

EPAM CONTINUUM

FEBRUARY 2022

# Regional Banks Reimagined



# Background

In 2020, EPAM initiated an annual survey of attitudes and behaviors of banking customers around the globe. In our inaugural look at banking consumer attitudes and behaviors, we surveyed 4,500 consumers across four countries to understand their beliefs. In 2021, we dug deeper, surveying more than 21,000 consumers across seven countries.

Our latest global Consumer Banking Report uncovered three emerging trends across the surveyed markets:

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01

## **Consumers are responding positively to the “unbundling” of financial services**

While most customers might remain tethered to their primary bank, many are increasingly looking to specialized services delivered by standalone providers to meet more specific needs.

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02

## **Consumer thirst for information and support is growing—but are banks ready?**

This year's report identifies a huge opportunity in the areas surrounding consumer relationships that are based on education and support. When it comes to one-on-one customer support, our research shows that customers prefer a hybrid approach that combines digital and in-person channels.

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03

## **To drive behavior change, banks need to overcome consumer cynicism and incomprehension.**

Many of our respondents find themselves caught between wanting more from their financial service providers than they can give and not knowing which of the overwhelming number of new services can meet their needs or values. If banks are to reach these undecided and nervous consumers, they must be ready to invest in smarter and more targeted messaging, well-defined and stand-out market positioning, and improved onboarding experiences.

**YOU CAN READ THE ENTIRE 2021 CONSUMER BANKING REPORT [HERE](#).**

# Introduction

As we analyzed the U.S. market data in our latest Consumer Banking Report, we identified themes that present unique opportunities and challenges for U.S. regional banks. We've highlighted the findings below with a spotlight on the data by demographic tiers that we think you'll find helpful.



## FINDING 1

# A generational divide poses a strategic challenge for U.S. regional banks.

Compared to their global peers, U.S. banking customers are quite satisfied with their primary bank and are not looking to switch. Our survey uncovered that, on average, 81% of U.S. respondents were satisfied with their current banking relationship (Extremely Happy or Slightly Happy) compared to 77% of all respondents. We see even higher satisfaction for the U.S. regional banks at 83%.

However, U.S. regional banks must now broaden and adapt their services to appeal to the next generation of customers. According to our research, 61% of customers of a typical regional U.S. bank are 55 years old and older. Additionally, this age category constitutes 36% of clients for the top three U.S. consumer banks and only 18% of digital-only banks. To sustain a growing customer base, regional banks must reimagine their acquisition and retention strategy.

Historically, the local branch has been the primary channel for acquiring new customers and deepening existing relationships. Fifty-seven percent of customers over 54 chose their current bank because of a local branch. But the magnetic power of the local branch is waning, with the local branch being a main driver of current bank choice for just 28% of 35–54-year-olds and 24% of 18–34-year-olds. That's a significant drop among younger customers and we expect that decline to continue.

## WHY DID YOU CHOOSE YOUR PRIMARY BANK?

	18-34	35-54	55+
I TRUST THE BRAND	36%	<b>45%</b>	37%
I HAVE A LOCAL BRANCH	24%	28%	<b>57%</b>
THEY PROVIDE GOOD BENEFITS	25%	<b>30%</b>	16%
MY FAMILY USE THEM	<b>29%</b>	24%	10%
I RECOGNIZE THE BRAND	<b>23%</b>	20%	12%
THEY OFFER A GOOD DIGITAL EXPERIENCE	22%	<b>23%</b>	10%
THE BANK GIVES GOOD ADVICE	17%	<b>19%</b>	7%
MY FRIENDS USE IT	<b>18%</b>	16%	3%
THERE WAS A JOINING OFFER	<b>12%</b>	11%	5%
I'VE SEEN THEM ON SOCIAL MEDIA	<b>13%</b>	12%	1%

Additionally, the younger age ranges – while satisfied with their bank – are less loyal and are ready to switch to a bank that they don't even know. Forty-four percent of banking customers under 55 would consider switching in the next year as compared to only 10% of customers aged 55 and over. A whopping 76% of respondents under 35 are ready to switch to a bank they are not familiar with.

It's no surprise that our survey confirmed the key to capturing the next generation of banking customers is offering improved digital experiences, and the ongoing pandemic continues to accelerate the shift to digital adoption and usage. Almost half of U.S. respondents under 55 said that the pandemic made digital experience more important to them and over half of them are ready to go digital if they were to switch to a bank in the future.

## HOW MUCH DO YOU AGREE WITH THE FOLLOWING STATEMENTS?

### Would you switch to a bank you are not familiar with?

	18-34	35-54	55+
<b>AGREE</b>	76%	69%	26%

### Did COVID-19 make digital experiences more important?

	18-34	35-54	55+
<b>AGREE</b>	47%	45%	13%

### If I were to switch banks, I would go digital.

	18-34	35-54	55+
<b>AGREE</b>	54%	50%	9%

The competition to offer market-leading digital banking experiences is heating up. Leading banks are investing heavily in sophisticated digital experiences, and emerging digital-only banks – such as Current Chime and Ally – are actively marketing the new banking paradigm. To stay relevant, U.S. regional banks must develop thoughtful and purposeful digital roadmaps, execute quickly and continuously evolve.

The good news is that providing improved digital capabilities and experiences, including online customer acquisition and servicing, is not an arms race. Regional banks don't need

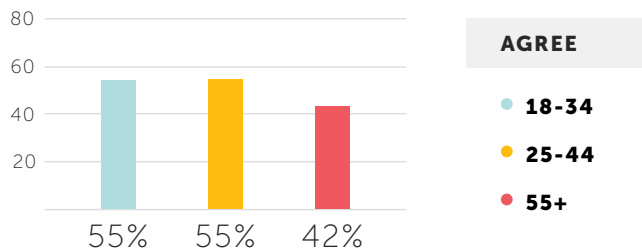
to match digital leaders' capabilities right out of the gate. Rather, they need to start by delivering the foundational digital experiences with well-designed core platform functionality, particularly for their digital front door: the mobile app. Once this foundational digital experience is implemented, regional banks will be well positioned to partner with technology providers to curate financial services for their next generation customers and bring differentiated offerings to market that speak directly to the needs of this newer audience.

**FINDING 2**

# The next generation is looking to their bank for support and guidance around their financial health.

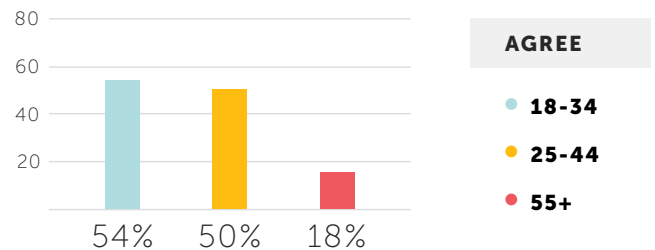
The 2021 Consumer Banking report identified an opportunity to nurture customer relationships through services that offer support and guidance around financial health. Survey respondents across all age groups expressed preference for human touch over exclusively transactional interactions. About half of all U.S. respondents would like to see their bank as a friend rather than a utility. COVID-19 further underscored the value of human engagements, and this is especially true for younger banking customers, as over half of them seek more personal services with their finances after the pandemic.

**I want to see the bank I use as a friend rather than just a utility.**



One specific area that young consumers long for is more financial advice and educational support. Consumers – particularly those under 35 years old – are looking for real financial advice that goes beyond what can be offered on social media or from friends and family. In this year’s survey, 26% of respondents under 35 said they turn to YouTube for advice. One in 10 seek advice from social media influencers or podcasts, but 67% said they want more advice from their bank on how to best manage their money.

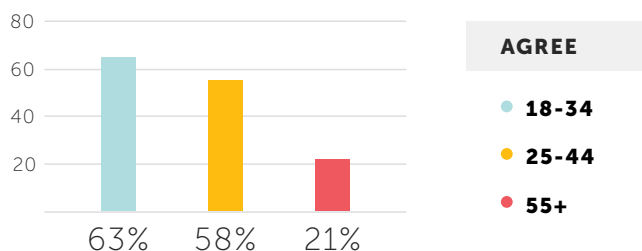
**I am looking for more personal interaction with my finances after the pandemic.**



In addition to education and guidance, our survey responses suggest an opportunity for regional banks to provide more personalized and assistive services. Proactive guidance anticipating “what’s around the corner” is what customers are seeking from their banks. Banks have the transaction data to do just that. Harnessing this data and predictive analytics, a bank can be the trusted advisor that customers are looking for. Developing these next-gen services is a great opportunity for those willing to rise to the challenge.

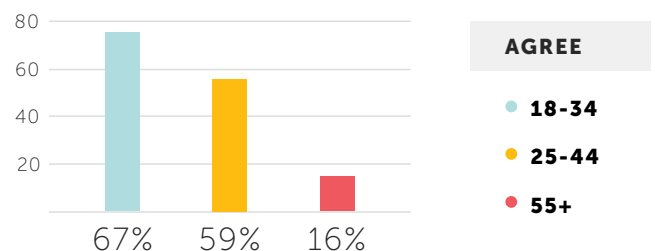
**I would like my bank to provide better financial education**

(e.g., provide information about banking products and financial behaviors that might be beneficial to you, such as what is a term loan, how can you improve your credit score, etc.).



**I would like my bank to give me advice on how best to manage my money and save**

(e.g., warning me midway through the month that I am overspending or highlighting if I have money left after each month that could be invested).



**FINDING 3**

# Customers don't want the branch to disappear. They want it to evolve.

Generally, branch traffic is declining, and we expect that trend to continue unless banks reimagine the branch experience. However, younger demographics still visit a branch, with a sizable 66% of the 18–34-year-olds we surveyed telling us that they had used their physical branch at least monthly in the past year. In fact, this age group used branches in the last year as frequently as 35–54-year-olds, while only 57% of those over 55 regularly visited a physical bank.

Even more surprisingly, 36% of respondents 54 and under said that access to a physical branch had become more important to them over the past year, which is 50% higher than for respondents aged 55 and over.

Our research highlighted that, when it comes to one-on-one support, customers favor a hybrid approach. For example, in more straight-forward situations, they are likely to use a chatbot for support, while in more complex ones, they are likely to go to a branch for help. While many basic financial services can be handled digitally, there is no replacement for face-to-face when it comes to personal and potentially delicate conversations around money.

Customers across all ranges will choose the channel that best meets their needs. The focus for banks should not solely be on branch closures, but about the evolution of the branch to meet the needs of the modern consumer.

We tested several ideas for new services that could be offered in bank branches and discovered that younger customers are likely use a branch more if any of these ideas are implemented. Our results showed that 53% of respondents 18–34-years would be more likely to use a branch if it acted like a financial experience center – a place where consumers could use interactive tools providing financial advice or talks by financial influencers – versus just 14% of those aged 55 or older. Similarly, about half of young respondents are eager to attend one-on-one advice drop-in sessions, group lessons on financial education or a community discussion of local interest.

**HOW MUCH MORE LIKELY WOULD YOU BE TO USE A PHYSICAL BANK BRANCH IF THEY OFFERED THE FOLLOWING SERVICES?**

	<b>18-34</b>	<b>35-54</b>	<b>55+</b>
<b>Financial experience center (e.g., interactive tools providing financial advice and talks by financial influencers)</b>	<b>53%</b>	46%	14%
<b>Advice drop-ins (e.g., one on one advice to your personal questions)</b>	<b>50%</b>	43%	17%
<b>Financial education sessions (e.g., drop in lessons about specific themes)</b>	<b>48%</b>	43%	13%
<b>Coffee / café</b>	<b>40%</b>	39%	11%
<b>Community hub (e.g., meeting space for the community to discuss financial and community matters)</b>	<b>46%</b>	40%	8%
<b>Working space</b>	<b>39%</b>	37%	4%

# Conclusion: The Time for U.S. Regional Banks to Act is Now



Navigating the technology, industry, competitive and customer landscape has never been more complex for regional banks. Tectonic shifts is not an overstatement. The pandemic highlighted immediate challenges facing U.S. regional banks. The behavioral changes in customer expectations are not fleeting – they are the “new normal.” Competing in this environment requires new ways of thinking. The next-gen customer is in control and demands banking that organically blends into their mobile-first lives, proactive and hyper-personalized financial guidance, and access to a physical branch for their more complex financial needs. The clock is ticking to act ... a pragmatic strategy with an executable roadmap is a must to navigate the new normal and survive the tectonic shifts.

Ready to redefine your customers’ banking experience?  
Let’s start the conversation.

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