

CELENT



CASE STUDY

MIDWEST BANKCENTRE: GROWING DEPOSITS WITH A DIGITAL-ONLY BRANCH

WINNER OF CELENT MODEL BANK 2020 AWARD FOR COMMUNITY BANKING TRANSFORMATION

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April 2020

CASE STUDY AT A GLANCE

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| FINANCIAL INSTITUTION | Midwest BankCentre |
| INITIATIVE | Rising Bank, its separately branded digital bank |
| SYNOPSIS | Midwest BankCentre historically grew through traditional means; branch building and strategic acquisitions. In 2018, it set out on one of the largest technological undertakings in its recent history – the launch of a state-of-the-art digital branch, Rising Bank – to grow its deposit base and support its continued growth. |
| TIMELINES | <ul style="list-style-type: none"> • Project start: August 2018 • Beta (soft launch): January 2019 • Go-live (public launch): February 2019 • \$100 million in deposits generated: June 2019 (5 months) |
| KEY BENEFITS | <ul style="list-style-type: none"> • Gathered over \$130 million in new deposits in the first year at a fraction of the cost of branch-building • Quickly gained experience with a digital banking business model using existing resources • Leveraging new business process and technologies within the legacy bank after they have been proven in the Rising Bank environment |
| KEY VENDORS | Banno Digital Platform from Jack Henry MANTL Alloy |

CELENT PERSPECTIVE

- Midwest BankCentre, a 113-year-old, family-owned community bank in St. Louis, does not exhibit the pedigree typically associated with innovative transformation. Nor does it have a large IT organization at the ready with capabilities to build something new. The compelling story, in Celent's view, is how a community financial institution achieved significant results on short timing with few resources through skillful leadership, prudent risk management, and careful vendor selection. Moreover, Midwest BankCentre knew what it should hold onto and what it needed to do very differently. This combination is at the heart of its success.
- Midwest BankCentre demonstrates that disruptive innovation to a bank's operating model does not require wholesale jettisoning of legacy technology in the short term. It does, however, require a healthy dissatisfaction for the status quo and a willingness to challenge time-tested business and operating practices.
- In this case study, institutions can learn:
 - How to launch a separately branded digital bank in six months without a major technology investment.
 - How doing so can act as a catalyst for transformation of the legacy bank.
 - How leveraging vendor experience can minimize shopping cart abandonment without taking on significant additional risk.
 - How challenging conventional wisdom can accelerate digital deposit gathering.

DETAILED DESCRIPTION

Introduction

Midwest BankCentre, a mainstay of St. Louis community banking since 1906, employs a staff of about 280 working at 17 bank locations in the City of St. Louis and St. Louis, Jefferson, and St. Charles counties. The bank works to empower people, enable business, and energize neighborhoods through the strength of its financial services, including personalized consumer and business banking, business cash management, mortgage lending, home equity loans, financial planning and investments, insurance, and digital banking. It ranks among St. Louis's largest locally owned banks with assets exceeding \$2 billion and deposits of \$1.5 billion.

Table 1: Midwest BankCentre Snapshot

| MIDWEST BANKCENTRE | |
|-----------------------------------|--|
| YEAR FOUNDED | 1906 |
| ASSETS | \$2 billion |
| DEPOSITS | \$1.5 billion |
| GEOGRAPHICAL PRESENCE | City of St. Louis, and St. Louis, Jefferson, and St. Charles counties in Missouri |
| EMPLOYEES | 280 |
| LINES OF BUSINESS | Retail: Mortgage/HELOC, Auto lending, ID theft protection Business: deposits, lending, basic treasury management |
| OTHER KEY METRICS | 17 branches 19 ATMs |
| RELEVANT TECHNOLOGIES AND VENDORS | JHA Silverlake core banking system Banno Digital Platform MANTL omnichannel customer onboarding system Alloy identity verification and risk-mitigation platform |

Source: Midwest BankCentre

Midwest BankCentre historically grew through traditional means; branch building and strategic acquisitions. In 2018, it set out on one of the largest undertakings in its recent history — the launch of a modern digital branch, Rising Bank — to rapidly grow its deposit base and support its continued growth.

Opportunity

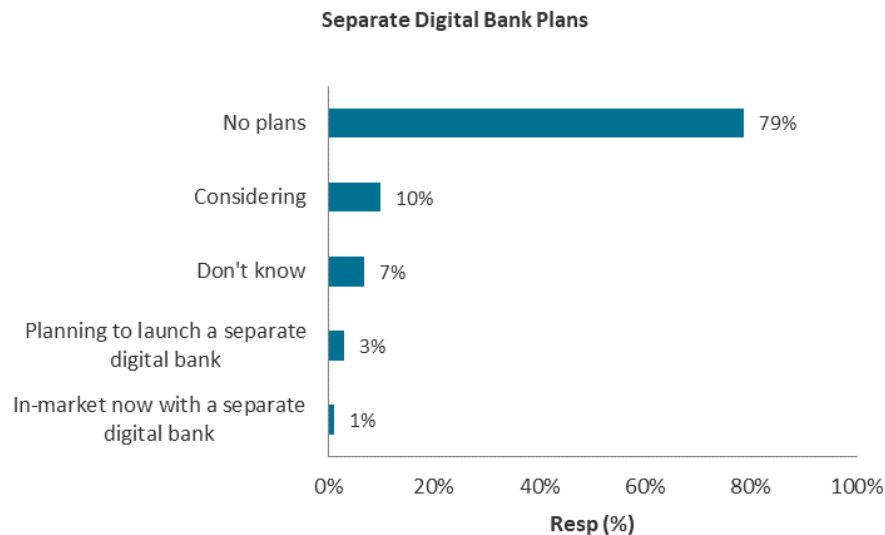
In early-mid 2018, Midwest BankCentre began exploring new strategies to grow core deposits and reduce its dependence on wholesale funding. Consistent with industry trends, it had seen foot traffic decrease in branches, and knew that its lack of digital services could pose a risk to long-term relevance and growth. Midwest sought to provide a more modern user experience while lowering operating costs, so the bank brought together a team of vendors to address its technological gap.

The bank's leadership knew this would require more than "lipstick on the pig." Beyond a competitive digital user interface, it would require substantive changes to the bank's processes and operating model. This kind of change would be difficult for the wider organization. Like

many other institutions, its departments have entrenched processes that would likely impede a major modernization effort. Midwest needed to create an avenue — one that operated separately from its existing business to test new technologies and processes quickly and effectively — and implement them more broadly when the broader organization was ready.

Launching a separately branded digital bank is not a new idea, yet it remains relatively rare. According to 2019 Celent research, while nearly 80% of surveyed North American financial institutions had no plans for launching a separate digital bank, a small percentage of banks, large and small, have taken this step, or had plans to do so (Figure 1).

Figure 1: Most North American Financial Institutions Don't Have Separate Digital Bank Plans

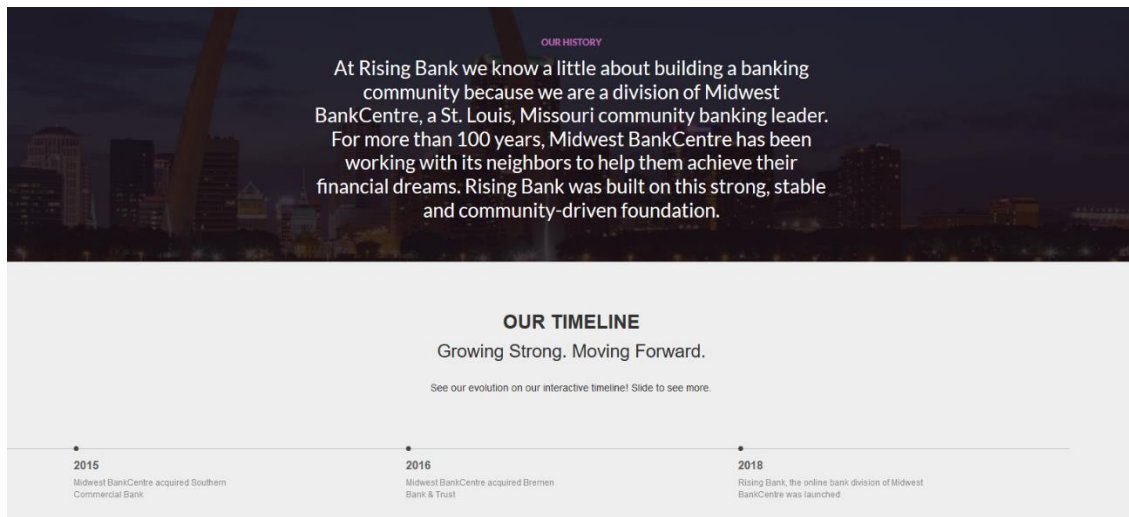


Source: Celent survey of NA financial institutions, January 2019, n-150

With Dale Oberkfell, Midwest BankCentre's President and CFO, leading the initiative, it aimed to build and operate a high-performing digital branch, with a target of raising \$100 million in new deposits over the first year. To do so, it clearly needed to offer a compelling digital customer experience. To meet these goals, Midwest established a new brand — Rising Bank. The objective was to quickly gain experience with an entirely new model for deposit acquisition without reputational risk to the Midwest BankCentre brand franchise. With Rising Bank, it sought to offer a competitive digital customer experience that enabled clients across the country to accumulate wealth — without directly competing with Midwest BankCentre. The vision was for Rising Bank to increase Midwest BankCentre's footprint outside of the geographic reach of its physical branches while implementing a range of innovations and improvements to business processes. It wanted to learn how much more efficiently it could grow through digital channels. Then, once trust was earned in the broader organization, it would apply some of the new technology and business processes to improve the performance of its physical branches.

One challenge with this vision was effectively competing with other digital banks. Establishing a new brand can be costly, and adequately differentiating Rising Bank in a crowded market was key. Midwest chose to leverage aspects of its well-established brand in creating the Rising Bank brand persona. Maintaining a link to the Midwest BankCentre brand was thought to be critical to leverage its core strength as a proud, independent bank delivering highly personalized service. Rising Bank was thus positioned not as a departure from that century-old tradition, but rather a bold move toward creating the bank of the future for customers that would likely be wary of establishing a banking relationship with a faraway digital bank. This positioning is communicated clearly on its website and in marketing materials (Figure 2).

Figure 2: While a Distinct Brand, Rising Bank Is Clearly Linked to Its Heritage



Source: Midwest BankCentre

Solution

To establish the new bank, Midwest chose to leverage its existing infrastructure and teams, designating 20 staff members across six departments to oversee the implementation. This decision was both the result of the bank's business case and practical considerations. To be attractive, the business case would have to demonstrate compelling operational cost savings compared to either traditional branch building or wholesale brokered deposit gathering. Additionally, because of the bank's private ownership structure, another banking license would have been required to stand up and operate a parallel technology stack. This was not an option available to Midwest BankCentre.

Operationally, significant new automation in KYC, funding, and deposit operations allowed the digital channel to scale quickly with existing headcount. After Rising Bank was launched, Midwest established a small, but nimble team of just two full-time equivalents to be dedicated customer service staff for the digital branch. Rising quickly became a new laboratory to test business process changes, new vendor relationships, expand the geography of the bank's customer base, practice digital marketing, and finally, create a space that allows for newfound successes or quick failures.

Standing up Rising Bank relied on several key third parties. In Celent's view, it is noteworthy that Midwest had the vision and wisdom to enroll such a diverse team and rely on their experience rather than persist with entrenched approaches. The third parties included:

- **Jack Henry & Associates** is a leading core banking platform vendor. The digital branch utilized a separate instance of Banno Digital Platform as a front end to its existing core banking system, Silverlake by Jack Henry. A core migration, even if desired, was impractical for the initiative.
- **XpertSavers** is a digital transformation consulting firm solely focused on community financial institutions. Midwest utilized XpertSavers for marketing and project management of the brand development, website, and marketing engine for Rising Bank. XpertSavers also made additional vendor recommendations.
- **MANTL** is a NYC-based fintech that provides an omnichannel customer origination and onboarding platform focused on community financial institutions. MANTL integrated easily to the bank's Silverlake core. MANTL's API also functions as a wrapper around Silverlake to allow for faster and more flexible integrations of the additional APIs that power MANTL's

platform. XpertSavers introduced Midwest to MANTL, noting that it had experience integrating to Silverlake.

- **Alloy** is an identity verification and risk-mitigation platform that uses both traditional and non-traditional data sources to verify identities with minimum friction. Alloy is utilized during customer origination for KYC by MANTL and provides key fraud identification capabilities to Rising Bank — something of particular importance for digital customer acquisition given the increasing sophistication of fraudsters.
- **Xaxis** is a digital media and advertising agency Midwest uses to manage Rising Bank's digital marketing efforts.
- **Synechron** is a website development agency Midwest used for Rising Bank's logo design and website visual content development.

According to Midwest:

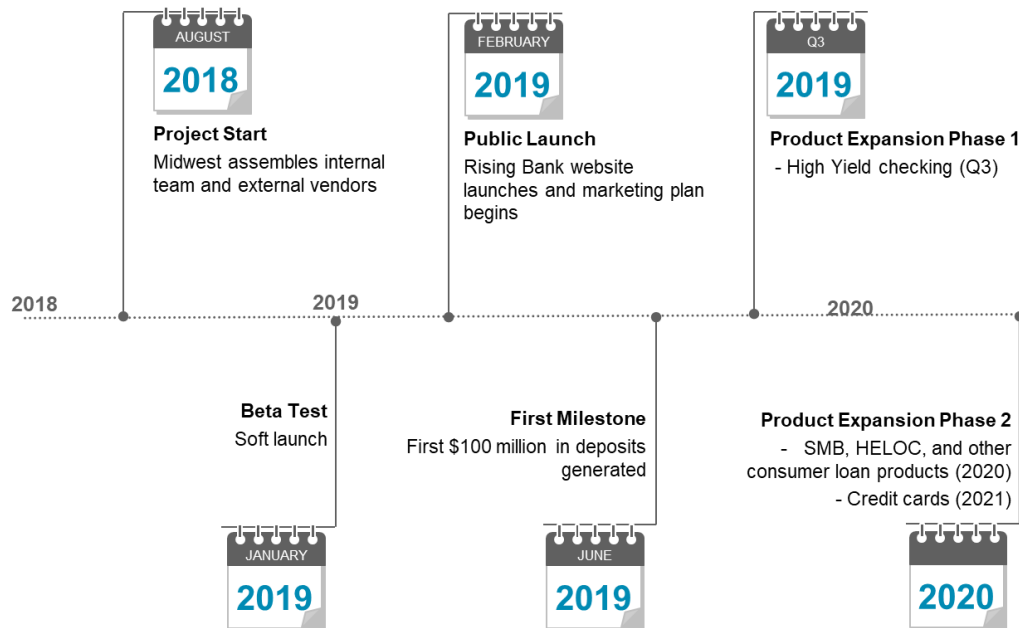
“We selected vendors based on their operational and technological excellence, taking the approach that ‘If you want to win the Super Bowl, you have to recruit Tom Brady.’ This frame of mind meant that we had the right parties around the table to execute our vision for Rising Bank. When issues arose, we had vendors that thought creatively and approached problem solving with a data-driven mindset. They also helped us evaluate our data to optimize performance.”

Dale Oberkfell, President & CFO

Timeline

Midwest BankCentre's high-performing team built, tested, and launched Rising Bank in just six months, with a public launch in February 2019. Beginning with a high-yield savings account and CDs, Rising Bank added checking in Q3 2019 and plans further product introductions in the next year (see Figure 3).

Figure 3: Rising Bank Was Built and Launched in Just 6 Months



Source: Midwest BankCentre

Launching Rising Bank

Rising Bank was launched through a 100% digital marketing plan in order to reach prospective customers. Relying primarily on an Xaxis rolling inventory of online shoppers looking for certificates of deposits (CDs) and savings accounts, Rising Bank could cost effectively purchase advertising placement in a highly targeted manner resulting in attractive ad placement rates. It also purchased placement on Bankrate.com and Google keyword search advertising. Ad click-throughs gave prospective customers seamless exposure to Rising Bank's MANTL-powered digital onboarding experience. This provided a real time and highly quantitative view of its digital sales funnel. It could see, with precision, every aspect of the prospective customer journey, from ad click-through to account funding. This gives the bank an extraordinary sales funnel management capability. We'll refer to this again when we discuss results.

Rising Bank (www.risingbank.com) offers a targeted suite of savings products, including a high-yield savings account, checking, and term CDs. Digital banking capability is provided using the same Banno Digital Platform as Midwest BankCentre. Its no-fee checking offers nationwide ATM access through a combination of Money Pass shared ATMs and limited reimbursement when out-of-network ATMs are used. Figure 4 shows the overall proposition.

Figure 4: Rising Bank's Value Proposition Included Competitive Rates, No Fees, and Convenient ATMs

Rising Checking Account

The Rising Checking Account has everything you want for your everyday checking. It combines the benefits of a classic checking account with online and mobile convenience. Plus there are no monthly fees because we know you have more important things to do with your money than pay your bank.

WHAT YOU GET WITH OUR RISING CHECKING ACCOUNT

| | |
|--|---|
| 24X7 Best-in-class live customer support | No monthly maintenance fees |
| Free bill pay | Free ATM usage and reimbursement across the US with Money Pass ATMs |
| Convenient online and mobile tools | Deposit is insured by FDIC |
| Competitive interest rate | Free first set of checks |

Source: Midwest BankCentre

Going in, Midwest budgeted 1% of its deposit objective for marketing, or \$1 million, in the first year. It spent at this rate for the first six months, then began to cut back on ad spending by June. End of year 2019 marketing spending was roughly two-thirds of the original target. The year-2 marketing plan is even more sparsely funded at one half the first-year level. Given that Rising Bank generated its target of \$100 million in deposits by June 2019 on an under-funded marketing plan, Midwest concluded that its new brand was credible and the overall process effective. Moreover, it quickly gained experience with deposit pricing sensitivity, allowing it to balance advertised savings rates and ad spending to optimize profitability.

Results, Lessons Learned, and Future Plans

Midwest gathered 75% of its deposit goal within 10 weeks and raised over \$100 million in just six months at an operating cost of less than one half that of a single new branch. For

perspective, a well-placed branch in the St. Louis market could optimistically expect to gather \$20 million in deposits within the first year of branch operations, growing to \$50 million after three years — and would likely take several years to break even and require 4–5 FTEs to sustain operations. Thus, with a modest investment and utilizing its existing staff and infrastructure, Rising Bank is on track to produce the deposit equivalent of 10 physical branches. Most importantly, the bank quickly established a new, long-term, and proprietary national growth channel.

A key contributor to the bank's performance has been its willingness to try new approaches, its data-driven mindset to solve problems along the way, and its rigorous sales funnel management. For example, based on MANTL's recommendation, Rising Bank engineered low-friction, effective KYC procedures that did not involve capturing ID documents. Rather, identity verification is safely and consistently accomplished by validating customer-supplied information with both traditional and non-traditional data sources. The result is less customer friction and higher application completion rates. In turn, this reduces requisite ad spending for the same level of new deposits, increasing profitability. Thus far, Rising Bank is achieving:

- 54% completion rate on digital account applications, well above industry average.
- 48% overall conversion rate on applications.
- Over \$55,000 average initial deposit.

Lessons Learned

In the early days of online banking, digital-only brands quickly created the perception that digital banks simply attract “hot” deposits. While Rising Bank does pay roughly 50 basis points more than Midwest BankCentre for its deposits, it sustains them with much lower operating expenses than its parent bank. Other lessons learned:

- Rising Bank is originating new customers digitally at a 95% straight-through rate. Only 5% of applications require staff review and approval. Markedly different from the parent bank, this rate is testimony to the bank's willingness to challenge historic approaches to KYC.
- Sales funnel management is key. Systematic follow-up of prospective customers who abandon carts can result in a six-point rise in conversion. Simply ensuring correct applicant address using Google Maps address pre-fill API can reduce manual application review by 8%.
- Many neobanks are attracting low-balance customers of questionable profitability. Not so with Rising Bank. This may be in large measure a function of its association with Midwest. In its first year, Rising Bank gathered approximately \$130 million in deposits from 2,300+ customers, or \$56,000 per customer.
- A separately branded digital bank can offer a laboratory for testing new business models and business processes (e.g., KYC, marketing, customer acquisition, etc.) without the reputational risk if the same activities are undertaken by the legacy bank brand. New approaches can thus be tested, refined, and value proven prior to inviting broader organizational change. Further, in-market results can hasten organizational acceptance of new ways of operating. Now, the broader Midwest BankCentre organization is welcoming change — a dramatic turnaround from one year ago!
- High-yield savings accounts aren't just for old people. Six percent of Rising Bank customers are 18- to 24-year-olds.

Future Plans

Midwest BankCentre's long-term goal is to grow Rising Bank into a credible full-service digital bank for both consumers and small businesses. Near term, it plans to broaden its product portfolio with HELOC and cards, followed by a small business deposit account platform in 2021.

Rising Bank continues to experiment with interest rates versus marketing spending to optimize profitability. Higher interest rates garner higher ad click-through, resulting in lower requisite marketing spending. Rising Bank has found a 10-basis point rate differential is highly noticeable.

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