CORNERSTONE ADVISORS

DON'T ABANDON ME:

Reducing Friction in Online Account Opening with Digital Identity Verification

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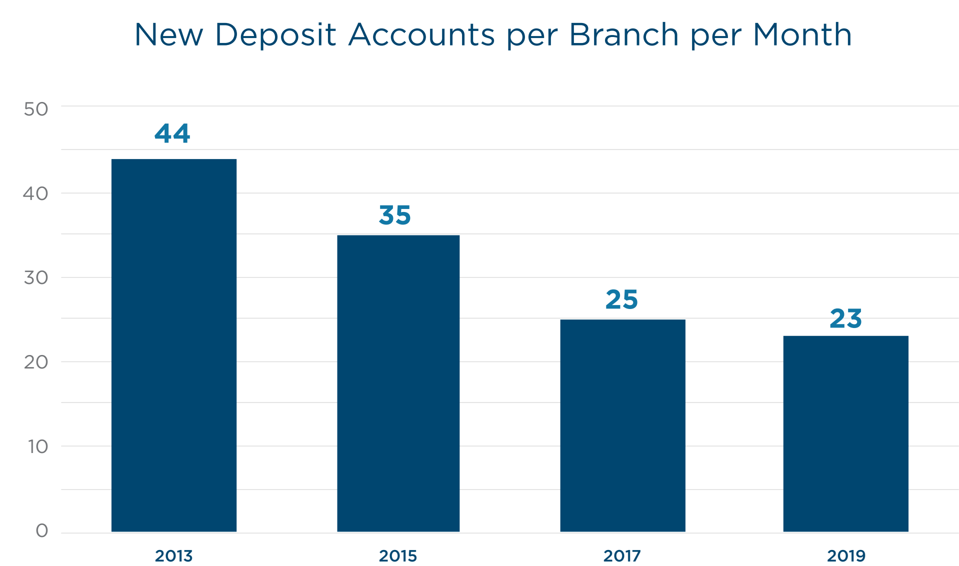
THE NEED FOR A FULLY DIGITAL ACCOUNT OPENING PROCESS

The cornerstones of banking applications are account opening platforms. These systems are called "platforms" because the earliest new account bankers would sit on raised platforms in the branches in order to see anyone who entered the lobby.

In today's world, banks' reliance on branch traffic to generate account openings is waning. The pandemic of 2020, which caused a drastic reduction in branch traffic, is at the tail end of the trend. New deposit accounts per branch have been declining for years, from an average of 44 per month to 23 per month in 2019 (Figure 1).

FIGURE 1: New Deposit Accounts per Branch per Month, 2013-2019



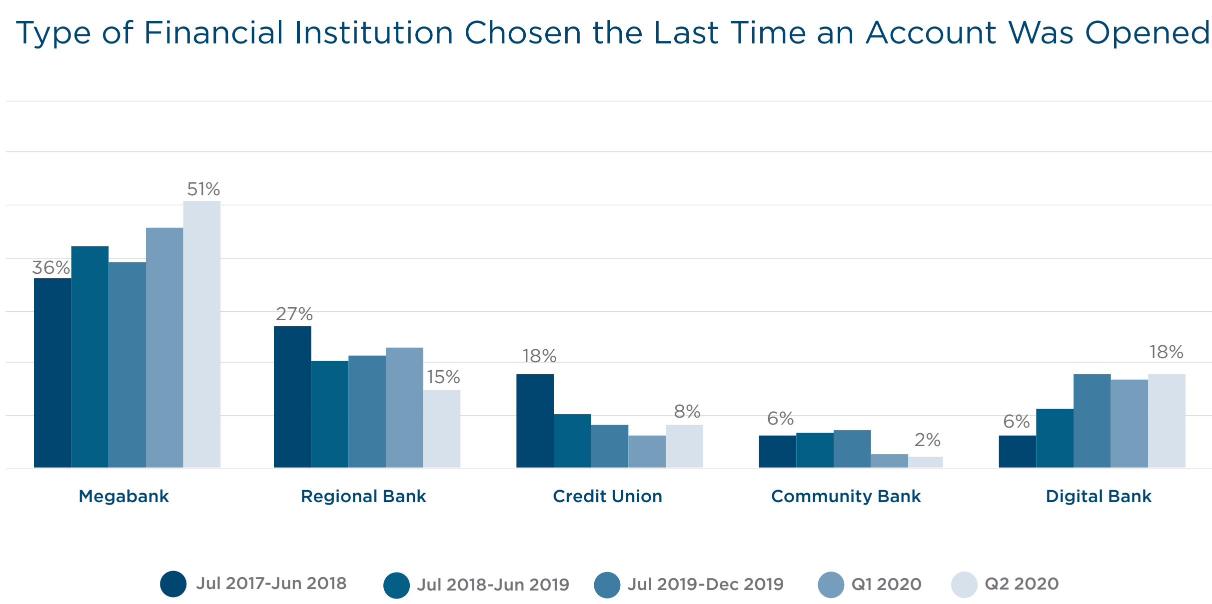
Source: Cornerstone Performance Report

Adding to this decline in branch account openings, Cornerstone Advisors' studies show that the open to close ratio for banks hovers around 1.2:1—that is, for every 12 new accounts opened, 10 are closed. This suggests that many deposit types are "hot deposits" that are easily lost to higher rates at other institutions.

Where are these accounts going? During the first half of 2020, digital banks grew by 67% where now over 14 million Americans view a digital bank as their primary financial institution. Over the past three years, the percentage of new deposit accounts opened with digital banks grew threefold from 6% in 2017 to 18% in Q2 2020.

Meanwhile, over that period, the percentage of accounts opened declined from 18% to 8% at credit unions and from 6% to just 2% at community banks (Figure 2). In Europe, digital only banks such as Revolut and N26 have grown to over 20 million subscribers with 30% growth since the coronavirus pandemic.

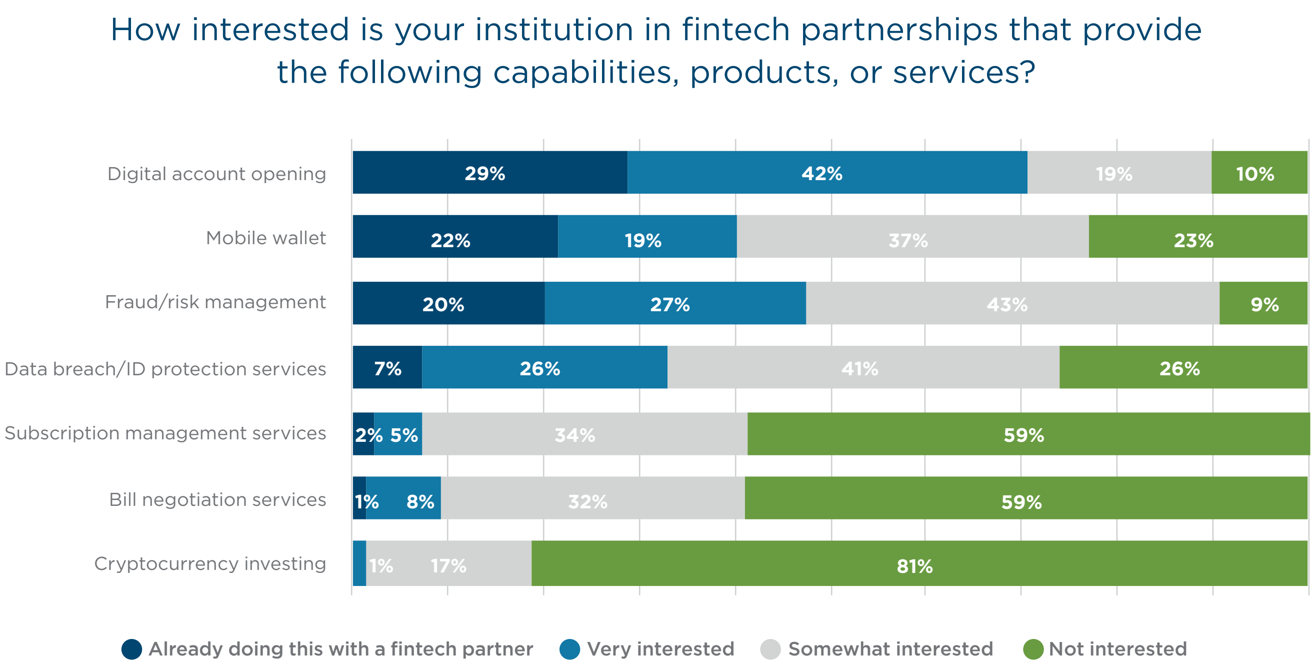
FIGURE 2: Type of Institution Chosen Last Time an Account Was Opened



Cornerstone Advisors survey of 3,000 U.S. consumers, Q3 2020

Given these recent trends, financial institutions should worry whether their customer experience with online account opening matches the experience of the digital banks. According to Cornerstone Advisors' annual *What's Going On In Banking* study, for four years in a row, digital account opening has been at the top of the list of technologies mid-size financial institutions intend to add or replace. In addition, 71% of mid-size institutions are either already working with a fintech partner on digital account opening or are very interested in working with one (Figure 3).

FIGURE 3: Banks' Interest in Fintech Partnerships



Source: Cornerstone Advisors' What's Going On In Banking Study

Fully Digital Versus Partially Digital

It's great to see many banks and credit unions prioritizing and redesigning their account opening experiences. Many, however, are only deploying partially digital account opening processes. For example, a customer might start a loan application online, and then finalize the application with an in-person branch visit to present their ID documents. The result isn't just an inferior customer experience—financial institutions are seeing high rates of digital account abandonment from a partially digital experience.

Financial institutions that want to win new customers must figure out how to fully onboard a customer in a physically distanced way. For many, this means adopting digital identity verification methods.

About This Report

This report will look at how financial institutions are deploying new online account origination, where they are experiencing abandonment rates in the process, and what institutions can do to eliminate the friction involved with identity verification to decrease new account abandonment and increase funding.

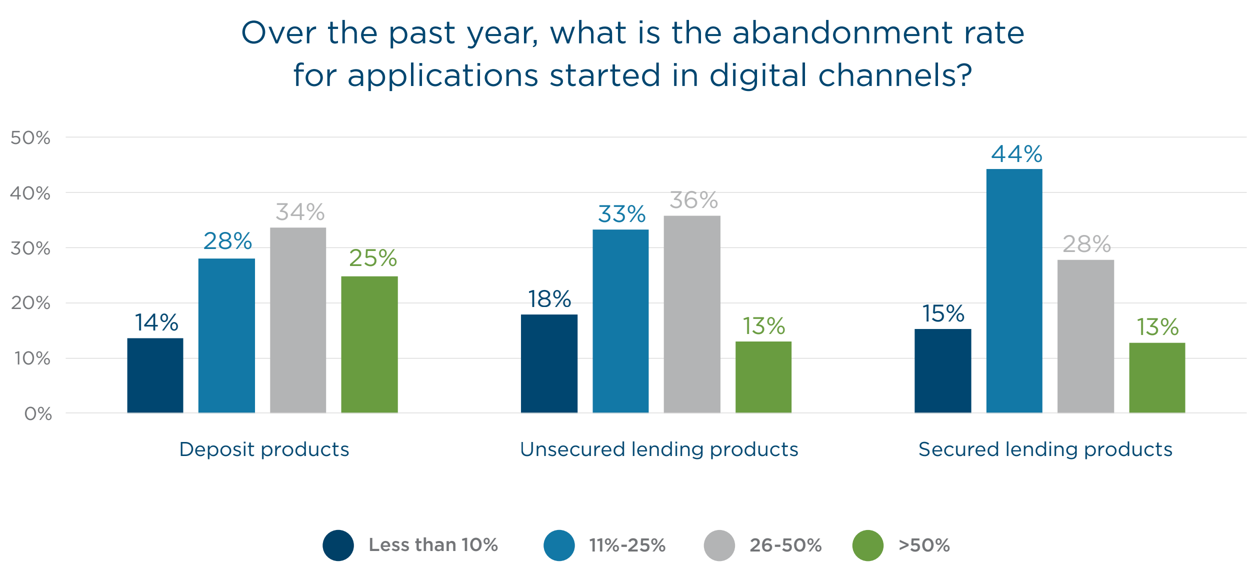
This report draws on various surveys conducted by Cornerstone Advisors to understand the state of digital account opening and abandonment. In addition, interviews with senior executives of seven large (>$1 billion) institutions were conducted to get a deeper perspective on the abandonment challenges.

THE DIGITAL ABANDONMENT CHALLENGE

Financial institutions are experiencing a high rate of digital account opening abandonment across deposit and lending products. Among the institutions that offer digital account opening for deposit products, one-third saw between 26% and 50% of applications abandoned while a quarter had more than half of applications abandoned.

For unsecured and secured lending products, it was a little better: just 13% of institutions surveyed saw more than half of their digital loan applications abandoned. But, 36% still had between 26% and 50% of their unsecured loan applications abandoned, and 28% had that many secured loan applications abandoned (Figure 4).

FIGURE 4: Digital Account Opening Abandonment Rates



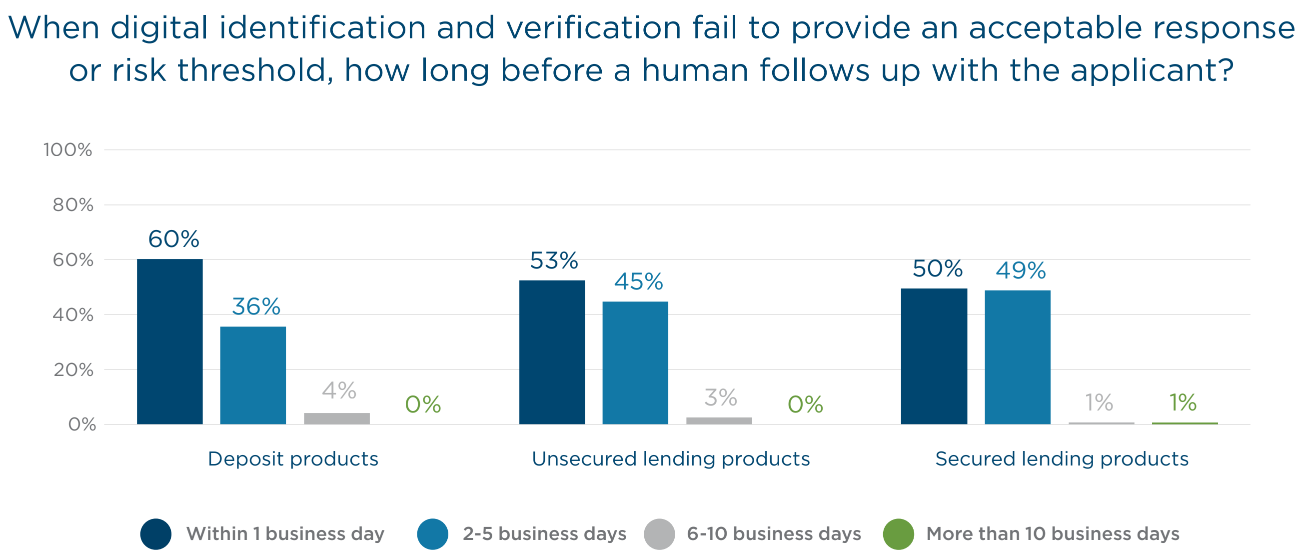
Cornerstone Advisors survey of 184 U.S.-based financial institutions, Q3 2020

Larger institutions (i.e., those over $10 billion in assets) are feeling the pain more so than smaller institutions: about a third of these institutions see three-quarters or more of their digital deposit applications abandoned. For secured lending products, almost half (44%) of the largest institutions are finding that three-quarters or more of their digital applications are abandoned.

The executives we interviewed cited issues with digital deposit account abandonment and identified common challenges including: 1) background and OFAC (Office of Foreign Assets Control) checks; 2) relevant knowledge-based authentication (KBA) questions; 3) eligibility for an account at the institution; 4) requiring ACH microdeposits at origination; and 5) inadequate credit scores, which produced a high decline rate for many institutions.

Many institutions that offer digital account origination assign individuals to follow up with abandoned status applications. Overall, institutions providing digital account origination are responding within one business day 60% of the time for deposit products and about half of the time for both unsecured and secured lending products (Figure 5).

FIGURE 5: Abandonment Response Times



Cornerstone Advisors survey of 184 U.S.-based financial institutions, Q3 2020

Generally speaking, however, larger banks are slower to respond to abandoned apps than smaller institutions. For example, just a third of banks with more than $10 billion in assets respond to abandoned digital unsecured loan applications in contrast to more than half of smaller institutions. For digital secured loan applications, 38% of the largest banks respond within one day versus roughly half of the smaller institutions. Interviewees had this to say:

> *"We've tried to follow up in two different iterations. Both times, the result was the same: we received no lift from our contacts. We tried both calling and emailing and got the same result of no prospect calling us back. So, we've stopped out efforts of following up for now."*
>
> —Customer Care Manager, $2.7 billion Midwestern bank

> *"I shouldn't even have one full-time equivalent attempting to follow-up all the time. I am thinking that integrated chat will help us solve customer problems in real-time, when we have the customer trying to open the account rather than after the fact."*
>
> —Retail Officer, $7 billion East Coast bank

SO WHAT

Small banks in the United States are not offering new account deposit origination online as fast as banks above $10 billion. This is a competitive disadvantage to attracting new deposit dollars and accounts and is costing millions to the bottom line for these institutions. However, banks above $10 billion in assets are not offering decent lending origination online and this is where the smaller banks can shine. Abandonment on both deposit origination and lending applications still hovers at greater than 50%, and post-account follow-up is not yielding results, so institutions have to improve the experience and get more account funding at the time of origination.

WHY FOCUS ON DIGITAL IDENTITY VERIFICATION?

As banks look to digitize the account opening process, they have to overcome friction points with identity verification and ensure they mitigate security threats, meet compliance requirements, and enhance the customer experience.

Cornerstone Advisors sees several reasons why digital identity verification is increasingly important:

1. The pandemic has driven growth in online and mobile banking channels. Digital customer acquisition is a clear priority for banks that were over-reliant on the branch for new account origination.
2. Clunky KBA processes are causing unnecessary friction during the account opening process. Banks are no longer tolerating the customer experience disadvantages of KBA and are looking for more modern identity verification modalities.
3. Identity fraud is constantly evolving with the rise of online and mobile transactions, and banks must up their game. Automated approaches powered by machine learning are needed to thwart identity fraud in remote account opening.

How Better Identity Verification Can Help with Abandonment Rates

The VP of retail delivery of a $7.3 billion bank told us:

> *"Our last system had over 90% abandonment. We had to find a new solution to address that. In the old system, we had twice as many customers abandon us when we had them use trial balances for ACH funding—by changing the identity verification process up front, we eliminated that point of friction."*

A VP of operations at a $2.2 billion bank shared:

> *"We have a complementary system that helps with identity verification. The challenge is that system is only available about 30% of the time. When it is up, the entire account opening process can take about four minutes. When that system is down, however, the entire process can be twice that long and lead to significantly increased abandonment rates."*

Our interviewees revealed several significant challenges with the current identity verification methods deployed in online account origination.

1. A Lack of Credit History or Poor Credit History

With the declined rates hovering near 30% overall for the surveyed institutions, the primary driver is a lack of credit history. This attribute is particularly acute in the millennial demographic. According to CB Insights, millennials make up 70% of the user base for most institutions' mobile applications.

Likewise, in a 2020 report from credit rating agency Experian, the average credit score of a millennial (aged 22-35) is just 679, which is below the 700 score that's generally considered "good."

These two attributes lead to the majority of the 30% declined rates. Using credit history as the primary driver in identity verification eliminates the most likely users of online account origination.

2. Relevance of KBA Out of Wallet Questions

One of our survey respondents shared:

> *"We see a lot of problems with KBA questions for divorcees and juniors. The questions might ask about something from an account with the ex-spouse or parent that the person sitting at the computer simply cannot answer."*

Another stated:

> *"We found that the older demographic often has a hard time with KBA questions that go back too far in their history. This can be a real problem as these folks are already weary of opening an account online, so asking too many hard questions up front is not good at all."*

With qualification abandonment rates above 40%, ensuring the KBA questions are relevant and timely is critical to avoiding abandonment.

3. Clunky Identity Verification Experiences

The digital innovation manager at an $11 billion bank shared:

> *"The driver's license scan in our system was taking over five minutes so we had to eliminate that from the account opening process. We still need the driver's license; we just leave it for follow-up by a banker after the other account information is collected online."*

A banker at a $2 billion bank echoed:

> *"We use the driver's license verification to ensure against synthetic identity fraud. The challenge is that, many times, our driver's license verification fails, which creates a manual review for one of our team."*

In every institution's customer information program (CIP), collecting an ID, whether that be a driver's license, passport, or some other official document, is mandatory. If the process is difficult, then an institution has to intervene manually to either collect the ID or review the ID after the process, which can be costly and add to abandonment.

Good digital identity verification solutions have specialized applications of image analytics and machine learning designed to ensure government-issued IDs presented for identity verification are authentic and presented by the individual on the ID. These features are particularly important for banks and other financial institutions that are looking to support remote account opening, where one of the key threats is identity fraud.

As one EVP and chief digital officer of a $2.5 billion international bank shared:

> *"We require that our account holders are residents of our territory, but they might have passports from all over the world. Our identity verification has to be able to identify valid international passports."*

4. Lots of BSA Questions and OFAC False Positives

Bank Secrecy Act (BSA) officers are charged with keeping the bad guys from opening accounts. To do that, they run checks at account opening to verify a potential customer or member and to guard against suspicious activity.

Our survey respondents shared that two challenges have resulted from typical risk-based approaches for BSA: OFAC false positives and excessive up-front BSA-related questions.

OFAC hits are especially challenging in that fuzzy match algorithms on names often lead to accounts being temporarily denied and requiring human review. Using additional fields from ID verification such as tax ID number, address, and date of birth helped filter these false positives.

Our interviewees also shared that asking too many questions on the web page led to higher abandonment. Those that refined their questionnaires to "bite-sized chunks" of questions had better success rates. These bankers deployed decision-tree methods where a higher-risk answer triggered more questions for that experience alone and had lower abandon rates.

5. Micro-Deposits for ACH = Higher Abandons

The abandonment rate for financial institutions that do not require micro-deposits for ACH funding was 13%—in contrast to the 27% abandonment rate for institutions that do require micro-deposits. Better identity verification up front eliminates the need to conduct these additional steps to verify account ownership, increasing funding and lowering abandonment rates.

SO WHAT

Banks have to redefine the process of online account origination to ensure that traditional verification methods such as credit score, KBA questions, clunky ID scanning, excessive BSA questions, international passports, and ACH micro-deposits do not contribute to abandonment rates.

IDENTITY VERIFICATION BEST PRACTICES

When evaluating vendors, it's important to ask the right questions. Financial institutions should look for answers that demonstrate that a provider can deliver the necessary functionality based on their organization's usage scenarios and risk tolerance. The goal is to digitize each stage of the customer's journey while also preventing fraud.

As banks introduce modern forms of identity verification technologies to reduce friction, there is an increased reliance on more than one identity verification capability to support the multitude of use cases across the institution. Orchestration of the identity verification process has therefore become a critical requirement. Look for a solution that has the ability to:

- Define workflows for the identity verification process that include failover options for scenarios where there is latency or downtime during the verification process
- Monitor and enhance these workflows to optimize the customer experience and reduce abandonment
- Support the orchestration of identity verification with a single application programming interface (API) that reduces implementation costs and the complexity of managing multiple vendors and integrations
- Scale the use of identity verification across the different regions the institution serves with global coverage for ID document verification
- Support downstream authentication and fraud detection capabilities to secure the entire digital identity lifecycle both pre- and post-onboarding

SO WHAT

Banks have to push their online account origination providers to integrate the best digital identity verification possible to improve the customer experience and reduce abandonment.

CONCLUSION

Contactless has now become the new and safest norm, and banks need to ensure their offerings are in line with these changes. Banks that can fully and quickly digitize their account opening, loan application, and financial product sign-up processes will be most likely to succeed in this time of crisis and beyond.

Too many institutions are missing the beat when it comes to improving the online account origination experience, especially with identity verification.

As consumer behavior has permanently shifted given the COVID-19 effect on branch traffic, financial institutions have to find a way to attract and retain deposits, unsecured loans, and secured loans to remain competitive and grow revenue. If the online account origination process takes too long, requires too much data entry, or puts additional friction on the system, those consumers will seek easier experiences with other institutions that offer similar products with a smoother experience.

About the Author

JOHN MEYER SENIOR DIRECTOR

As a senior director with Cornerstone Advisors, John Meyer leads the firm's Business Intelligence and Data Analytics practice. In this role, he helps community banks and credit unions better use the data they have to make smarter decisions with risk and opportunities.

Prior to joining Cornerstone, John was chief strategy officer and chief product officer at Abrigo (formerly Banker's Toolbox). His experience includes developing product strategy for anti-money laundering and fraud detection for over 1,000 U.S. financial institutions and ALLL solutions for over 1,200 institutions. Before Abrigo, John was with Harland Financial Solutions, where he held several senior positions including general manager over the branch automation and internet banking team. In this role, his group served over 2,500 community financial institutions with teller, new account origination, Internet banking, mobile banking and CRM systems.

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ABOUT
CORNERSTONE ADVISORS

After 20 years in this business, Cornerstone Advisors knows the financial services industry inside and out. We know that when banks and credit unions improve their strategies, technologies and operations, improved financial performance naturally follows. We live by the philosophy that you can't improve what you don't measure, and with laser-focus measurement, financial institutions can develop more meaningful business strategies, make smarter technology decisions, and strategically reengineer critical processes.

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