All Direct Deposit Accounts Are Not Created Equal

(We're Looking at You, Millennials …)

By Philip D. Armstrong

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Javelin Strategy & Research's annual Digital Banking Benchmarking research is a gem of a study, full of important insights about how many of the largest U.S. banks' digital capabilities compare in terms of performance and consumer approaches.

At Harland Clarke, we thought it would be interesting to do a deep dive into a single aspect of this study — direct deposit — to examine adoption, enrollment and motivational factors. With this in mind, we commissioned Javelin to examine direct deposit trends to see what they say about differences across generations (Boomers, Gen X and Gen Y/Millennials) and among some of the largest banks in the country (Wells Fargo, Bank of America, Chase, Citibank, Fifth Third and PNC).

Once again, Millennials didn't disappoint in being different.

Direct Deposit: The Facts

To understand future opportunities relative to capturing and reinforcing primacy and deeper customer relationships, it's important to see how direct deposit is trending now:

Overall adoption = strong.

The good news about direct deposit is that it's well entrenched. Adoption is very strong overall, with 81 percent of customers who receive a paycheck using direct deposit. Boomers and Gen X lead the way, exceeding the national average with 83 percent adoption.

Older Millennials split their direct deposits at a rate 45 percent higher than average.

Younger Millennials lag.

Gen Y.1 (ages 18-24) consumers haven't yet jumped on the direct deposit bandwagon to the same extent. With only 72 percent adoption, they lag behind the national average. We believe this is due to the fact that many in this young set are employed in jobs that don't offer direct deposit, such as in restaurants and the hospitality industry.

Older Millennials split — in a significant way.

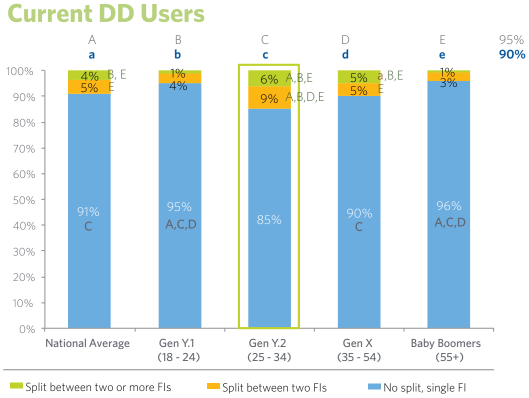
Splitting direct deposit dollars is a relatively uncommon practice. Among consumers who have direct deposit, about 91 percent use only one financial institution.

But here's an interesting nugget: Gen Y.2 — older Millennials (ages 25-34) — are more likely than other generations to split deposits, at a rate of 15 percent versus 9 percent overall.

And, among those who split direct deposits, 60 percent split between two financial institutions, and 40 percent allocate between three or more financial institutions.

Gen Y.2 is More Likely Than Other Generations to Split Deposits, Nearly 1 in 10 Split Between Two FIs

Usage of Split Direct Deposit Among Current DD Users



Note: The statistical difference delivered at a 95% and 90% confidence level for data points A/B/C/D/E.

Question. At which of the following financial institution/s do you receive your direct deposit? Among direct deposit holders only.

May 2016, n = 5,969, 637, 1,249, 2,347, 1,667

Base: Direct deposit consumers

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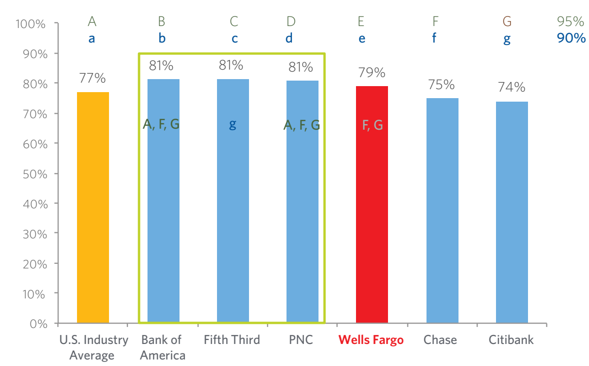
Wells Fargo holds the middle.

Another interesting finding: While adoption of direct deposit is strong, there are disparities among Wells Fargo and its competitors. Bank of America, Fifth Third and PNC primary customers have adopted direct deposit at a higher rate (81 percent) than those at Chase (75 percent) and Citibank (74 percent). Wells Fargo lands in the middle with 79 percent adoption by those identified as "primary" customers.

These statistics (especially given the statistically significant differences among the banks in terms of confidence levels) beg some questions. For example, why is Bank of America performing so strongly in this area, and why is Wells Fargo outperforming Chase and Citibank? Deeper investigation may be warranted.

While adoption of DD is Strong at Primary FIs, BofA and PNC outperform Chase and Citi

Adoption Of Direct Deposit by Leading FIs



Note: The statistical difference delivered at a 95% and 90% confidence level for data points A/B/C/D/E/F/G.

Question. At which of the following financial institution/s do you receive your direct deposit?

May 2016, n = 7,322, 889, 139, 429, 731, 756, 484

Base: Total banked consumers who receive a paycheck, by bank

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DD is important for 33 percent.

About one-third of consumers think that direct deposit is a "top consideration" in motivating them to stay at their primary financial institution, but convenience, online banking and customer service outrank direct deposit.

Direct Deposit – Not So Sticky Anymore.

Not a deal breaker to move.

Direct deposit is not as sticky as it once was in impeding switching behavior. In fact, digital advancements and being able to split direct deposits between institutions makes switching relatively easy. Adjusting the split or moving direct deposit to a different institution can be done online almost instantaneously.

Only 70 percent remember being asked about DD enrollment.

Of consumers who opened a checking account in the past 12 months, only 70 percent overall recall being asked to enroll in direct deposit at the time.

Wells Fargo is lower in recall.

Relative to Wells Fargo's peer banks, fewer of Wells Fargo's new checking customers recalled being presented with direct deposit options when they opened their checking accounts.

Keep in mind that the sample size here is small, and Wells Fargo is recognized in the industry as having a structured and consistent onboarding program. However, this data may be worthy of further evaluation.

What Does This Mean for You?

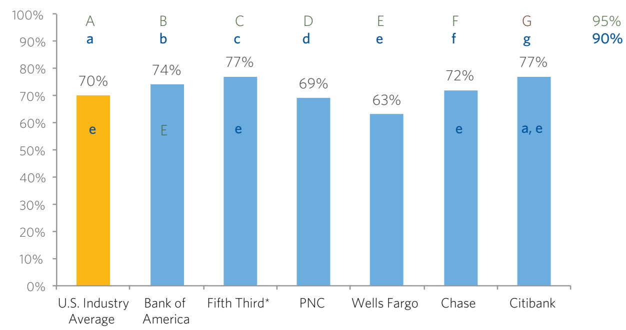
The Javelin/Harland Clarke research indicates that Wells Fargo and its peers are doing a great job with direct deposit overall — but it does raise some interesting issues about primacy.

A split paycheck ≠ primary relationship.

It used to be that direct deposit was *the* indicator of primary status, but a split paycheck calls this claim

Recall of Direct Deposit enrollment at onboarding varies by bank.

Direct Deposit Enrollment Process For A New Checking Account



Note: The statistical difference delivered at a 95% and 90% confidence level for data points A/B/C/D/E/F/G.

Question. We would like to understand how your bank sought to familiarize you with products and services when you opened your checking account at (Primary Bank)? Past 12 months shown. (Asked to set up direct deposit)

** Please note a small sample size*

May 2016, n = 1,834, 305, 32, 69, 182, 211, 152*
Base: Total banked consumers who opened their checking account i/ci the past 12 months

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into question. You may be overstating your primacy numbers — and missing opportunities for deepening relationships with a very attractive demographic. Further investigation into split direct deposit accounts is warranted to help you prioritize your interaction with Millennials. (See sidebar.)

A split paycheck ≈ greater attrition.

If direct deposit is becoming a less reliable indicator of primary status, it may also be a less reliable indicator of loyalty — which means that you *may be* at risk of greater attrition with those who split their direct deposits. If these customers are already doing business with another bank or banks, you can't assume they're any more likely to stay with you than with one of the other institutions with which they have direct deposit.

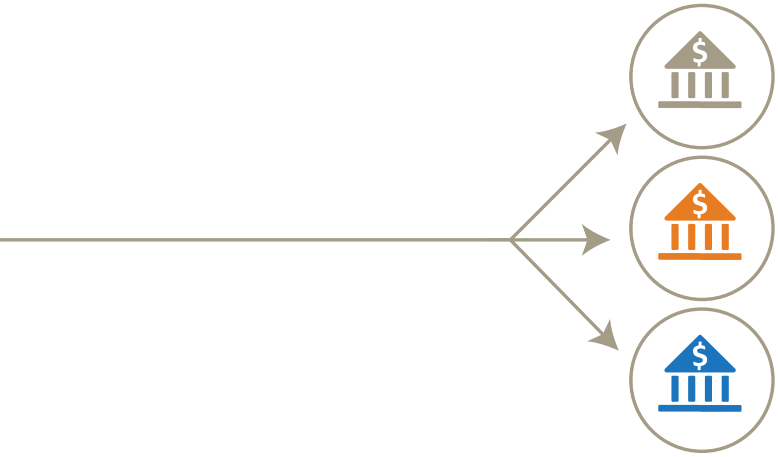
What Can You Do? Three Steps

The statistics regarding customer recall about direct deposit at the time of account creation are telling, and point toward a huge opportunity in onboarding. Onboarding practices should be optimized for direct deposit and customized to address your direct deposit customers.

In other words, you need to onboard more deliberately, and customize your efforts based on the opportunity.

1. Use the right tactics. For example, with Millennials — now the largest demographic segment — we know that you need to interact with them differently than you do with Boomers. Close to 80 percent of Millennials have a smartphone, yet they avoid talking, with 70 percent preferring text.

So, send a welcome text. Emojis and visuals are important. They expect 24/7 response and immediacy of customer service.



Why Should You Care About a Mere 15 Percent?

Older Millennials (ages 25-34) are more likely than other generations to split direct deposits, at a rate of 15 percent versus 9 percent overall. Although 15 percent doesn't sound particularly noteworthy, when you're talking Millennials — and primacy — it is significant.

Here are two reasons to pay attention to this 15 percent:

First, you may be presuming too much about your primary customer numbers. After all, if you consider a primary relationship as merely the presence of a checking account — or even a checking account with direct deposit — you need to think again. Millennials who split their direct deposits may well have one or two checking accounts elsewhere. (And those other banks are probably counting them as primary customers, too.)

Second, these older Millennials are prime prospects for a long-term relationship with Wells Fargo. They are buying houses, having children and reaching higher earning potential. If they're not primary to your bank, you want them to be.

Of course, there are some unanswered questions here:

Who are the 15 percent? What are they using their various direct deposit accounts for? Are they using the one at your bank for their daily transactions? If not, are they really primary to Wells Fargo?

The answers are in the data. Look for clues, especially about attrition rates. You already know their employers and ZIP codes. You can see their transactions. Knowing — and acting upon — these data points can help you assess (and win!) primacy.

2. Find — and onboard — the splitters. Do you have a lot of splitters or just a few? Survey your customers, study their direct deposit splitting behaviors, and create a plan to onboard them, recognizing that they may be depositing into a savings or investment account.

Don't overlook their potential. Even if they're direct depositing into a checking account, they may need to be wooed into primary status — and they may be more open to your message because they already have an account with you.

3. Be upfront. Be proactive with your customers about perceived annoyances such as monthly maintenance fees. Discussing these fees — and how to avoid them — provides an opportunity for good service and a deeper relationship. (Read more about onboarding and maintenance fees in our recent white paper: "Best Intentions Do Get Punished!")

Finally, a word of caution: Don't overlook the opportunity with the younger Gen Ys. This group is just entering the job market — they'll mature into direct deposit, and you will want to be there to accommodate that need for them.

For a copy of the full Javelin/Harland Clarke analysis or more information about our findings, contact Philip Armstrong, Major Market Strategist, at: Philip.Armstrong@harlandclarke.com.

Phil Armstrong has more than 30 years of marketing experience, with an emphasis in financial services, technology and e-commerce. He was Senior Vice President of Marketing for Bank of America for eight-and-a-half years, leading teams responsible for retail deposit, onboarding and retention, online and mobile banking, and acquisition. Phil led the marketing campaign that successfully introduced Bank of America's first mobile banking app in the Apple Store in 2008. Phil holds a Master's degree in Journalism and was a Reserve in the United States Coast Guard for 10 years.

Up next, our study on Millennials and small business. A surprising percentage of Millennials use alternative funding for their small business loans. Send an email to Philip.Armstrong@harlandclarke.com if you'd like to be alerted when our study results are available.

To learn more about Harland Clarke, visit HarlandClarke.com.

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