First in Line When it Comes to Personalized Care



60% of Gen Zers believe that communities are created around causes and interests

What defines a community?
Recent studies reveal that 60 percent of Gen Zers believe that communities are created around causes and interests.[1] Millennials have a similar view and desire to shape society through positive impacts, something that 46 percent feel is more important than starting a family [2]

Generation X on the other hand places priorities closer to home. They believe in building community through loyal relationships, as 56 percent are caring for aging baby boomer parents[3] or helping their adult children get a financial foothold on the world.[4]

As consumers reshape their attitudes and thoughts about community and the important role it plays in the lives of individuals, local banks and credit unions are emerging as hometown heroes, built on strong personal connections and community involvement.

However, as change remains constant, these same financial entities will need to evolve to maintain their homefield advantage and continue to meet the needs of the clients they serve.

Hometown Values Equal Homefield Advantage
Right now, nearly 30 percent of consumers have a relationship with a non-traditional financial services provider, such as PayPal,[5] but when it comes to selecting a banking partner, local and nearby still wins the day. According to research conducted by PwC, 65 percent of consumers prefer a bank or credit union that offers a physical branch location.[6]

In fact, 75 percent of consumers opened their existing bank account at a branch and over half would do so again. For 40 percent of individuals, location is the primary factor when taking out a checking account.[7]

Consumers agree that local branches continue to provide value in the digital age, particularly when it comes to more complex experiences, such as taking out a mortgage or engaging in investment services. 58 percent of consumers like to work with a local branch on these matters, though 27 percent of these individuals would prefer the meeting taking place in the comfort of their own home.[8]

THE FUTURE OF FINANCE IS OPEN

> “Banks and credit unions are seeking new ways to engage with consumers on a personal level, often turning branches into community centers to do so.”

The Financial Brand puts the local branch in a new light, painting the brick and mortar structure as a financial institution’s most important billboard for brand identity. It serves to remind residents of the institution’s standing in the area and its involvement in the community —in short, its hometown persona.

But how do consumers select the branch where they place their business and what are the factors driving loyalty? According to The Financial Brand’s research, it comes down to personal experience. To understand what this means, we must dig deeper into consumer attitudes and perceptions.

McKinsey & Company revealed that personal-consumption spending on experiences, such as traveling or attending a spectator event, grew 1.5 times faster than overall personal-consumption spending and almost 4 times faster than expenditures on goods.[9] Experiences etch emotional connections into the consumer psyche and elicit a sense of inclusive belonging.

To put this into a business perspective, 80 percent of respondents to a recent survey said they were more likely to engage with a company that offered personalized experiences.[10] As a result, banks and credit unions are seeking new ways to engage with consumers on a personal level, often turning branches into community centers to do so.

CaptialOne Bank in New York City offers non-specific use seating areas where the public can stop and check email messages on a cell phone or sip a cup of coffee. By offering an experience that is personally valuable to city residents, the bank is engaging at a community level and increasing the odds of being the firm of choice for consumers when the need for financial products or services does arise.

While large national providers seek to instill a hometown feel, when it comes to fostering a sense of community, local banks and credit unions have the homefield advantage, because they are already deeply ingrained within the community. The branch manager’s son may play soccer on the same team as a small business owner’s child. They see each other around town and interact at community events. In short, they’re neighbors, and it is far easier to trust your financial well-being to a friend than a large institution.

In addition, many community banks and credit unions transcend generational boundaries. A parent may bring a child in to open their very first savings account. That child grows up, marries and brings their own child in to open their first account. Before long, banking relationships may extend two or three generations deep, creating an interconnected web between the bank or credit union and the family.

Family connections turn to community connections as local banks and credit unions support the causes that are important to the welfare of the region. It isn’t uncommon for executives to serve on charity boards, and institutions at this level commonly offer services and charity events that benefit the area.

“Many community banks and credit unions transcend generational boundaries”

From a client’s perspective, small and local offers personalized experiences that large and corporate just doesn’t provide, giving community banks and credit unions the homefield advantage. Maintaining it over the ease and convenience offered by larger national or international banks, however, requires a dedication to providing the personal experiences that customers and members cherish.

In one rural Connecticut town, a family pharmacy served its customers for generations, going above and beyond by adding things like free prescription delivery, curbside assistance and helping elderly customers understand their medications. When a large national chain moved into town, the local business continued to treat its customers as individuals, maintaining loyalty over the convenience of the big chain.

Community banks and credit unions need to do the same, forging deep customer connections through personalized experiences:

Small touches: Customers or members are delighted when a bank teller greets them by name but imagine the impact on retention when a branch manager greets them at a restaurant or local event on a personal level.

Acting as a personal advisor: When it comes to creating the right account or managing wealth, one in two consumers welcomes personal advice based on their individual circumstances.[11] Many are willing to share their data in exchange for an assessment of their spending habits and advice on how to better manage their money.[12] Community banks and credit unions can combine their knowledge of the region and trends at large, to offer more personal advice on financial products and best steps for money management.

Open Communication: High fees are the number one reason that customers and members leave their financial institution, and 75 percent will not won’t give advance notice because they doubt it will make a difference.[13] Small banks and credit unions are in a far better position to keep the lines of communication open than larger banks and prevent detrimental switching, because they are more in touch with the community at large.

For added insight, small banks and credit unions can survey customers to assess their performance and gauge customers satisfaction with the service they provide. These types of communications come more naturally from community banks or credit unions due to their friendly and local place within the region they serve.

Think small town: Consumers select community banks or credit unions because they crave personalized care, so it pays to go above and beyond. As members of the community, relationship managers are more in touch with life events, affording them the opportunity to rally around customers or members at important stages. Offering congratulations at the birth of a baby or checking up on a new home after a customer or member takes out a mortgage enhances loyalty but also puts the institution in a position to learn new areas where they can serve individual customers and members better.

“We know our customers and we have a relationship with them that is very special”

David Lacey
President & CEO
Community Bank & Trust

The Virtuous Cycle of Community Banking

Small banks or credit unions have a lot in common with small businesses as well as consumers. Both are vital to the success of a community and both are dependent upon each other for success.

As community banks and credit unions invest in local business, they’re fueling the economy. Consider the case of a developer that secures financing from a small local bank or credit union to build a 500-unit apartment building.

The small bank or credit union supports the development, population in the town grows, and in the end, more deposits and accounts come back to the institution. With more deposits, the bank or credit union can support future development projects and contribute significantly to the growth of the community.

Currently, community banks and credit unions fund more than half of all small business loans.[14] This vital fuel ignites the local economy and encourages growth, even when collateral may be lacking, or circumstances are less than optimal.

“We know our customers and we have a relationship with them that is very special,” said David Lacy, President and CEO of the Community Bank & Trust in Waco, Texas in an article published in the American Bankers Association Banking Journal. “We from time to time use our discretion to loan money outside of a box, and that is the fiber, the fabric of community banking.”

Often, a community bank or credit union is the only institution willing to serve a segment of the market. Quontic Bank in Astoria, New York, is one of these, serving families in low-income communities.

“We finance hundreds of homes for first-time homebuyers every year, many of them immigrants with limited resources,” said Steven Schnall, chairman and CEO of Quontic Bank in an interview with Independent Banker. “We also help low-income seniors tap equity in their homes so they can age in place.”

As members of the community, community banks and credit unions support their own. As these institutions grow, they look to their customers and members for support, drawing on engineers, architects, security firms and other solution providers from their own client roster to deliver the services they need. For example, if a small bank or credit union needs to build a new branch, they’ll partner first with a client architect and engineer, putting more money and resources back into the local economy.

Many community banks and credit unions support the local region in ways beyond financing development or expansion. Citizens Bank in Edmond, Oklahoma, for example, holds monthly street festivals to unite families and neighbors in the community it serves. Other small banks or credit unions are giving back through high school educational programs, fundraisers or other community-minded events.

Locally based banks and credit unions are uniquely positioned to meet generational definitions of community as they are invested in the success of the area and give back to ensure its success. However, building a community has become increasingly challenging as customers and members turn toward the speed and convenience of digital banking. To fully realize the benefits of their homefield advantage, community banks and credit unions need to merge modern banking convenience with the personalized care at which they excel.

> We finance hundreds of homes for first-time homebuyers every year, many of them immigrants with limited resources

Steven Schnall
Chairman and CEO
Quontic Bank

Moving Community Banking into the Digital Age

Supporting a community and serving customers and members can grow complicated in the age of Amazon and social media. While consumers still value the personal service of a local branch, Qualtrics survey of 550 banking customers revealed that nearly half of customers' banking time is spent online.[15]

Changing consumer preferences like these puts pressure on community banks and credit unions to evolve their primacy in face-to-face personalization into the digital realm.

Pushing routine tasks to digital channels is one way they can improve customer or member relationships while also generating cost efficiencies. Change of address, balance inquiries, transaction records and the like can all be accessed via lower-cost online channels or mobile apps. Placing these tasks in an online environment means that they can be completed when it's most convenient for the customer or member, while allowing the bank to dedicate personnel to higher value assignments.

Digitizing the loan application or mortgage process and combining it with automation in underwriting is another area where banks and credit unions can make strides to attract and retain more customer or member business. While community banks and credit unions have traditionally been recognized for rapid underwriting, their record- is at risk from online-only new entrants such as PayPal or Square.

Lending services from PayPal, for example, have been integrated into the online purchasing transaction, so seamlessly that consumers hardly recognize that they've taken out a loan. In contrast, small banks may require on average a total of 12 non-contiguous hours to process an application and up to 7 to 10 days before the paperwork is signed and check is in hand.

Replacing manual loan underwriting with digital decisioning allows community banks and credit unions to process applications faster, with less risk and at a lower cost. Some institutions have improved decision and funding turnaround times by as much as 50 percent while boosting internal efficiency by 30-50 percent.[16]

More than half of consumers expect to move seamlessly across banking channels, maybe starting a loan application online,[17] and then finishing the process at a branch location, without the need to start over or repeat information. It's a fluid orchestration that isn't always easy for community banks and credit unions to achieve.

Since digital interactions by nature are distant and require little engagement, banks and credit unions must use digital in a way that builds and strengthens relationships. It comes down to finding the digital services that customers or members want the most as well as those that add value to the bank, and then combining them into a fluid omni-channel strategy.

> Replacing manual loan underwriting with digital decisioning allows community banks and credit unions to process applications faster, with less risk and at a lower cost

Look for a Partner
Across the board, digitizing the most important customer journeys can increase bank revenues by as much as 20 percent and decrease costs by 30 percent.[18] That alone should be enough to encourage community banks and credit unions to consider the importance of developing a digital strategy.

However, just as consumers need their financial institution to provide sound financial advice and expertise, community banks and credit unions shouldn't be afraid to seek out a partner to help them gain the digital and online services they need to maintain their homefield advantage.

A third-party partner can guide community banks and credit unions on a digital journey that meets the needs of customers and members while enhancing their standing as a homefield player. When looking for a partner in digital transformation, local banks and credit unions should consider the following:

- Can the provider deploy the solution quickly, with minimal downtime and interruption to your current systems and operations?
- Does the provider meet all your needs while minding your budget?
- Does the partner provide a wide suite of capabilities that can be added over time as needs demand and budgets permit?
- Are the solutions connected, allowing complete visibility of the customer across all applications?
- Does the provider support the integration of third parties into the provided platform, to allow seamless operation with your existing software or with new systems that could bring value to the customers, members or the bank?
- Is the partner continuously innovating and bringing new capabilities to market? Providers should be looking toward the future and working on how to address the emerging challenges on the horizon.

Above all, the partner needs to be flexible and able to meet your needs. They should also understand your homefield advantage and work with you on a solution that maintains your standing as a community partner.

Being the SMB Hometown Hero in Your Community
It is not hard for most community banks and credit unions to capture and maintain the homefield advantage. In the end, it comes down to being true to your brand.

Are you the next-door neighbor who welcomes one and all with a friendly face? Or maybe you are known as a partner to farmers, an institution that goes out of its way to support the heartland?

A community bank in Wisconsin will have a different set of core philosophies than a credit union in California, but these core guiding principles should be based on and aligned to the needs of the community it serves. After all, serving the community is at the heart of the homefield advantage.

For More Information Visit
finastra.com

Telephone
1 800-989-9009

1. Tracy Grancis and Fernanda Hoefel. "'True Gen': Generation Z and its Implications for Companies." McKinsey & Company, Nov., 2018. Web.
2. "The Deloitte Global Millennial Survey 2019." Deloitte, 2019. Web.
3. Megan Gorman. "the Conversation Gen Xers Must Have with their Boomer Parents." Forbes, Apr. 30, 2019. Web.
4. "The Financial Journey of Modern Parenting." Merrill, 2019. Web. https://www.ml.com/the-financial-journey-of-modern-parenting.html
5. Dennis DeGregor. "Retail Banks Need to Personalize the Customer Experience Right Now." Redpoint Global, Mar. 29, 2018. Web.
6. Sebastian Rymarz. "Do Consumers Still Want A Human Touch from Their Banks?" Forbes, Sep. 18, 2018. Web.
7. Ron Shevlin. "How Consumers Choose a Bank: A Tale of Two Surveys." Insight Vault Cornerstone Advisors, Aug. 23, 2018. Web.
8. "The World Branch Report 2019." The Financial Brand, 2019. Web.
9. "Cashing in on the US Experience Economy." McKinsey & Company, December 2017. Web.
10. "New Epsilon Research Indicates 80% of Consumers Are More Likely to Make a Purchase When Brands Offer Personalized experiences." Epsilon press release, Jan. 9, 2018. Web.
11. "Discover the Patterns in Personality." Accenture, 2019. Web.
12. "Discover the Patterns in Personality." Accenture, 2019. Web.
13. "The World Branch Reports 2019." The Financial Brand, 2019. Web.
14. "The World Branch Reports 2019." The Financial Brand, 2019. Web.
15. "The Four Pillars of Digital Transformation in Banking." The Financial Brand, Mar. 27, 2018. Web.
16. "The Four Pillars of Digital Transformation in Banking." The Financial Brand, Mar. 27, 2018. Web.
17. "Discover the Patterns in Personality." Accenture, 2019. Web.
18. "The World Branch Reports 2019." The Financial Brand, 2019. Web

About Finastra

Finastra unlocks the potential of people and businesses in finance, creating a platform for open innovation. Formed in 2017 by the combination of Misys and D+H, we provide the broadest portfolio of financial services software in the world today—spanning retail banking, transaction banking, lending, and treasury and capital markets. Our solutions enable customers to deploy mission critical technology on premises or in the cloud. Our scale and geographical reach means that we can serve customers effectively, regardless of their size or geographic location—from global financial institutions, to community banks and credit unions. Through our open, secure and reliable solutions, customers are empowered to accelerate growth, optimize cost, mitigate risk and continually evolve to meet the changing needs of their customers. 90 of the world's top 100 banks use Finastra technology.
Please visit **finastra.com**

North American Headquarters
744 Primera Boulevard,
Suite 2000, Lake Mary,
FL 32746
United States
T: +1 800 989 9009

FINASTRA

GL 2047 / 0807