THE 2022 DIGITAL BANKING TRANSFORMATIVE TRENDS STUDY

Key Discoveries into the Future of Digital Banking and the Generational Trends Driving Change

Alkami

Digital banking has never been more important to serving customers and members than it is right now. Mobile and digital tech adoption and accelerated expectations created by the pandemic have rapidly transformed the digital banking landscape.

Financial institutions (FIs) are now at a critical moment to find and act on statistically accurate data to inform their account holder roadmap, technology plans, investments, and strategy. The 2022 Digital Banking Transformative Trends Study offers data FI leaders need and provides context and recommendations for their success.

This national study includes over 1,500 U.S. participants who currently have a bank account and are active in digital banking (check accounts, transfer funds, pay bills online, etc.) and is weighted to the 2020 U.S. Census for age, region, gender, and ethnicity for a very low margin of error. At a high level, this national study uncovers numerous unexpected and important insights that can be applied to FIs of all sizes, customer or membership numbers, and geographies. All of the data is shared in detail in this report and is designed for sharing within FIs to have the greatest impact, serve as an educational resource, and reveal the fastest path to results.

Five key discoveries include:

1. Digital banking engagement is statistically correlated with higher FI penetration.
2. Regional and community FI (RCFI) account holders are less likely than all other financial provider cohorts to believe their financial relationship will grow over the next year.
3. RCFIs can close this gap and increase trial and usage of other products by focusing on an excellent digital banking experience.
4. Younger generations are up for grabs as nearly a quarter of them are unsure if their primary financial institution (PFI) will remain as such in the next year.
5. To appeal to younger generations—while also generating greater product penetration through emerging services—FIs should look to personal financial management services for a greater share of wallet.

These are only a preview of the data in the report, but one discovery is clear: digital banking now connects every generation. It is clearly no longer optional or a nice-to-have but a must-have that drives growth, loyalty, and positive experiences. At the same time, younger generations are bringing new and different expectations that, when understood through the study, create a significant opportunity for every FI willing to adapt.

The 2022 Digital Banking Transformative Trends Study, led by Alkami in partnership with The Center for Generational Kinetics, informs the future of digital banking through a lens where every generation is valued, included, and championed. These insights create the context, understanding, and confidence for FI leaders at all levels to design and act on a strategy that unlocks the potential of digital banking across generations.

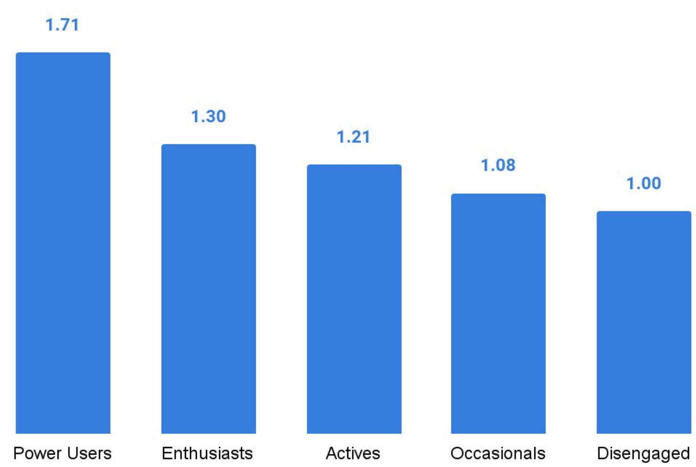
Does digital banking drive a direct return on investment for financial institutions?

Digital banking has changed dramatically over the last five years. Mobile apps, online banking, chat features, personal financial management, and so much more have all evolved to become increasingly preferred and relied upon by account holders. This trend accelerated dramatically through the pandemic, and the traditional adoption curve shortened as millions of people in the U.S. shifted to digital banking. However, FI leaders need to know if digital banking correlates with other key customer and member behaviors that drive product adoption. This is important because greater product adoption leads to better serving customers and members as well as FI growth, stability, referrals, data, innovation, and more.

A key discovery from the 2022 Digital Banking Transformative Trends Study shows that digital banking engagement is highly correlated with greater FI product penetration and adoption. This is *really* important for FI leaders to know and act on as they determine their product roadmap, technology strategy, resource allocation, and prioritization of investment. The study finds that digital banking users who access their mobile app and/or online banking multiple times per day have 1.71x the number of products with their PFI than those accessing digital banking at least once a year. That is a *big* difference.

The correlation is linear across engagement frequency with those accessing digital banking at least once a week having 1.30x the number of products; those accessing it a few times a month having 1.21x the number of products; and those accessing it once a month having 1.08x the number of products. Each of those multiples is compared against those accessing it at least once a year up to once every few months. This much higher penetration, adoption, and engagement are critical as regional and community banks and credit unions seek to drive greater growth and loyalty from their customers and members.

Key Takeaway: Digital banking usage correlates to *much higher* penetration, adoption, and engagement from account holders.



Power Users
use digital banking multiple times per day

Enthusiasts
use digital banking at least once a week

Actives
use digital banking a few times a month

Occasionals
use digital banking once a month

Disengaged
use digital banking at least once a year

Exhibit 1 Household Product Penetration for PFI (Indexed against Disengaged Digital Banking Users)
N=1,503 US digital banking consumers who use online and/or mobile banking at least once a year.

Consumers have surprising expectations about the future of their relationship with regional and community financial institutions.

FIs and their leaders across the United States are in fierce competition to understand, attract, keep, and best serve customers and members in this unique time. The competitors in the marketplace range from extremely large megabanks to neobanks, big technology companies offering financial services, to fintech companies and RCFIs. The study surprisingly finds that the type and size of FI and/or technology company have a big impact on consumers' expectations about their relationship with that FI going forward. This is one of the most important discoveries from the national study because it serves as a call to action for RCFIs and their leaders as they consider the urgency and importance of innovating to best serve customers and members.

This study shows that consumers at regional and community FIs are less likely to believe their financial relationship will grow with these providers than all other financial provider cohorts. Specifically, the study finds that 27 percent of regional and community FI customers say their relationship will likely grow over the next 12 months compared with 35 percent of major national FI consumers, 51 percent of neobank consumers, 53 percent of fintech consumers, and 57 percent of big tech consumers. This is a dramatic difference in expectations that may influence consumer behavior. Regional and community FIs must act with urgency to address this potential risk to organic growth.

Key Takeaway: RCFIs are facing a significant gap amongst their consumers' expectations to grow their relationship compared to all other types and sizes of financial providers.

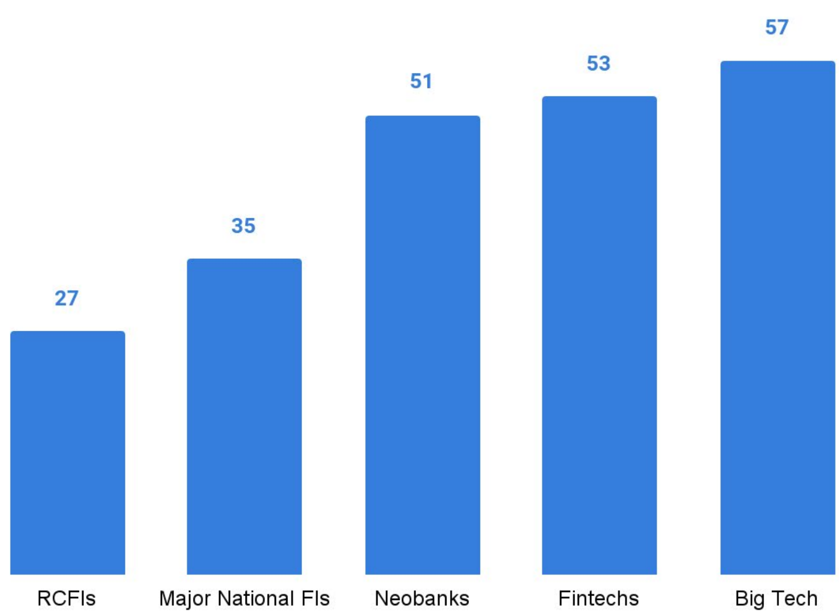


Exhibit 2 Percent of Digital Banking Consumers Expecting to Grow their PFI Relationship over the Next Year

N=1,503 US digital banking consumers.

Over the next 12 months, what will most likely happen to the relationship between you and your primary or most important financial provider?

- It will likely grow, as I expect to increase my deposits, loans, and/or other transactions
- It will likely remain the same, as I expect to maintain the deposits, loans, and/or other transactions I already have
- It will likely shrink, as I expect to reduce my deposits, loans, and/or other transactions
- It will likely end, as I expect to no longer have a financial relationship with them at all

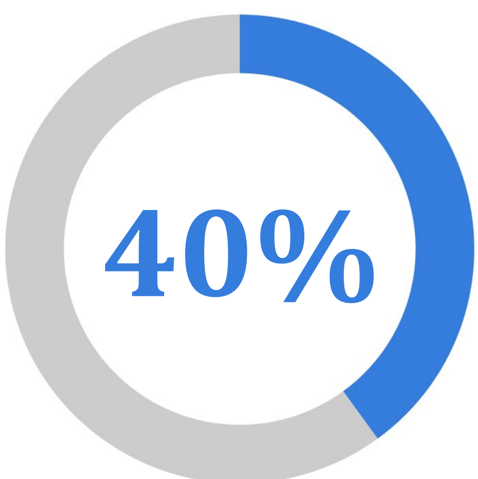
Can the relationship growth expectation gap facing regional and community financial institutions be closed?

The large gap in expectations facing regional and community banks and credit unions is a clear call to action for leaders of these FIs. Upon further analysis, the gap is not due to a current higher product penetration enjoyed by these RCFIs (which would provide less opportunity to grow these customer and member relationships over the next year). In fact, RCFIs also have the *lowest current* product penetration of their competitive peers (RCFIs have 14 percent lower existing product penetration than the national average).

Uncovering that this gap exists and that it is creating a hidden risk for RCFIs is a clear and convincing first step, but what actions can leaders of these institutions take to close this gap? Most importantly, where can leaders start to create an impact across generations that can shore up consumer enthusiasm and correlate with key ROI-driving outcomes that further strengthen and grow RCFIs?

The national study reveals a compelling insight: 40 percent of regional and community FI account holders say that the relationship gap between them and their FI can be closed through a completely satisfactory digital banking experience. Delivering this experience would make existing regional and community FIs' account holders more likely to try, use, and engage with other products offered by the FI. 40 percent is a *large* number when it comes to existing consumers sharing what would motivate them to expand their relationship, especially given the current lack of enthusiasm for these consumers expecting to grow the same over the next year.

Key Takeaway: Facing the lower enthusiasm from current customers and members to expand their financial relationship, RCFIs need to know what will work now to drive greater trial, usage, and engagement. The answer found in this study is to deliver a completely satisfying digital banking experience.



of RCFI digital banking consumers **would be more likely to try, use, or engage with other digital banking products** if they were completely satisfied with the digital banking experience

Exhibit 3 Impact of the Digital Banking Experience on Product Trial, Usage, and Engagement
N=429 US digital banking consumers stating a regional or community financial institution is their PFI.
If you were completely satisfied with your digital banking user experience, how would it impact your perception of a financial provider?

The generational challenge: Generational trends are not moving in the favor of regional and community financial institutions, so leaders should act now.

Every generation has come of age with different banking norms, behaviors, methods, memories, habits, and expectations. Some generations remember when credit cards first came out, when using checks to pay bills via mail was normal, when ATMs first ushered in the ability to get cash without going to a teller, and so much more. Each of these advancements in banking has created a more customer-centric experience allowing for greater convenience, security, transparency, and personalization. Now comes not only digital banking, but a generation of young people who may never write a check and who think carrying cash is outdated. The impact of these different banking expectations—as well as the technology that emerging generations rely upon—is clearly impacting where emerging generations go for their banking needs. But what does this mean for the banking marketplace?

This study finds that younger generations are significantly more likely to state that a neobank, big technology company, or fintech company is their *primary financial provider*. The study also reveals that RCFIs strongly skew toward the older generations of customers and members. For example, RCFIs over-index on Generation X and Baby Boomers. Neobanks, big technology companies, and fintechs over-index on Generation Z and Millennials.

Key Takeaway: Generational trends are not in favor of RCFIs as younger generations claim that non-traditional or upstart financial providers are their PFI. This creates a clear imperative for RCFIs as they risk their customer bases or membership increasingly aging while emerging generations initiate and build relationships with alternative financial providers. RCFIs need to take notice and act now to reverse this trend.

	Gen Z	Millennials	Gen X	Boomers
Major National Bank or Credit Union	34%	31%	35%	43%
Regional or Community Bank or Credit Union	16%	18%	**38%**	**45%**
Online-Only Bank (Chime, Varo, SoFi, etc.)	15%	23%	16%	3%
Big Tech Company (Apple Pay/Card/Cash, Google Pay, Amazon Pay)	12%	9%	5%	1%
Financial Tech Company (Venmo, CashApp, Zelle, Credit Karma, etc.)	23%	17%	5%	3%

Exhibit 4 Types of Financial Provider among Generations
N=1,503 US digital banking consumers.
Which of the following best describes your primary or most important financial provider?
Totals not summing to 100% are represented by respondents selecting "Other."

The generational opportunity: Younger generations are up for grabs. Whoever adapts to meet their needs will attract their business, loyalty, and future growth.

The good news for RCFIs is that younger generations are *right now* exploring and testing out different options to determine where they want to build their longer-term primary financial relationship. At the same time, these emerging generations are increasingly earning more money and entering new, more financially complex life stages. This generational, economic, and life stage emergence makes younger generations ideal for RCFIs to attract and retain by developing and implementing new solutions specifically designed to meet the needs of emerging generations.

How "up for grabs" are these younger generations when it comes to their PFI?

The national study finds that a *significant* portion of younger generations are unsure about the future of their PFI relationship. In fact, one quarter (25 percent) of Generation Z and 21 percent of Younger Millennials don't think or are unsure if their PFI will remain their PFI in the next year. This provides a time-sensitive opportunity for RCFIs because this discovery highlights that right now millions of younger adults are unsure if they will stay with their PFI.

Key Takeaway: Millions of members of younger generations are unsure if they will stay with their PFI. Whichever FIs adapt to best understand, engage, and serve these emerging generations will attract them at exactly the right time and life stage to build longer-term relationships right as their financial needs grow.

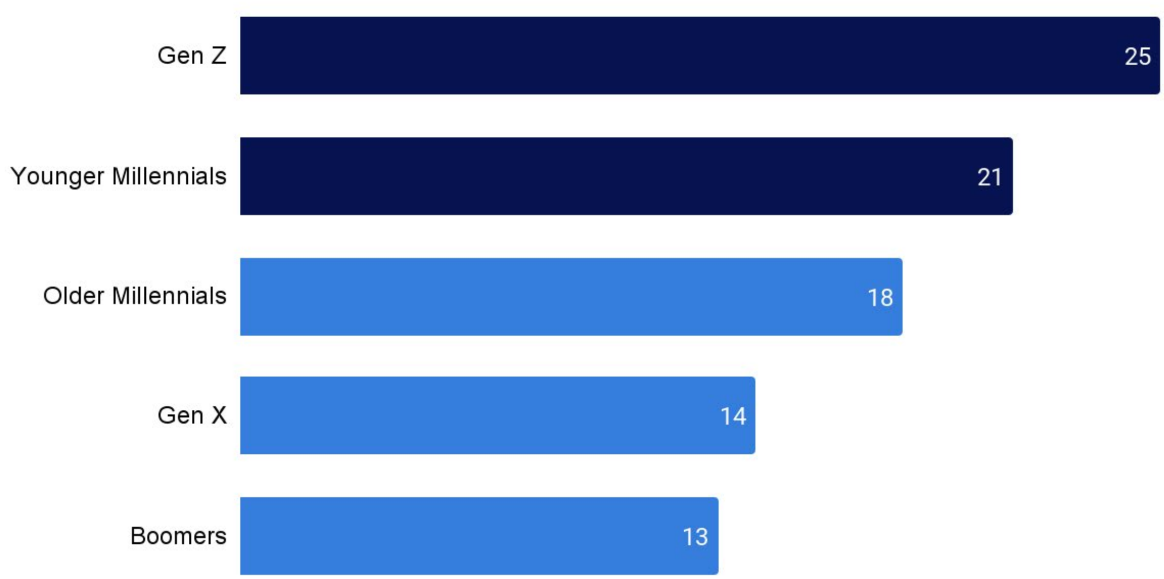


Exhibit 5 Percent of Digital Banking Consumers Who are Unsure or Don't Think Their PFI Will Continue to be Their PFI in 12 Months
N=1,503 US digital banking consumers.
Do you think your primary or most important financial provider will continue to be your most important financial provider in the next 12 months?

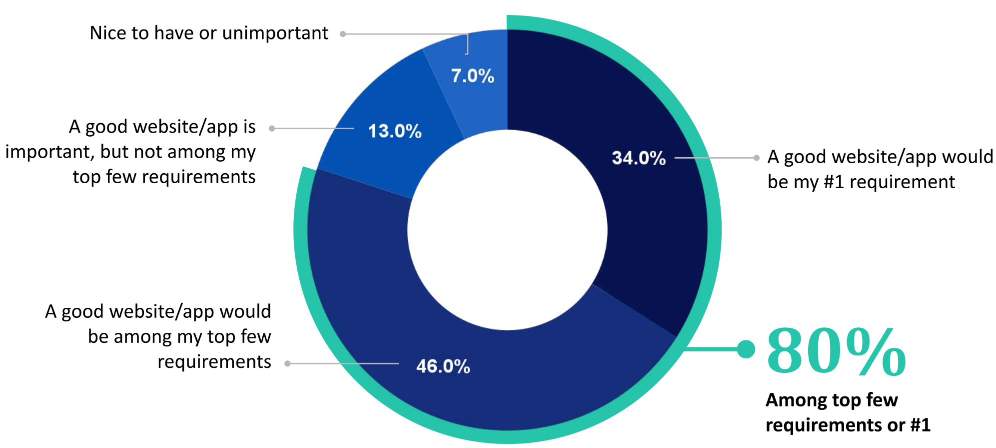
Offering a great digital banking experience appeals to *all* generations.

When it comes to designing and offering a great digital experience, the urgency and importance have never been higher than right now. New expectations, norms, and trends are all showing that digital banking is critical to best serving every generation of consumer. This is true across the different types of FIs. Equally as true—and potentially even more important—is that offering a great digital banking experience is not just key to winning younger generations. In fact, delivering a great digital banking experience leads to significant gains when it comes to attracting and keeping every generation. This is important because it means that when FIs offer great digital banking experiences, they're not only positioned to attract and keep emerging generations but every other generation of customers and members, too.

This study uncovers that offering a great digital experience is valuable to every generation. On one hand, the study finds that almost half of all Generation Z and Millennials have opened an account with a new financial provider due to a frustrating digital banking experience. This highlights the frustration, challenge, and pain of outdated digital experiences driving emerging generations to new and different FIs. On the other hand, the study finds that a *huge* percentage—73 percent of Baby Boomers, 78 percent of Gen X, 84 percent of Millennials, and 81 percent of Generation Z—say the quality of the digital banking experience would be essential or important in selecting a new PFI. The solution and opportunity across generations are abundantly clear. A great digital banking experience is necessary for attracting and keeping younger generations but also older generations as well.

This is an important finding as many companies historically struggle to appeal to a new generation of buyer while not disenfranchising their core consumer. In the case of digital banking, a great experience is age-agnostic, allowing regional and community banks and credit unions to confidently evolve their capabilities to meet their existing consumers and an untapped market of emerging account holders where they currently are.

Key Takeaway: Offering a great digital banking experience is no longer a nice-to-have. Every generation now wants a great digital banking experience. Younger generations will leave if they don't have one and older generations expect it if FIs expect to attract and keep them, too. This is one of the key insights that holds promise for growing a FI regardless of its current customer base or membership.



48%

of Gen Zs and Millennials have had such a bad digital experience with a financial provider that they opened a new account with another

Exhibit 6 Importance of Digital Banking Experience in Selecting a New PFI
N=1,503 US digital banking consumers.
If a new financial provider aspired to be your primary or most important financial provider, how important would the quality of their digital banking experience be to your consideration?

Personal financial management is a strategic opportunity for regional and community financial institutions to drive growth now.

In addition to offering a great digital banking experience, the rise of personal financial management is creating new expectations and clear differentiators for FIs to take the lead in serving their stakeholders. This is especially true when it comes to standing out with services, tools, and solutions beyond the traditional banking services that are offered at FIs. The study finds that not only is personal financial management highly desirable across generations, but it can drive engagement and connection with consumers at a critical time in the current fiercely competitive marketplace.

The study reveals that personal financial management is an attractive service for RCFIs to increase penetration. In addition, personal financial management appeals to a very broad market and, in particular, to younger generations that are increasingly earning more money, adding financial commitments, and facing new levels of financial complexity. The study finds that a very large 64 percent of the market does not have a financial wellness service and that interest in personal financial management ties with investment accounts for third place in what consumers want now from FIs. This is an important discovery because out of 15 different services tested in the national study as potentially being offered by FIs, personal financial management only trails the basics many consumers want: a savings account and credit card. This means that after the essential banking solutions consumers need, personal financial management is tied for first place.

Key Takeaway: The desire for personal financial management is a hidden trend that should move up the priority list for FI leaders. Behind the banking basics, personal financial management is at the very top of what consumers want from a FI. Furthermore, most consumers do not subscribe to financial wellness services today, representing a significant greenfield opportunity for financial providers to seize.

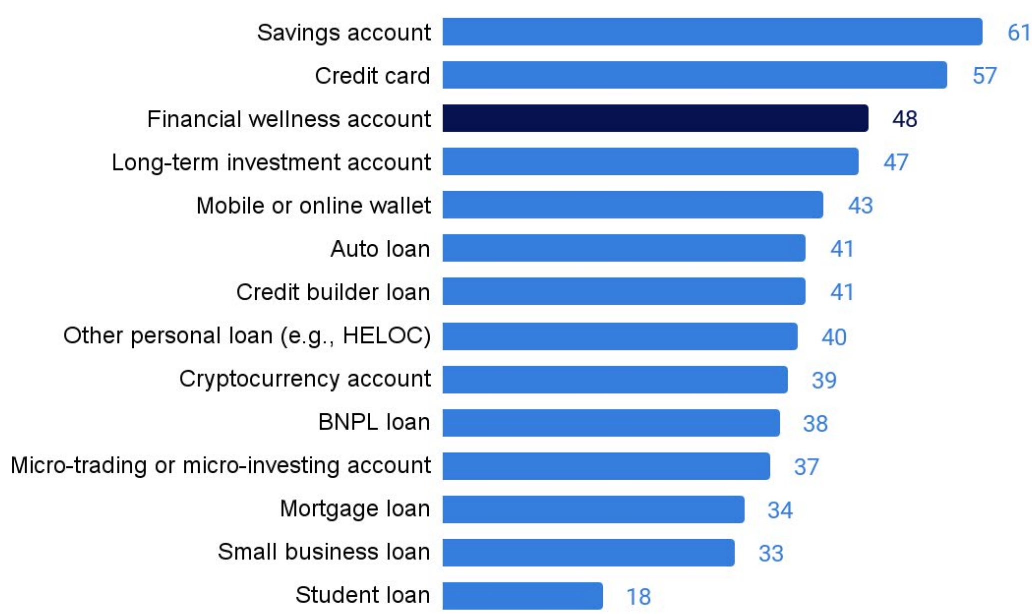


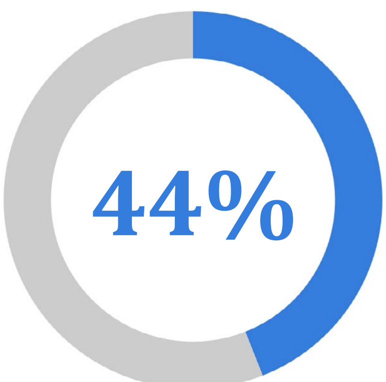
Exhibit 7 Percent of Digital Banking Consumers Interested in Obtaining a Financial Service They Don't Already Have over the Next 12 Months
N=1,427 US digital banking consumers. N ranges from 33-480; Only responses where N>100 are shown.
How interested would you be in obtaining one of the following financial products or services over the next 12 months?
(Top 4 box shown of those selecting extremely interested, very interested, moderately interested, and slightly interested.)

Consumers do not believe the bank of the future looks like the bank of today. Speed now matters more than ever.

The FI of today is not what consumers believe the FI of the future will look like or deliver. This is important to note as RCFI leaders seek to develop strategies and priorities for innovation, technology advancement, and understanding of how to best serve consumers' needs. In particular, the merger of online or digital banking with physical banking continues to evolve and change as consumers increasingly view banking as something that is done entirely or mostly digitally. But how *fast* do consumers really think that the change will happen? And what will the bank of the future look like given what consumers now expect and have seen as possible today?

This study finds that 44 percent of the market believes the "bank" of the future will be a *technology company*. In fact, a significant 65 percent of all digital banking consumers believe that most Americans will consider their primary "bank" to be one that is completely online in five years. It is clear that speed and focus will be critical for RCFIs to meet and exceed consumers' expectations at this pivotal time in the evolution of digital banking.

Key Takeaway: The vast majority—nearly two-thirds—of today's banking consumers have a clear vision that their primary bank will be completely online in five years. In addition, many think that the bank of the future will be a technology company. This all underscores the urgency and importance of FI leaders taking action right now to best adapt and serve consumers. Timing is truly of the essence.



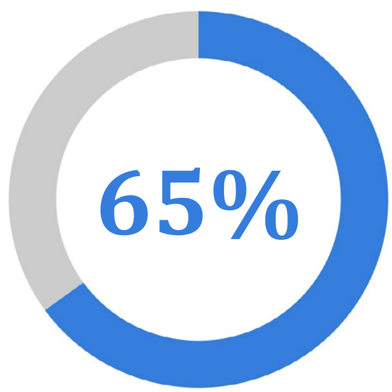


Exhibit 9 Consumer Assessment of the Banking Industry's Future
N=1,503 US digital banking consumers.
Which of the following best describes your point of view? The "bank" of the future will be a technology company or The "bank" of the future will be a financial services company. (Options randomized to prevent order bias)
Select True or False for each of the following statements (In five years, most Americans will consider their primary "bank" to be one that is completely online (no physical branches or ATMs). True responses shown.

Conclusions

FIs are facing a competitive marketplace with rapidly changing customer or member expectations, new and different competitors, and emerging trends that are fast becoming core expectations. The goal of the 2022 Digital Banking Transformative Trends Study is to separate myth from truth so FI leaders—particularly at RCFIs—can discover what is most important now to inform strategy, innovation, investment, and long-term growth across generations.

This national study reveals that time is of the essence when it comes to adapting to meet the expectations every generation has about digital banking. This is exciting news because the study not only shows that younger generations expect great digital experiences, but that providing these experiences drives engagement and retention with older generations, too. Essentially, every generation wants a great digital banking experience, and the results directly correlate to key return-on-investment drivers for FIs, including greater trial, adoption, and usage of *other financial products* at the FI.

At the same time, there are clear headwinds facing RCFIs, particularly the much lower expectations among their customers and members about expanding their primary banking relationship with a RCFI in the next year. This trend is particularly concerning because the enthusiasm gap between RCFI account holders is pronounced when compared against customers of major national FIs, neobanks, fintech, and financial technology companies.

This expectation gap serves as a call to action for RCFIs to not assume that their account holders will automatically grow with them. Instead these institutions must act now to keep and develop these relationships through an excellent digital banking experience. The added benefit: not only will this support current customer and member retention but the study shows it will increase the ability to attract and keep new customers and members, too.

One great opportunity: younger generations continue to be up for grabs. Whichever FIs adapt to meet the generation will acquire and retain them. This is great news for RCFIs as their ability to learn, adapt, and execute gives them a great foundation to connect with this younger generation at exactly the right age and life stage.

While offering a great digital experience is clearly core to the vast majority of digital banking customers and members, new and different trends are also worth noting. Personal financial management services are in high demand and offer FIs an opportunity to compete in a largely greenfield market.

The bottom line for financial institution leaders: The data-driven insights found in the national study reveal that the bank of the future does not look or feel like the bank of today. A larger majority of consumers are very clear that they expect their future bank to be largely (if not exclusively) online, which only makes the importance of digital banking experiences in all forms more important and essential to navigating and thriving during the changes to come in the next several years.

Never before have regional and FI leaders had to face the challenges they are leading through right now, from a pandemic and The Great Resignation to rapidly evolving consumer expectations and emerging competitors. This national study intends to shine a bright light on exactly what leaders need to know now to inform their strategy, executive, board, and technology conversations. Where can you start when it comes to taking action on the discoveries? Read on for three actions you and your team can take right now.

Three Actions Regional and Community Financial Institution Leaders Can Take Right Now

Ready to take action to drive member and customer engagement and growth at your FI?

Here are three great ways to start:

1. **Create a generational snapshot of your current customers or members.**
   - Determine the percentage of your members or customers in each generation (Generation Z, Millennials, Generation X, and Baby Boomers).
   - Create a pie chart to visualize the generational birth years as a single snapshot.
   - Now create a pie chart that shows the generational snapshot or composition of your members or customers that are using digital banking.
   - Compare the two to see any trend differences.
   - Last, create a generational snapshot of your new customers or members from the last twenty-four months. See how your newest customers or members are the same or different from your overall customer or membership base.
2. **Assess your current digital banking experience with our 3-step approach to find your strengths and areas for the fastest gains.**
   - Benchmark user satisfaction with your digital banking experience against that of neobanks, megabanks, and other regional and community FIs by conducting primary research to measure strengths and gaps against key competitive cohorts. If your institution uses a third-party digital banking platform provider, ask this partner for evidence of the same.
   - Benchmark digital banking feature and functionality availability against national FIs and neobanks. If your institution uses a third-party digital banking platform provider, ask this partner for this benchmarking analysis.
   - Use iterative testing methods, like the system usability scale (SUS), a proven tool to measure the usability of experiences across multiple categories and that has been linked to net promoter score (NPS) gains, to measure the functionality of new digital banking features before introducing them to the market.
3. **Create a digital banking roadmap based upon your generational mix, digital assessment, and financial institution's growth goals.**
   - Develop a 3- or 5-year vision based on your data, goals, and the insights in this research report.
   - Based on the vision, set milestones for each year that are achievable and align with your investment priorities.
   - Gain alignment within the executive team and the boardroom before activating your plan across all levels of the organization with defined milestones and key performance indicators.

Where to go for more information

For more tools and resources, visit alkami.com. Media inquiries may be directed to Audrey Pennisi at audrey@outlookmarketingsrv.com.

About the Report's Authors

Alkami

Alkami Technology, Inc. is a leading cloud-based digital banking solutions provider for financial institutions in the United States that enables clients to grow confidently, adapt quickly and build thriving digital communities. Alkami helps clients transform through retail and business banking, digital account opening and loan origination, multi-payment fraud prevention, and data analytics and engagement solutions. To learn more, visit alkami.com.

The Center for Generational Kinetics

Research | Speaking

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CGK's team leads original research around the world to solve important consumer, investor, and workforce challenges. The firm uncovers new and unexpected, statistically accurate insights for innovative, market-leading clients. CGK's team has worked with over 700 companies around the world, from the biggest global CPG brands to governments, technology pioneers, financial services, retailers, banks, and automotive manufacturers. The firm's latest bestselling book is *Zconomy: How Gen Z Will Change the Future of Business*.

CGK's team and discoveries have been featured on more than 200 TV shows and hundreds more media outlets around the world. Learn more about CGK's pioneering insights at GenHQ.com.

The 2022 Digital Banking Transformative Trends Study Methodology

The national study included 1,503 U.S. participants ages 22-65. All participants had a bank account and were active in digital banking (check accounts, transfer funds, pay bills online, etc.). 720 of the 1,503 participants were currently employed full-time or part-time and 365 of the 1,503 participants were currently or recently working in the gig economy. The sample was weighted to the 2020 U.S. Census for age, gender, geography, and ethnicity. The national study was conducted online from March 15, 2022 to April 4, 2022. Figures are statistically significant at the 95 percent confidence level with a margin of error of +/-2.53 percentage points.

Throughout this whitepaper, generational cohorts are defined as follows:

- Gen Z: Those who are 22-25 years old
- Younger Millennials: 26-35 years old
- Older Millennials: 36-45 years old
- Gen X: 46-57 years old
- Boomers: 58-65 years old

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