Quantifying the Value of Digital Engagement

BANK OF THE WEST

BNP PARIBAS GROUP

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Online banking is the most vital touchpoint in a financial institution's relationship with its customers.

– Javelin Strategy & Research, Feb. 2016

Introduction

It is clear that digital banking is an essential component in today's banking environment. But what exactly is the return you can expect on investing in services for these digital customers? What is the value of a digital customer? And how can you maximize your customers' adoption and usage of digital banking?

Fiserv and the Bank of the West quantified the benefits of adoption and increased digital banking engagement by customers. This study followed the digital banking behavior of Bank of the West customers. Using behavioral and transactional data, it measured the value of the digital customer to the bank, how the value differed across segments, how the value differed based on degrees of digital engagement and identified the top drivers that led to increased benefits.

While this study focused on one institution, the conclusions drawn here apply broadly. The results are clear: Digital banking customers are among a financial institution's most valuable customers. They use more revenue-generating services than nondigital financial services customers, and they are more loyal to their financial institutions.

About the Study

Drawing from a pool of approximately 412,000 Bank of the West customers over a span of 24 months (August 2013 to August 2015), Fiserv and the Bank of the West Analytics team implemented a study to answer two overarching questions:

1. Does the increased customer engagement seen with digital customers translate into incremental value?
2. Does digital customer value differ by customer segment or degree of digital engagement?

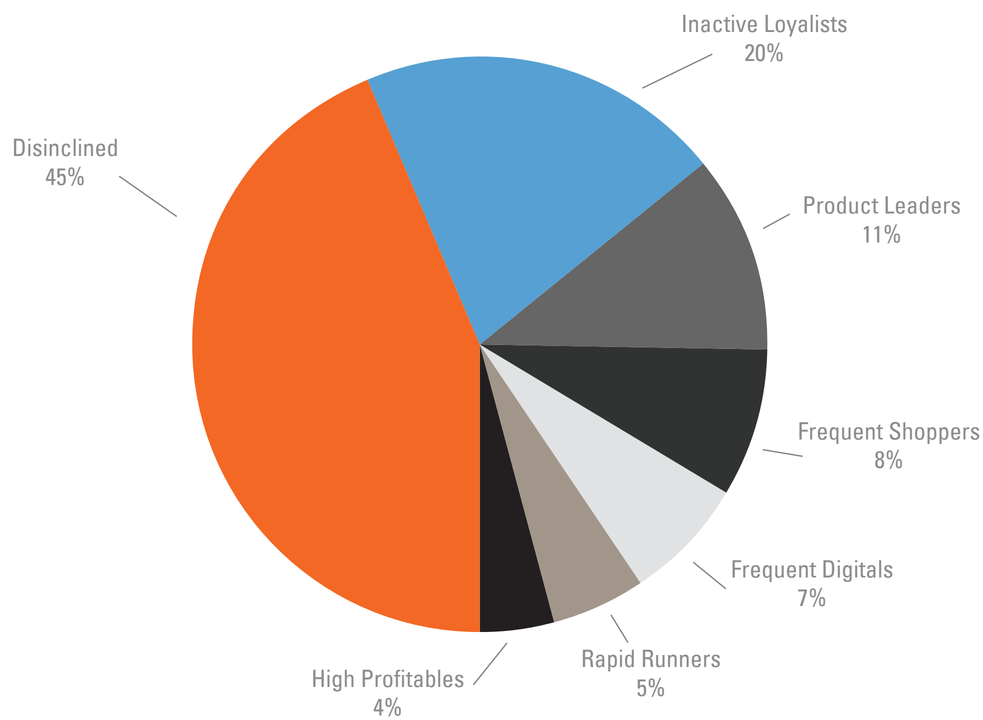
The key hypotheses were that digital customers are more valuable than nondigital and that increased digital engagement results in increased customer value.

The study began with an analytical deep dive into Bank of the West's customer data, including an RFM (recency, frequency, monetary) engagement scoring process. Customer value was measured prior to adoption of digital banking and after adoption. Statistical modeling was employed to understand how behaviors correlated with revenue growth and to identify key factors driving revenue. The data and insights gathered in this study can be used to inform future strategy and planning activities.

Customer Segmentation

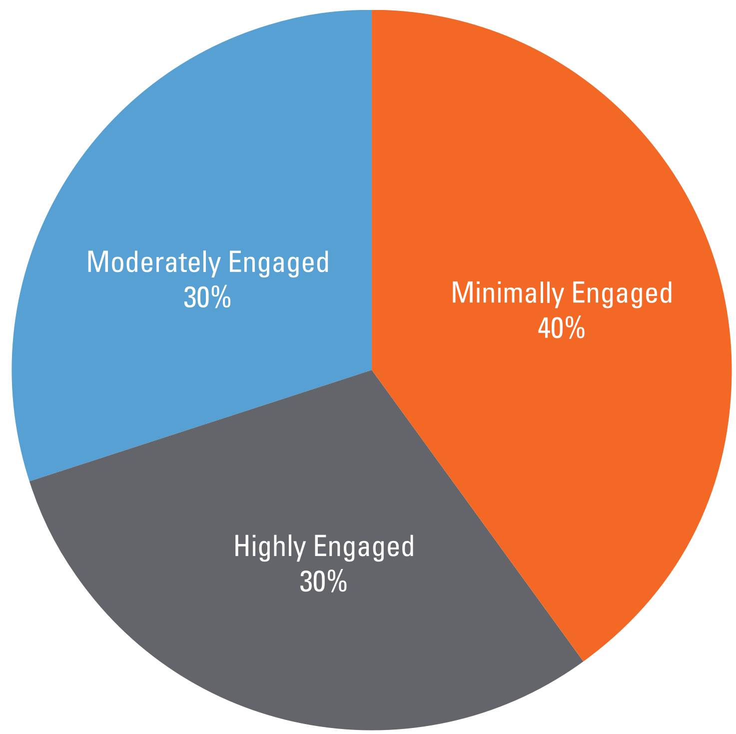
Prior to enrollment in digital services programs, customers were segmented by behavior. Seven segments of customers were identified:

- Disinclined (45%): least tenured customers with lowest activity and balances
- Inactive Loyalists (20%): highest tenured customers with nearly inactive behavior
- Product Leaders (11%): customers owning the most products
- Frequent Shoppers (8%): youngest customers with highest POS and ATM debit behavior
- Frequent Digitals (7%): customers with highest ACH and direct deposit behavior
- Rapid Runners (5%): high growth customers with moderate to low activity
- High Profitables (4%): most profitable customers with highest account balance and deposit behavior



RFM Engagement Scoring

The RFM scoring process looked at customers who were active over a six-month period in online banking, mobile banking, ACH debit or bill pay and evaluated them on their level of engagement. Using three dimensions – recency (time that has elapsed since the customer's most recent transaction), frequency (the average number of transactions made by the customer within the analysis period) and monetary (the average transactions amount in the analysis period) – consumers were ranked on a scale from minimally engaged to highly engaged.



Initial Insights on the Digital Banking Customer

The analysis of digital customers highlighted several factors. Digital customers are primarily Millennials and Gen Xers (18- to 55-year-olds). They engage in three or more product holdings (mobile banking, bill pay, etc.) and have debit cards, payroll accounts, high ACH activity and a high frequency of transactions offline, online and via mobile. In short, they are relatively more engaged and active. They use digital banking to manage cash flows and balances – and also to adopt new products.

Millennials (18-35 years old)
Gen X (35-55 years old)

Have 3+ Product Holdings (Mobile Banking, Bill Pay, P2P, Etc.)

Have a Debit Card and 25+ POS Transactions

Have Payroll Accounts and 3+ Credit Transactions in a Month

High ACH Activity

High Frequency (30+) of Transactions Offline, Online and Via Mobile per Month

Longitudinal Study

The longitudinal study pulls together the customer segmentation output with the RFM results to provide a better picture of the impact of digital banking adoption. The study looked at the full segmentation base for the 15 months following enrollment. For each segment, three key performance indicators were tracked across digital and nondigital customers including revenue (total monthly revenue per customer), product holdings (number of products engaged with by customer) and loyalty (customer attrition rate).

Where do we see digital banking adoption impact?

Higher Revenue Generation

Increased Product Holdings

Lower Customer Attrition

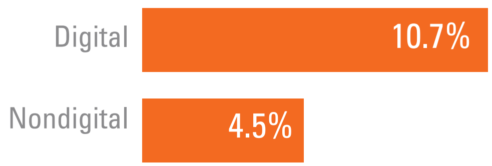
Higher Transaction Activity

Impact of Digital Banking Adoption

The key takeaway from the initial study is that customers who enroll in digital banking result in higher value for the bank in terms of revenue, level of engagement and loyalty. In debit and credit transactions, digital customers showed an increase in both transaction amount and frequency that far outpaced nondigital customers.

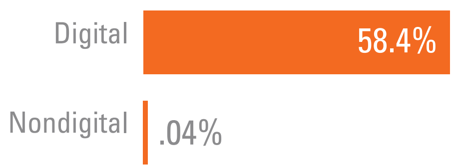
After digital enrollment, revenue for the digital group increased at almost double the rate of nondigitals, showing that higher digital engagement is directly proportional to increased revenue.

Incremental Revenue Growth after Enrollment



Product adoption also increased at a much more substantial rate for the digital group.

Product Adoption after Enrollment



And digital customers had a lower attrition rate compared to nondigitals, reflecting higher levels of loyalty.

Customer Attrition Rate after Enrollment

Identifying Key Segments

Across the seven identified segments, the disinclined and inactive loyalists segments (that made up two-thirds of the analysis base) showed the best response to digital enrollment compared to all others. Among the digital group, highly engaged and moderately engaged customers drove the highest revenue and product growth based on activity in ACH debit, bill pay, online transfer and mobile banking, respectively.

Higher engagement intensity drives higher value.

The findings show that the value of a digital customer is higher. After enrollment, average product holdings increase, overall engagement and transactions rise and customers are less likely to leave the financial institution. More engaged customers drive higher value through increased revenues, more frequent transactions and loyalty.

Revenue Driver Analysis

The final phase of the study analyzed active customers after one year of digital enrollment in order to identify and validate which specific factors drove higher revenue in digital versus nondigital customers. Analysis unearthed various key drivers specific to Bank of the West's digital versus nondigital customer base. These drivers were key to understanding the revenue contributions by the most profitable segments.

Conclusion and Next Steps

In terms of all key performance indicators measured – revenues, product holdings and loyalty – digital customers prove to be more valuable.

The study revealed that use of digital banking drives:

1) Higher revenue generation

2) Increased product holdings

3) Lower customer attrition

4) Higher transaction activity

Through this study, Bank of the West was able to pinpoint the specific customer segments that would provide the best return through digital engagement. An analysis such as this can help any financial institution accurately pinpoint key drivers and specific customer segments to focus efforts.

Driving Deeper Digital Engagement

To help clients understand the value of mobile adoption and marketing, Fiserv offers:

- **Free access to Impact Marketing (impactmarketing.fiserv.com), which provides marketing campaign resources including creative and self-serve multichannel deployment tools**
  - **Customizable marketing elements that showcase the product and key features**
  - **Full life cycle messaging communication program that drives bill pay, mobile activation and deeper digital engagement**
  - **Evergreen assets for bill pay, P2P payments, premium payments and e-bill (available Q2 2016)**
- **An invitation to join a mobile adoption workshop where financial institution professionals can meet for an hour with a Fiserv mobile adoption team member to review best practices and recommendations to effectively market mobile banking to consumers**
- **Ongoing resources/marketing support answers**

If interested, send an email to DigitalAdoption@fiserv.com, and one of our specialists will arrange a consultation.

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To learn more about partnering with Fiserv for deeper digital engagement, call 800-872-7882, email getsolutions@fiserv.com or visit www.fiserv.com.

About Bank of the West

Bank of the West is a regional financial services company chartered in California and headquartered in San Francisco. Founded in 1874, Bank of the West provides a wide range of personal, commercial, wealth management and international banking services through more than 600 branches and offices in 23 states and digital channels. Bank of the West is a subsidiary of BNP Paribas, which has a presence in 75 countries with more than 189,000 employees.

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