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Digital Account Opening: Banks Innovate To Onboard Quickly

Over the past few years consumers and businesses have become much more discerning about the technological capabilities of the institutions they engage with, and knowing that onboarding is suggestive of a provider's likely servicing capabilities over the lifetime of the relationship, the early steps of the relationship have become critical. For highly regulated financial institutions, the pressure is on to provide smooth, quick and enjoyable experiences in a traditionally convoluted journey.

Making the account opening process simple and appealing is far from straightforward, and yet as with many aspects of digital banking a balance must be struck: if the journey is too convoluted the increasingly discerning and digital-savvy applicant will quickly exit. If the journey is too straightforward it is likely that the user will not buy into the brand and its platform, and may be less likely to extend the new relationship, transferring their primary deposits and payments needs. Leading providers are now building depth into onboarding, through a variety of mechanisms such as encouraging the user to add a card to their digital wallet, or presenting appealing savings or credit card products.

The Rise Of Online Banking

Research suggests the opportunities are there for banks to execute here. According to Curinos Digital Benchmarking, opening a checking account through digital means — a smartphone, tablet or desktop — is greatly preferred, by 72% to 34%, to opening an account through a branch or its representatives. In only five years, branch-driven factors as a "driver of convenience" for these shoppers have dropped 61% while "useful online or mobile banking" has risen by 80%. Yet, many if not most financial institutions continue to struggle with implementing an effective and cost-effective digital account opening solution. Reasons include a reliance on legacy business models, technology platforms that serve many masters and are difficult to tailor and, often, an approach that stresses budgets over customer needs.

Over the last five years, bank shopper preferences have changed...

↓61%
branch-driven drivers of convenience

↑80%
online or mobile banking drivers of convenience

Most US retail checking and business banking providers have realized the importance of good onboarding journeys and so updates and innovations are frequent. UK-headquartered Revolut, for example, continually dissects the steps required to open accounts and weaves them into a streamlined, unobtrusive journey. New users can open an account with Revolut in less than thirty clicks on the app, with the fintech removing as much friction from the process as possible before seamlessly transitioning into a lifestyle banking environment.

Streamlined, however, doesn't have to mean stripped-back. Many fintechs provide virtual assistance with chatbots to help move the applicant forward. Know-your-customer (KYC) requirements such as photo ID and document upload make use of the phone's camera capabilities, making the experience enjoyable with videos and images requested with friendly text and prompts. Those in the forefront are offering single sign-on for both laptop and mobile and executing account opening through e-signatures. They're also offering prequalification where needed and prudent and insuring themselves against fraud without adding friction to the experience — always a delicate balancing act.

Buy Or Build

Fintechs' obvious advantage over conventional providers is that they're in the business of building digital platforms and not encumbered by legacy systems and the myriad demands placed on them. For a conventional provider, on the other hand, building can mean securing commitment amid multiple projects competing for finite resources, hiring the right kind of programming talent, investing in time and personnel that can't be deployed elsewhere and testing that seems endlessly iterative. But an outside purchase often means a substantial cash outlay and an end product that, while serviceable, may not allow for enough customization to reflect an institution's mission and proprietary nature. It can be a big bet that may not produce a commensurate return. Elsewhere, digital account opening solutions offered off-the-shelf have grown in sophistication over the last decade, and can offer the provider the ability top add variation and flexibility to adopt a competitive proposition.

Online Account Opening: The Achilles Heel

While almost three-quarters of customers prefer the digital account opening process, new checking accounts opened digitally account for only about a quarter of all new balances. Why the disparity? Simply put, customer quality.

Even during the pandemic, balances of new checking accounts initiated by branches were four to five times higher than those initiated digitally, according to Curinos Shopper Research. By third quarter 2022, the number had risen to seven-and-a-half times. Compounding the issue has been customer retention. According to Curinos SalesScape data, 45% of accounts acquired digitally are closed within three months, compared with only 4% of branch accounts. And customers acquired through branches are more than twice as likely to remain on the books after 12 months compared with those acquired through digital means, only 40% of whom remain. On average, a bank's breakeven for digital customers takes five years versus only four years for those originated in the branch network. Another issue is fraud. While it's improving through innovations like uploads of identification photos, identity verification through digital channels lags face-to-face verification and blunts the number of accounts that would otherwise be approved and opened.

Fintech Market Share

Neobanks and direct providers, through their distinctive product features and customer experiences, continue to grow market share through mobile-first approaches. Their penetration of new primary checking relationships now stands at 39% of the industry, up from only 21% in 2018. And as Curinos research has shown, acquiring new-to-bank checking accounts is paramount to earning primacy and gaining market share.

For these providers, success in deposit gathering and lending are founded on their ability to respond to users' needs, which generally means speed, ease, simplicity and assistance. They are much more likely to compare themselves to, and fashion themselves after, leaders in the tech field than to conventional financial institutions. Their inroads into unsecured consumer lending, for example, has been less because of their ability to charge higher rates for taking higher risk than because of their speed in approving applicants and funding their accounts. Indeed, the credit risk most assume is only marginally greater than that of conventional lenders, but they are rewarded in the marketplace for their convenience in the higher rates they charge. Many bring the same speed and ease to applying for and opening checking and savings accounts.

Onboarding Made Better

New-to-bank customers who have a good account opening experience are far more likely to stick around than those who don't, and digital is tailor-made for effective onboarding. It begins with the mobile app because an increasing proportion of all digital accounts are generated from a mobile device, and once in the ecosystem, a user is more easily prompted and motivated to continue the journey. That can mean not only funding the account but also adding a linked account, signing up for bill payment and, ideally, setting up direct deposit, which is tantamount to having a primary relationship. Because the app is as omnipresent as the phone itself, onboarding can benefit from a steady stream of alerts, reminders and offers. And it lends itself to personalizing the journey, providing nudges and insights to foster engagement and deepen the relationship.

The migration to digital banking, with digital account opening leading the way, will only continue to accelerate. To thrive in the digital age, traditional banks will be well-served to emulate the account opening solutions of many of the leading direct banks and neobanks.