NOVANTAS RESEARCH

2017 Omni-Channel Shopper Survey

A Digital Inflection Point for Banking

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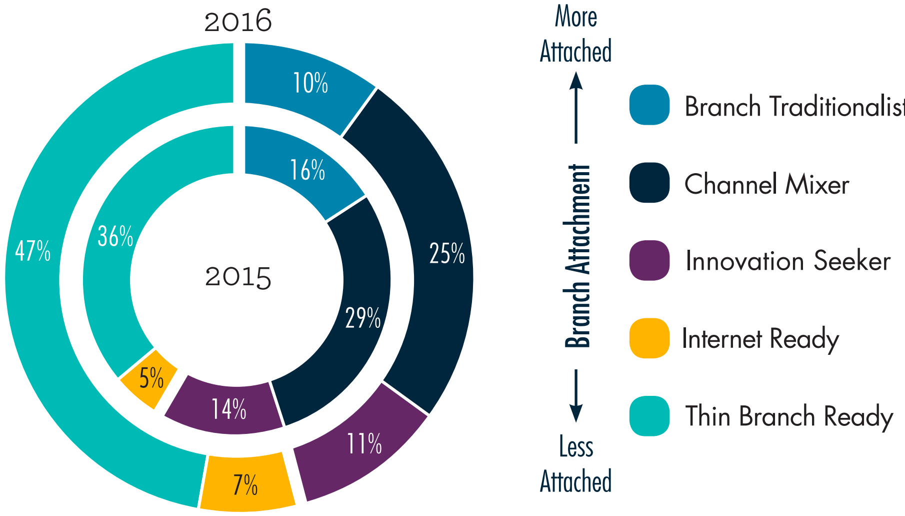
BANKING REACHES A DIGITAL INFLECTION POINT

2017 Omni-Channel Shopper Survey

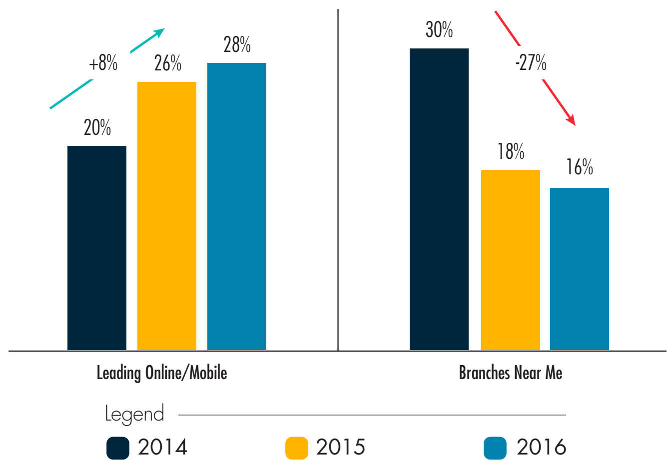
The majority of U.S. shoppers are now in segments that either don't use bank branches, don't care much for them...or both.



ON AVERAGE CONSUMERS **ONLY** CONSIDER **2 BANKS** PRIOR TO PURCHASE

Being perceived as convenient is key to getting into consideration set

Digital capabilities are now the #1 driver of perceived convenience



In a digital world, consumers expect to open their new accounts digitally

79% shop digitally (in part)

54% shop digitally (exclusively)

33% want to open new accounts digitally

Contact us at research@novantas.com

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EXECUTIVE SUMMARY

In this research report, Novantas presents the latest findings from the ongoing Shopper Surveys of U.S. consumers. These surveys of recent and prospective primary checking account purchasers from the end of 2016 explore the profiles, attitudes, behaviors and trends of consumers who are shopping for and/or opening primary checking accounts. Combined with additional Novantas analysis, the surveys provide insight into how banks can increase consumer Awareness, Consideration and Purchase of their checking accounts.

Historically, banks have relied upon their physical networks to drive customer acquisition and deposit growth. Consumers needed only to look to their nearest intersection to find their next bank; physical proximity drove consideration and ultimately influenced purchase decisions. It's no longer news to banks that times have changed. Consumer adoption of technology and shifting preferences toward digital channels have been the impetus for bank innovation for several years.

Yet, our U.S. Shopper Study indicates that the pace of bank innovation needs to ramp up considerably over the next 12-18 months. This research brief highlights three critical shifts that suggest consumers have reached a digital inflection point, including: a dramatic "untethering" from bank branches, an important shakeup in the drivers of bank Consideration and Purchase, and the increasing demand for digital account opening capabilities.

The Great "Untethering" from Branches. Consumer behavior and attitudes about the branch and other channels are evolving rapidly, and are changing the nature of the customer acquisition for banks. Our segmentation analysis by channel attitude and behavior reveals strong year-on-year movement away from branch-dependent segments toward more digitally-driven segments that are both less attached to, and less dependent upon branches. Purchase results confirm this "untethering," showing a continued decline in the correlation between branch share and purchase rate.

In a world where branch share is no longer the fundamental driver of deposit share, banks will increasingly win and lose based on their ability to connect with, and unleash, consumer demand. The players that best understand the drivers of demand will be clearly advantaged.

The Changing Dynamics of Bank Consideration & Selection. Replacing branch share as the strongest indicator of purchase is a factor called "Perceived Convenience." Having branches, of course, does factor into a consumer's perception of a bank's Perceived Convenience. Historically having close physical proximity to a branch was, indeed, the primary driver of a bank's Perceived Convenience factor. However, in 2017, for the first time, having a branch nearby was no longer the top driver. Instead, a bank's ability to enable its customers to access their funds "wherever/whenever" (online/mobile capabilities and no foreign ATM fees) became more important drivers of Perceived Convenience. Banks scoring in the bottom-20% on Perceived Convenience suffer from near-zero rates of Consideration, so establishing online/mobile credentials is essential. Going forward, banks that meet consumer desire for flexibility and mobility will significantly outperform those focusing on branch dominance.

The Importance of Digital Account Opening. In a world that is increasingly shifting towards digital engagement, consumers are likely to have less and less patience for account opening processes that require an in-person visit to the branch to complete. Our Shopper Survey found 80% of consumers do at least some shopping for their bank in digital channels and over a third would prefer to open a new account digitally. However, less than 10% are able to. Banks that fail to optimize their account opening processes to ensure that new customers can be pulled through digitally, from start-to-finish, are likely to see their acquisition rates decline over the next two-to-three years as FinTechs and more digitally savvy competitors sweep up the growing share of digital account openers.

SECTION I:
Demand Mastery is Now More Important than Supply-Side Strength in Driving Deposit Share

This is a pivotal moment for retail banks. Consumers, who are embracing ever more sophisticated digital experiences in their day-to-day lives, are detaching from bank branches at an increasingly rapid clip. The data from Novantas's Annual Shopper Survey of U.S. consumers indicates that the banking industry is approaching a digital inflection point. This consumer shift away from traditional bank branches has profound implications for the way banks acquire and service their customers.

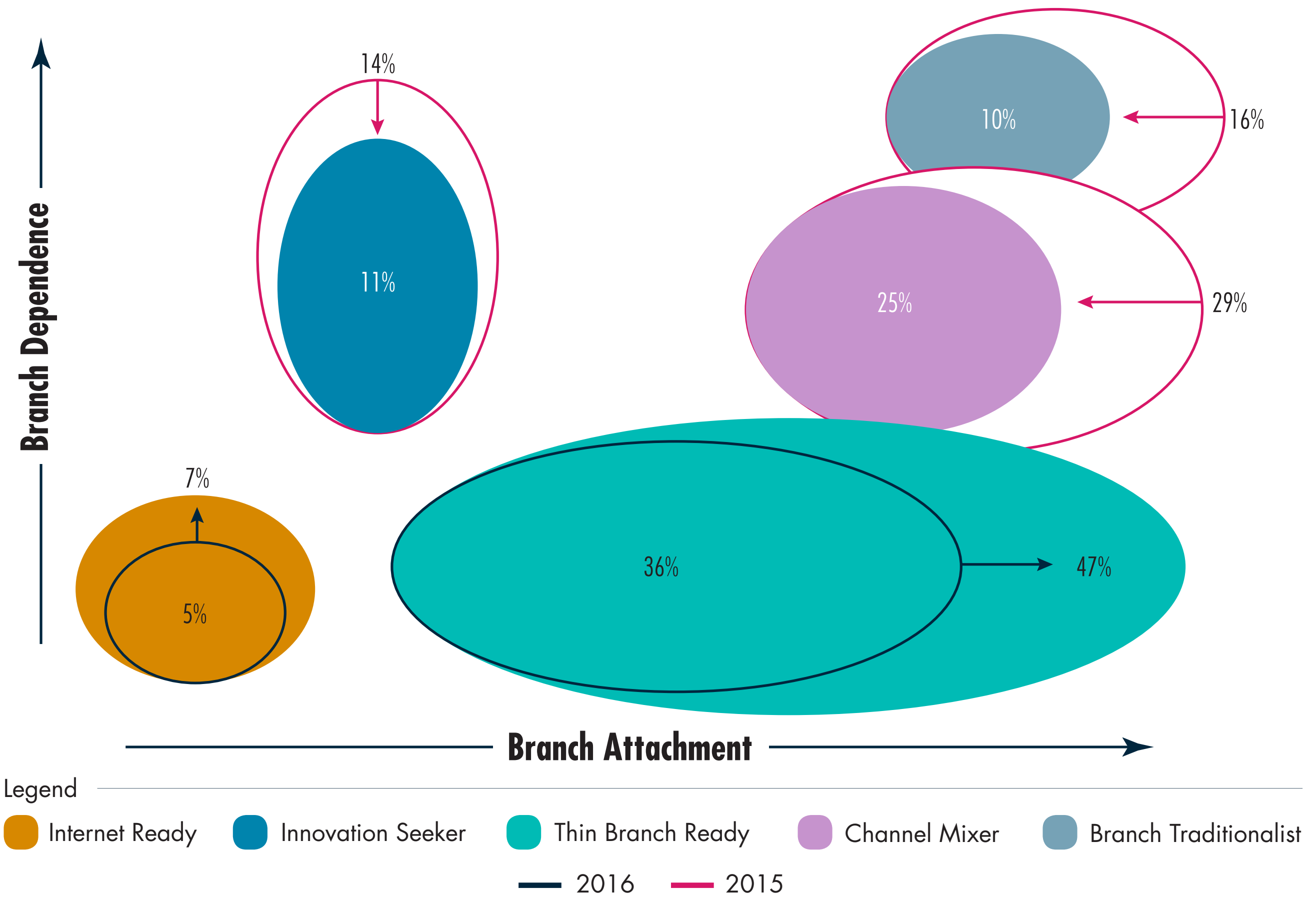
Novantas has developed a branch channel segmentation matrix, which divides respondents along two axes: more or less dependent on the branch in terms of actual banking transactions, and more or less attached to the branch in terms of the importance they place on them for a primary checking account relationship. The research shows a noticeable shift away from branch attachment and dependence over the past three years.

The majority of U.S. shoppers are now in segments that either don't use bank branches, don't care much for them…or both.

"Branch Traditionalists," are highly dependent on bank branches to serve their primary checking account needs. They are also very emotionally attached to the branches, placing a high value on the role of a branch in a primary banking relationship. In 2015, this group represented nearly one-fifth (18%) of U.S. Shoppers. By contrast, in 2016, this group represented a mere 10% of shoppers. Another branch-dependent segment, "Channel Mixers," who use branches a moderate amount and have a very strong emotional attachment to them, shrunk by 5 percentage points, to 25% of Shoppers.

FIGURE 1: Shift in Bank Shoppers by Channel Segment 2015-2016

Bank shoppers are becoming less attached to, and dependent upon, branches.



Source: Novantas Shopper Survey

"Innovation Seekers," those who use the branch frequently in spite of having little-to-no attachment to it, fell to 11%.

At the same time, segments with lower branch dependence and attachment grew significantly. In particular, the "Thin Branch Ready"segment — those who do not use the branches much, but who still place some importance on access to local branches when choosing a bank — leapt by 15 percentage points in a single year. This segment now represents nearly half (47%) of Shoppers. The "Internet Ready" segment, which represents the customers on the leading edge of digital adoption, grew by almost half from 2015 to 2016 and is poised to overtake "Branch Traditionalists" in 2017.

Bank executives would be wise to pay attention to the shopping habits of the "Internet Ready" and the transaction migration patterns of "Innovation Seekers" and "Thin Branch Ready" segments as a harbinger of the bank relationships to come.

BRANCH SHARE IS NO LONGER THE PRIMARY DRIVER OF CHECKING ACCOUNT PURCHASE

Once consumers stop using branches to do their banking, it is only a matter of time before they lose their emotional attachment to them. Once their emotional attachment to branches falls beneath a certain threshold, the criteria that determines which banks they consider, and which brand they eventually select as their primary bank, changes dramatically. And in particular, the value of physical proximity to a branch keeps falling.

In fact, the annual Shopper Study captures this very dynamic. The once-strong relationship between branch share and purchase rate has continued to weaken significantly in 2016. Looking at a single variable, nonlinear regression of purchase rate as a function of branch share, the R-squared fell from .62 to .54, and the "S" shape, where banks with a large share of branches overperform significantly on deposit share and underperform at lower levels, is becoming less and less pronounced. Although still important today, a dense branch network is no longer the sole ticket to capturing an unfair share of deposits.

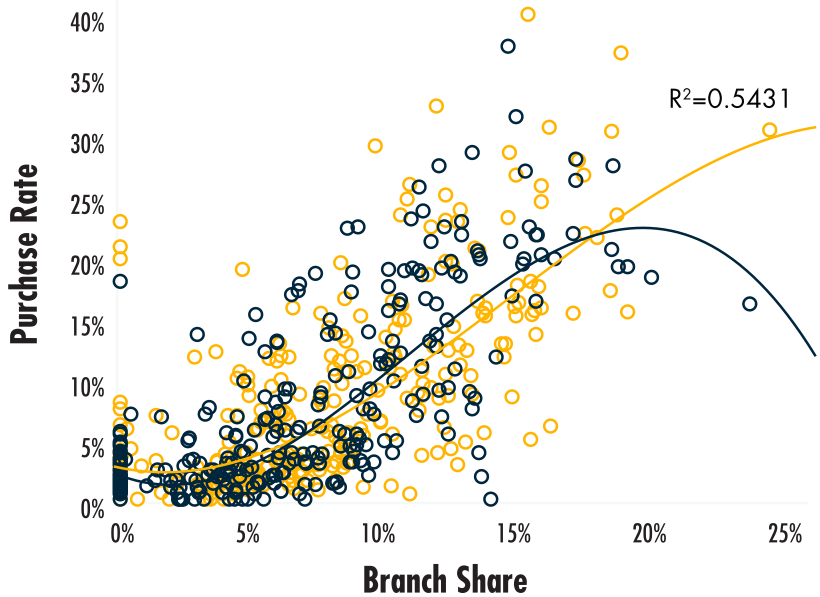
This is a finding that cuts across age groups and income. The correlation between purchase rate and branch share fell for shoppers under the age of 35, and it fell even more dramatically for those over the age of 35. The relationship between branch share and purchase also fell for both Mass Market (household income or "HHI" <$75k) and Mass Affluent (HHI >$75k) consumers; the shift was more pronounced for those with higher incomes.

IMPLICATIONS FOR BANKS: PRIORITIZE MEETING DIGITAL DEMAND

In a world where branch share is no longer the fundamental driver of deposit share, the competitive dynamic is radically altered. Supply-side strength in the form of dense distribution networks will become less and less of a barrier for competitors. National, Regional, Community banks, Credit Unions and FinTech upstarts will increasingly compete on their ability to connect with — and/or unleash pent up — consumer demand. Winners will know how to uncover deep and actionable target insights that they can leverage to build products and experiences that delight and to effectively reach those target consumers with messaging and value propositions that resonate.

FIGURE 2: Branch Share Weakening Driver of Purchase

The correlation between a bank's branch share and purchase rate is weakening.



Source: Novantas Shopper Survey

FIGURE 3: Correlation Between Branch Share & Purchase Rate By Age

The correlation between purchase rate and branch share fell for shoppers of all ages.

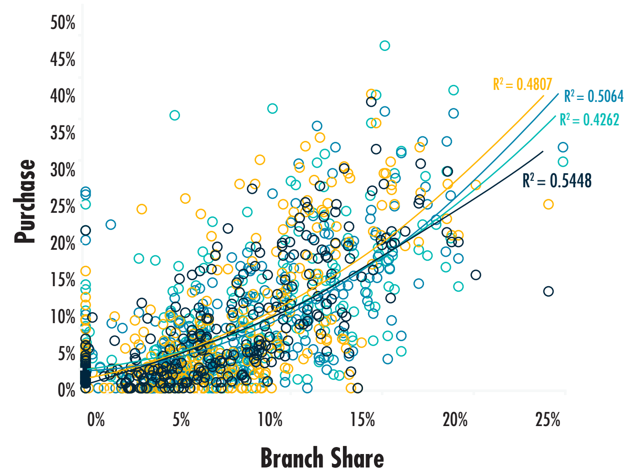
Legend

- Purchase '15<35
- Poly. (Purchase '15<35)
- Purchase '16<35
- Poly. (Purchase '16<35)
- Purchase '15>35
- Poly. (Purchase '15>35)
- Purchase '16>35
- Poly. (Purchase '16>35)

Source: Novantas Shopper Survey

FIGURE 4: Correlation Between Branch Share & Purchase Rate By Income

The correlation between purchase rate and branch share fell for both mass market and mass affluent shoppers.



Legend

- Purchase '15<75k
- Poly. (Purchase '15<75k)
- Purchase '16<75k
- Poly. (Purchase '16< 75k)
- Purchase '15>75k
- Poly. (Purchase '15>75k)
- Purchase '16>35
- Poly. (Purchase '16>75k)

Source: Novantas Shopper Survey

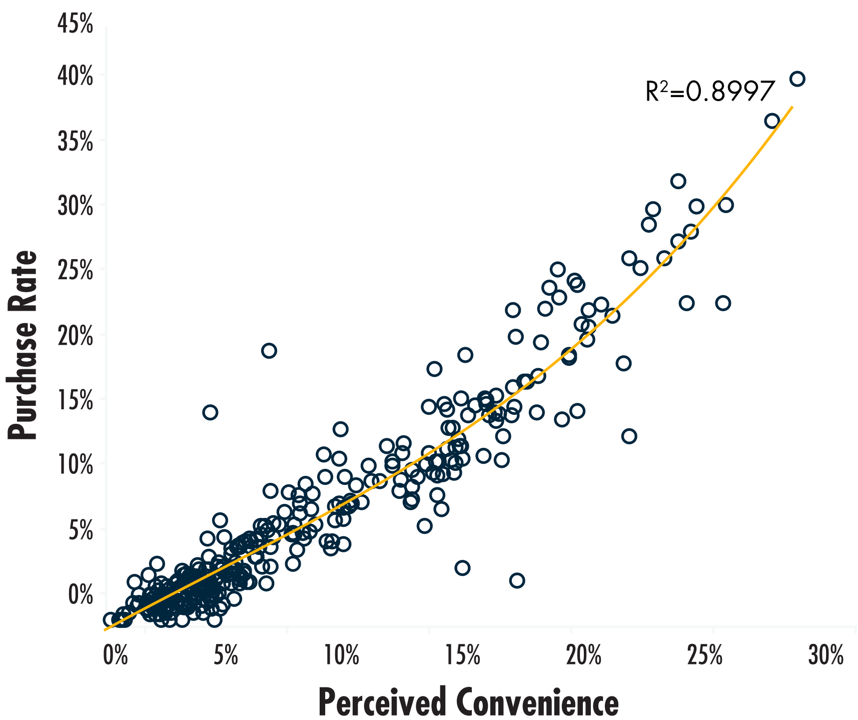
SECTION II:
Perceived Convenience Takes Center Stage for Consideration

Replacing branch share as the strongest indicator of purchase is a factor called "Perceived Convenience," highlighted by Novantas in the summary of the 2016 Shopper Study results. Historically, "Convenience" has been defined by close physical proximity to a branch, because it guaranteed the most efficient point of "access to my money." With the growing appetite for digital channels, not to mention the adoption of digital forms of payment, certainty of access is no longer tethered to a physical location. Instead, consumers have the ability, and increasingly prefer, to manage and access their funds through a number of channels.

The relationship between Convenience and purchase rate remains strong in this year's results and, much like the waning importance of branch share, it is a dynamic that cuts across customer segments. For example, Convenience is just as important to Mass-Market consumers as it is to Mass-Affluent consumers (households with annual income of < $100,000 vs. those with income of

FIGURE 5: Perceived Convenience As a Driver of Purchase

Perceived Convenience is the strongest driver of purchase rate.



Source: Novantas Shopper Survey

$100,000+). Consequently, banks must ensure their value propositions and communications ladder up to high levels of perceived Convenience to their target segments.

PERCEIVED CONVENIENCE IS NOW THE STRONGEST DRIVER OF INITIAL CONSIDERATION FOR BANKS

Consumers' perceptions of Perceived Convenience not only drives final purchase decisions but also influences which banks make it in the consideration set at all. In fact, the relationship between Perceived Convenience and Consideration is slightly stronger than that of Perceived Convenience and Purchase with an R-squared slightly greater than 0.95.

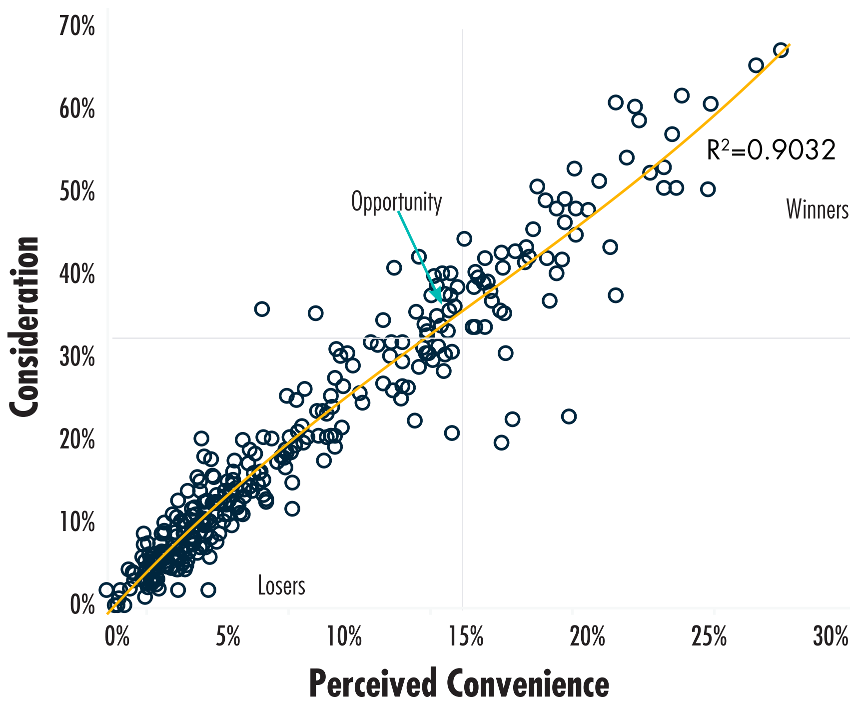
Examining the relationship between Perceived Convenience and Consideration more closely, our analysis shows there is a marked and statistically significant difference in Consideration based on banks' performance on perceptions of Perceived Convenience. Specifically, banks which score in the bottom-20% on Perceived Convenience suffer from near-zero rates of Consideration. The banks performing in the top-20% on Perceived Convenience enjoy Consideration rates north of 30%. Based on the overall R-squared of 0.95, we can conclude that performance increases on a linear plane as perceptions of Perceived Convenience strengthen.

The Shopper Study revealed the average consumer only considers two banks when shopping for a new checking account (2.16 banks, on average). Two banks! Whether a bank wins or loses a potential new customer, likely happens far earlier in the brand evaluation and "shopping" process than banks have ever thought.

This year's Shopper Study showed no significant differences in size of Consideration set by demographic groups or branch segment (introduced in Section I). Nor are there any differences in size of Consideration set based on the type of bank consumers ended up choosing (National, Regional or Community). And like the shift that has occurred with purchase rate, Consideration is no longer driven solely by physical proximity of bank branches. Gone are the days when people simply choose from the banks on the corners of the nearest commercial intersection. It is an entirely new paradigm and banks must adapt quickly.

FIGURE 6: Perceived Convenience a Requirement for Consideration

Banks scoring in the top 20% enjoy significantly higher rates of consideration.



Source: Novantas Shopper Survey

The Shopper Study revealed the average consumer only considers two banks when shopping for a new checking account

Which banks are winning? It is no surprise that given their historic dominance in branch share, and in marketing spend, National Banks enjoy the highest Consideration rates (among consumers aware of the respective bank). More than 2 in 5 people in our Shopper Study sample considered a National Bank (if aware) while only 27% considered a Regional Bank, and an even smaller 24% considered a Community Bank (if aware). Having said that, Novantas believes Regional and Community banks have a serious opportunity to capitalize, but they must invest now in building out capabilities that drive perceptions of Perceived Convenience.

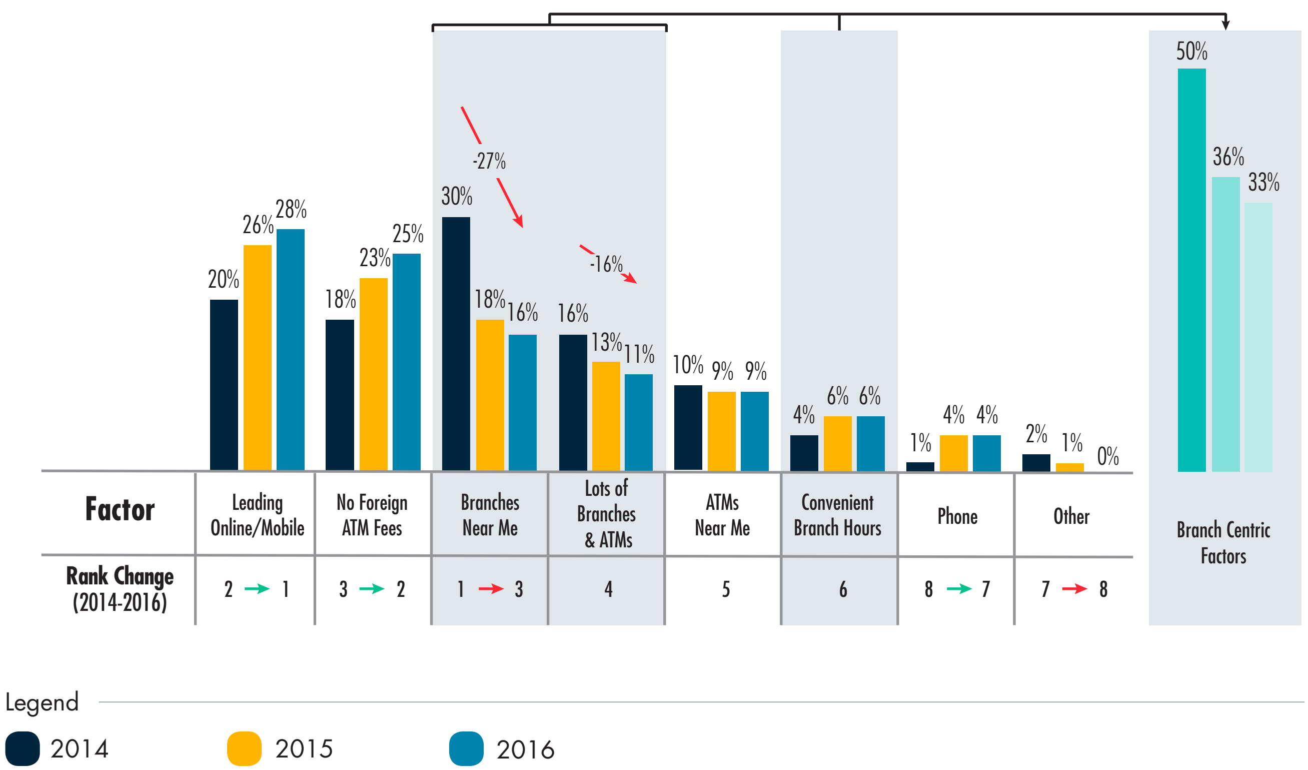
IMPROVING PERCEPTIONS OF CONVENIENCE MUST BEGIN WITH BANKS' DIGITAL CAPABILITIES

While branch and ATM share still contribute to perceptions of Perceived Convenience, consumers report banks' digital capabilities are even more important than the physical network in demonstrating Perceived Convenience.

In 2015, "Leading Online/Mobile" overtook "Branches Near Me" as the leading attribute responsible for making a bank Convenient to consumers.

FIGURE 7: Drivers of Perceived Convenience Shift from Branch Proximity to Anytime/Anywhere Access

Ranked responses for question: "What would do the most to make a bank convenient?"



Source: Novantas 2016 US Shopper Surveys all markets nationwide (all respondents = 10,741), Novantas 2015 US Shopper Survey (all respondents n = 8,465), Novantas 2014 US Shopper Survey (all respondents n=6,116) * Excludes incomes of <$25k

The importance of those respective attributes has continued to move in opposite directions, with the total importance of branch-centric factors declining precipitously over the past three years.

This shift toward digital being the primary driver of Perceived Convenience is especially true for people ages 18-54. No surprise here given overall technology adoption and usage, including that of FinTech solutions which have the highest adoption rates among people 18-44 (EY FinTech Adoption Index).

National Banks hold an advantage in this area because they are often first-to-market with leading digital capabilities, making the fastest and most effective adjustment from relying primarily on their historically-dominant physical networks. Banks lagging in digital innovation and product development risk losing out to those banks on the leading edge, but also to FinTech providers positioning themselves as technology-first bank alternatives.

One of the unexpected insights from this year's analysis was related to foreign ATM fees. Our analysis reveals the "No Foreign ATM Fees" attribute is surging in importance as it pertains to perceptions of Perceived Convenience. The reality is, in the face of shrinking branch networks, people rely on ATMs for access to funds more than ever, and often in lieu of, a nearby branch. The emergence of this particular attribute (being specifically related to foreign ATM fees) adds nuance to a conversation that can easily become strictly focused on digital versus physical and it signals an increasingly important desire among consumers for flexibility and mobility; for a bank to provide access to their money wherever they are without punishment.

IMPLICATIONS FOR BANKS: ALLOCATE MORE TO DIGITAL PRODUCT DEVELOPMENT & MARKETING

As mentioned earlier, the opportunity for Regional and Community banks is clear and urgent. There is a narrow window open right now for banks to shift focus from the losing battle of branch network dominance to the arms race that is development of leading digital capabilities with a focus on mobility. In addition, banks must invest meaningfully in building awareness of their digital capabilities. Doing so is the only chance to improve perceptions of Convenience among target customer segments and to close the Consideration gap with National banks. Failure to have competitive digital capabilities and/or sufficient awareness of those capabilities will mean serving a shrinking minority of people who are still attached to the branch. Needless to say, that path will not lead banks toward new customer growth or increases in deposit share.

SECTION III:
Welcome to the Age of the Digital Shopper

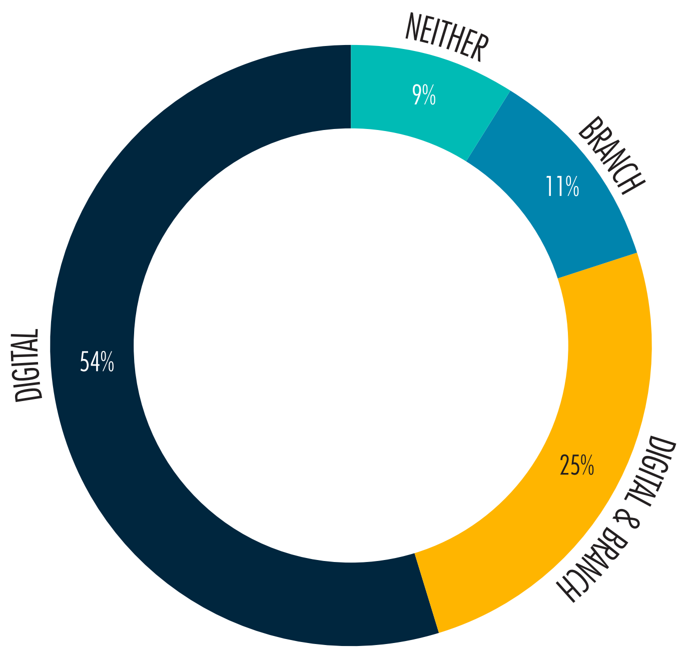
In a world that is increasingly shifting towards digital engagement, consumers are likely to have less and less patience for account opening processes that require an in-person visit to the branch to complete. Banks that fail to optimize their account opening processes to ensure that new customers can be pulled through digitally from start-to-finish, are likely to see their acquisition rates decline over the next two-to-three years as FinTechs and more digitally savvy competitors sweep up the growing share of digital account openers.

The Shopper Survey found that 80% of consumers are doing at least some of their shopping digitally, with 54% shopping for their bank exclusively in digital channels. This raises the importance of websites and product landing pages as they take the lead role in driving sales. It also means brand distinctiveness and offer clarity are essential as consumers must navigate the offerings by themselves to select the product that best meets her needs without the help of a banker.

The 54% of consumers who are exclusively shopping digitally are wealthier (HHI >$75,000) and skew older (>35), especially those in the 35-44 range. Since this cohort is often sandwiched between jobs and caregiving, it's hardly surprising that they would prefer to shop the "always on" digital channels. In addition, we see that within every age group, the percentage of digital shoppers increased from 2015-2016, with the 55-65 group having the largest increase.

FIGURE 8: Shopping Channel Preferences for a New Checking Relationship

Nearly 80% of consumers are doing at least some shopping in digital channels.



Source: Novantas Shopper Survey

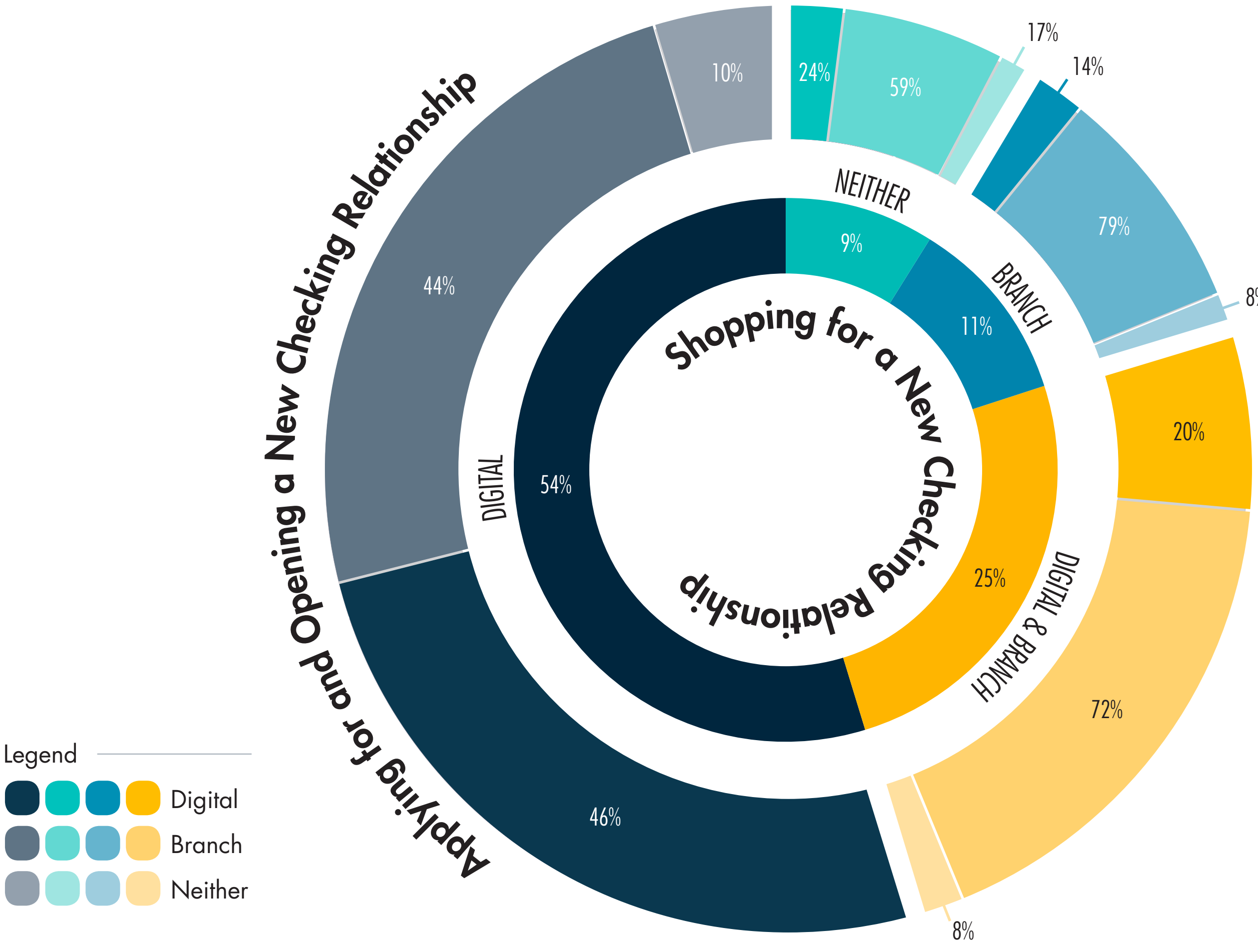
Digital shoppers are also in consumer segments that are less attached to branches. Members of the "Thin Branch" and "Internet Ready" segments are significantly more likely to shop digitally than members of other segments.

PEOPLE INCREASINGLY PREFER TO OPEN THEIR BANK ACCOUNTS ONLINE

With more and more people shopping online, it is not surprising to also see a corresponding rise in preference for opening checking accounts digitally as well. The study revealed well over a third of people would prefer to open a new deposit account online. Additionally, if you shopped digitally, you were significantly more likely to want to apply for and open a new checking account digitally than those who shopped both offline and online or offline only. Forty-six percent of respondents who exclusively shopped digitally would prefer to open their account digitally as well, compared with 20% of

FIGURE 9: Preferences for Applying for and Opening a New Checking Relationship

One third of bank shoppers would prefer to open their account digitally.



Source: Novantas Shopper Survey

respondents who shopped digitally and via the branch, and 14% who shopped via the branch.

Findings aside, there is a significant gap between consumer preference and reality today. In reality, fewer than 9% of consumers are actually successful in applying for, and opening, their accounts entirely online. This indicates significant pent up demand; if banks fail to address this gap, it's almost certain an enterprising FinTech will.

MYTH BUSTING: ONLINE ACCOUNT OPENERS ARE LOW QUALITY

In the past, online account openers were generally written off as low value churners. That is no longer true. The quality of people opening accounts online is improving - 45% have annual household income of more than $75,000 and 30% have annual household income of more than $100,000.

The age of people opening accounts digitally is also rising. The majority are still Millennials, yet 45% of the people able to open an account digitally in 2016 were over the age of 35 — that's an increase of 5 percentage points over 2015. In a world where 72% of adults use a smartphone daily (source: https://technologyuser.com/tag/mobile/) and 73% of adults shop online at least 1x per month — and over a third of them more than 1-2 times per week — (source: http://www.statista.com/statistics/448659/onlineshopping-frequency-usa/), banks should not be surprised by the demand.

IMPLICATIONS FOR BANKS: 2017 IS THE YEAR TO CRACK THE CODE ON DIGITAL ACCOUNT OPENING

While it's true that there are a number of unique hurdles banks have to clear in order to enable digital checking account opening, consumers are bound to become impatient and open to the siren call of FinTechs. Digital account opening is the norm in other complex categories such as P&C insurance, Investments, and even Health insurance — there is no reason why banks cannot also crack the code. As digital acquisition rates increase industry-wide, banks who fail to enable a digital opening process risk losing their fair share of acquisitions and ultimately will face a shrinking portfolio.

BIOS

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ABOUT NOVANTAS

Novantas is the industry leader in analytic advisory services and technology solutions for financial institutions around the world. We create superior value for clients by providing information, analyses, and automated solutions that improve revenue generation — across pricing, product development, treasury and risk management, distribution, marketing, and sales management.

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ABOUT THE NOVANTAS SHOPPER STUDIES

Novantas Shopper Studies provide market-level insight into the consumer attitudes and behaviors shaping primary household acquisition. In the course of fielding the most recent round of Shopper Studies, Novantas conducted online surveys in 2016 of 11, 946 recent primary checking purchasers and prospective checking switchers in 35 MSAs across the United States

Novantas Shopper Studies profile respondents by primary checking bank, products held, balances, age, income and other attributes. The surveys explore bank brand equity through unaided and aided awareness, brand favorability and brand attributes for up to ten brands in each market. The current surveys asked 5,982 Recent purchasers (those who opened their primary checking account within the past three years) about their purchase experience, including the brands they considered and why, reasons for choosing their primary checking bank, and the shopping and purchase methods they used. An overlapping set of 6,830 Prospective Switchers (those open to or thinking about switching their primary checking bank) were asked about banks they'd consider, reasons for considering these banks, and preferred shopping and purchase methods.

Each respondent was asked a set of Novantas Branch Segmentation questions. Our Branch Segmentation provides critical insight into the divergence between consumer attachment to branches and their actual usage of branches, which shape the role of the branch in consumer bank selection, service, subsequent sales and the overall relationship.

As described in this report, understanding the brand impressions, functional considerations, and banking behaviors and attitudes that drive primary bank choice is critical to diagnosing acquisition challenges and identifying market opportunities. These questions must be asked and answered within the context of individual market dynamics, including the banks competing in that market and the attributes of the households in motion. Accordingly, Novantas analyzes the results from its shopper studies by individual geographic market, taking into account that market's physical distribution profile by bank, as well as the digital, marketing and direct mail campaigns present in that market. These individual market studies then form the building blocks for actionable insight on households in motion for new checking accounts and the optimal acquisition strategies across a bank's network.

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