



WHITE PAPER

FIVE FACTS ABOUT DIRECT BANKS

What Every Financial Institution Needs to Know

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Have you noticed a significant uptick in the number of financial institutions that are launching direct banks? It's not your imagination. The direct bank concept – an online and mobile-only bank – is back en vogue.

In fact, FIS has empowered numerous financial institutions to launch direct banks. We know firsthand that direct banks can deliver serious bottom-line benefits, for those with a well-defined strategy.

Whether your business goals are to drive the deposit growth needed to underpin lending, expand your target market and reach, reinvent your customer experience, or lower acquisition costs (or all of the above), it's time to stop reading headlines about how yet another one of your competitors has succeeded with a direct bank, and determine whether you should get in on the action.

To help you arrive at the right decision for your financial institution, consider these five key facts about what direct banks can offer, and why they've become so prevalent.

FACT 1: Direct banks fuel deposit growth.

The [Federal Reserve Bank of Philadelphia's data](#) indicates that small banks' median loan-to-deposit ratio (LTD) has risen to approximately 80 percent. Back in the 1980s, that ratio was about 60 percent. The LTD at larger banks has also increased over the years, and is now about 85 percent. As the 2008 financial crisis demonstrated, LTD can be an important marker of a bank's financial health. We've seen just how vulnerable financial institutions who are overly reliant on non-deposit funding sources become when they're left with no alternatives but to borrow at unfavorable terms, or are unable to lend or issue credit.

Direct banks offer the speed to market, reduced overhead, lower acquisition costs and expedited onboarding that enables banks to fast-track deposit acquisition, and expand their market and customer base. There's also evidence that customer attrition may be lower with direct banks; they aren't as subject to the life events that tend to trigger closed accounts.

FIS is a pioneer in the direct bank space, and we understand what it takes to thrive in this endeavor. Recent successes in the past year include launching multiple direct bank clients whose objectives were to maximize the potential to rapidly drive deposit growth and support improved loan/deposit ratios for the parent organization. In short time, these direct banks have become wildly successful.

For example, by leveraging FIS' portfolio of 12 services, including FIS Profile® core processing and our security and fraud prevention systems, one FIS client was able to launch its direct bank in a mere eight months.

- **One month after launch:** The direct bank had acquired \$500 million in deposits and reached market penetration across all 50 states in the U.S.
- **Within four months of launch:** The direct bank exceeds \$1 billion in deposits.

We see slightly different, albeit similar, motivators for launching direct banks in international markets such as the United Kingdom (U.K.) and Hong Kong:

- Some U.K. financial institutions are using direct banks to gain access to the "capability and innovation" portion of the RBS fund which was specifically earmarked for challenger banks, based on the terms of RBS' agreement after its 2008 bank bailout.

FACT 2: Customers know they're king.

The combination of mobile and digital banking and payment technology offered by traditional financial institutions, fintech disruptors and direct banks over the years has shown customers that they don't have to settle for anything less than a true customer-centric bank experience.

For consumers across all age groups, the FIS 2019 Performance Against Customer Expectations (PACE) survey research reveals that the most important components to their banking relationships are:

- Ensuring transactions are safe and secure
- The bank is trustworthy
- The bank provides a smooth, easy customer experience

FIS EMPOWERS DIRECT BANKS TO OFFER WHAT CUSTOMERS WANT:

- A consistent unified experience across all channels
- Seamless account opening, funding and money movement
- Simple user journeys, eliminating all unnecessary hurdles
- Productive assistance when desired
- Real-time account access

STRATEGY PREVENTS CANNIBALIZATION

Financial institutions that have a well-defined strategy can proactively ensure that they don't hurt their traditional account models with their direct bank – particularly if the direct model offers a significantly higher deposit interest rate than current customers earn.

FACT 3: Direct banks don't have to cause channel conflict.

Launching a direct bank without proper parameters could indeed mean existing customers swap accounts to earn a higher deposit interest rate than their current product offers – but it doesn't have to. Financial institutions with a well-defined strategy can proactively ensure that they don't "cannibalize" their traditional account models with their direct bank. They can also determine whether they'll stand up their own direct bank – an approach that is unencumbered by the existing technology within the bank: The new direct bank can be as integrated into the bank's IT ecosystem, or as independent from it as the bank chooses.

Some neobanks also realize they can more effectively penetrate key markets with an omnichannel experience. A café-style branch, strategically located where a significant portion of the direct bank's prospects and customers live or work, doesn't require the same level of costs, planning and infrastructure as would be required for a full-scale branch model. For a relatively lower cost, this type of presence may help customers gain peace of mind, and ultimately expand their banking relationships to include more sophisticated products and services.

FACT 4: Direct banks support financial inclusion.

Direct banks give financial institutions the ability to present a new brand identity to an untapped portion of the market, and to reach customers who are outside of the branch footprint – including the unbanked. Consider the following situations in India:

- FIS helped Bandhan Bank, India's largest microfinance institution, to manage a fully integrated banking and payments platform through a totally outsourced delivery model. This equipped the bank to deliver on its two-pronged strategy to connect customers in India's rural and urban areas, including deploying 14,000 handheld devices to reach unbanked customers.

- FIS' fully integrated banking and payments platform and outsourced delivery models empowered FINO Payments Bank to improve financial inclusion in India.
- Fincare uses FIS technology to pursue its mission of engaging rural women in India, along with ESAF Microfinance whose mission is to provide a human touch behind technology-driven banking processes.
- RGVN (North East) Microfinance is empowered by FIS to work toward its goal of improving the financial state of every person it can reach in India.

FACT 5: Direct banks can expedite speed to market.

In today's digital world, a financial institution's core processing system needs to support customer types across any channel, via any device, and in a branch, contact center and back office. Increasingly, all of this needs to happen in real time. The processing system also needs to be open, so it can be integrated across the bank's entire banking and payment ecosystem.

Some FIS clients opt for a hosted solution to reduce speed to market and total cost of ownership, while others run on a licensed deployment. Regardless of the type of institution they are when they decide to enter the direct bank landscape, banks are empowered to leverage the FIS core package, and the specific components and APIs that allow them to create a unique user interface in front of the core components. This gives the bank control over the customer experience, and the capability to create a unique brand based on the direct bank's capabilities, offerings and target market. With either approach, the banks have the assurance that they are working with FIS as a technology partner who has proven success, delivery certainty, and clearly understands the regulatory and compliance demands by which financial institutions must abide.

DIRECT BANKS OFFER PLATFORM FLEXIBILITY

Some FIS clients opt for a hosted solution to reduce speed to market and total cost of ownership, while others run on a licensed deployment. In both models, by leveraging a powerful core package (built from the ground up with today's technology), and selecting components and APIs that are fit for purpose, the bank is empowered to create a differentiated direct bank brand that supports business goals, now and in the future.

Ready to Launch a Direct Bank? Still Unsure?

See What FIS Can Do for You

October 2018 marked FIS' 50th year of experience helping our global client base solve for the platform, technology and infrastructure hurdles that must be overcome to keep pace with the changing financial services landscape.

Direct banks are a popular means of driving rapid deposit growth to underpin lending, and to meet customers' increasingly demanding expectations for the on-demand, digital and mobile banking experience. Despite the surge in direct banks over the last two years, this trend is still in its infancy – particularly as financial institutions continue to battle the soaring costs of deposits in a rising interest rate environment.

Whether you're considering whether the direct bank model is right for your financial institution's longer-term strategy, or are grappling with how to launch a direct bank without cannibalizing your existing business, you need the help of an experienced partner who can help you determine what approach is right for your needs, while ensuring you have the peace of mind that your direct bank is supported by a technology partner with robust experience powering global financial systems. The FIS-modernized core fully embraces an API-first architecture, so that core capabilities are exposed as APIs, and can be managed, governed and consumed by bank applications, channel applications and other fintech partner applications. This streamlined connection of components is cloud-based, for a flexible and scalable open banking platform that easily adapts to the needs of the financial institution as it evolves.





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About FIS

FIS is a global leader in technology, solutions and services for merchants, banks and capital markets that helps businesses and communities thrive by advancing commerce and the financial world. For over 50 years, FIS has continued to drive growth for clients around the world by creating tomorrow's technology, solutions and services to modernize today's businesses and customer experiences. By connecting merchants, banks and capital markets, we use our scale, apply our deep expertise and data-driven insights, innovate with purpose to solve for our clients' future, and deliver experiences that are more simple, seamless and secure to advance the way the world pays, banks and invests. Headquartered in Jacksonville, Florida, FIS employs about 55,000 people worldwide dedicated to helping our clients solve for the future. FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit www.fisglobal.com

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