FIVE REASONS TO SAY 'YES' TO A DIGITAL BANK

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Traditional Banks Facing Pressure

Competitive pressure is driving forward-looking executives to leap past the limitations of traditional banking and create unique digital banks from the ground up. Such an endeavor involves implementing new products, targeting specific/expanded market segments, creating different processes and entirely rethinking the way people interact with your institution. It requires more than just finding a good mobile app.

In recent years, FIS has seen a trend of large institutions beginning to create separate brands and infrastructure for their digital/direct banking. We are seeing more standalone digital brands and platforms enter the market – witness the hype that surrounds Marcus from Goldman Sachs, Chime, and other new fintech entrants into the banking space.

This activity helps justify traditional banks’ decisions to build their own unique digital bank offerings. In a digital world where standing still is not an option, we’ll distill into five succinct areas of value the critical reasons why community banks and regionals should consider creating their own digital bank.

1. Gain liquidity

Deposit displacement is currently affecting all financial institutions as growing deposits is at the top of banks’ priorities. As depicted in the findings from FIS’ annual CEO Survey, 78 percent of executive respondents stressed the importance of this challenge for them in 2019. The effect of deposit displacement – the diversion of funds from checking to alternative accounts and organic growth of deposits in the money center banks – is making deposit retention difficult for many institutions.

In particular, many community banks are facing liquidity challenges. While consumer confidence has been strong and lending activity has been brisk, the loans and leases to total deposit ratios for the smaller tiers of financial institutions, especially those between $1 billion and $10 billion in assets, have trended upward over the past 10 years according to FDIC data.

A digital bank offers traditional banks a spigot that can effectively be used to increase (or decrease) low-cost core deposits. Propelling traditional banks into markets or niches where they did not have a presence, digital banks can gather new deposits without cannibalizing existing relationships with traditional customers.

Net Loans and Leases to Deposit

![Graph showing Net Loans and Leases to Deposit from 2009 to 2019 for All Commercial Banks - National and All Commercial Banks Assets $1B - $10B - National]
2. Establish a growth vehicle

Non-traditional threats dictate that bankers at traditional banks take a different approach to growing core deposits and acquiring new customers.

A digital bank offers a means to quickly expand into new niche markets or geographic markets without making significant capital investments in new facilities and client-facing staff in the field.

Additionally, a digital bank establishes the ability to test new product offerings in this controlled, specialized market area, before rolling them out to your traditional customer base. Finally, a digital bank provides a platform to gain rapid customer feedback, exploit new product trends and hone your bank’s social marketing skill set.

3. Enable a digitally focused service model

Community bankers operating traditional call centers and staff-intensive service models must consider and learn a new support model for their digital bank customers. This becomes a good thing for executives. A digital bank offering can provide the economies of scale that self-service channels create. Digital banks also help the traditional bank mobilize its operations staff to accommodate these digitally savvy customers. Together, this enables a potential lower-cost servicing model over time for the broader institution.

Research from The Center for Generational Kinetics indicates Gen X and Y customers have high expectations for self-service solutions noting, “Millennials, mobile technology and social media are colliding to radically change customer service as we know it. This new generation will not tolerate waiting in lines, repeating their problem to five different people or being treated like a number.”

A digital bank offering helps bankers meet this expectation and helps to calibrate support models of the future.

4. Gain exposure to true next gen tech

Many banks struggle to control costs due to high maintenance outlays associated with legacy technology. Entering the digital banking space not only associates their institution with more modern technology, it exposes staff to the flexibility of open banking APIs and the scalability of cloud-based solutions.

A fully integrated direct bank solution should leverage state-of-the-art technologies, starting with next generation core processing supported by a proven, multi-tenant, real-time system that processes multiple products and handles transactions at a very high scale.

Ready-to-use APIs keep digital bank solutions on top of the latest capabilities and fintech trends through integration with API gateways such as Code Connect. Concurrently, 100% in-cloud solutions securely hosted offer software as a service. This delivery method reduces banks’ hardware, maintenance, and staffing costs.

5. Realize a rapid implementation

Banks able to focus on marketing strategies and planning can take advantage of a technology partner who offers a modern solution on a pay-as-you-go basis. This type of on-demand core solution, with turnkey software and back-office operation options, enables the rapid deployment and launch of digital banking on a flexible platform that mitigates risk for the traditional bank.

A rapid implementation of a digital bank becomes possible with the appropriate partner. The partnership should deliver:

- **Increased efficiencies** – As a separate core solution, integration and interaction with a bank’s existing core is not a complicating factor
- **Speed to market** – Innovation is not hampered by the limitations of existing legacy systems; a standalone call center and back-office operation can also be spun up very quickly to support the launch of the direct bank, if the bank so desires
- **Uninterrupted growth** – 24/7 capabilities reduce operational risk and create an always-on solution for the bank and its direct banking customers
- **Rapid deployment** – The core’s cloud-native architecture allows fast deployment of a direct bank – in as little as 90 days

A Core on Demand approach addresses the traditional reservations bankers have had toward direct banks, while providing a path for organic growth that helps level the playing field with large, global institutions while competing with emerging fintech digital bank offerings.
About FIS

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