Zelle® Usage Drives Customer Engagement

Executive Summary

Financial institutions (FIs) need new ways to form sustainable relationships with today's customers, but these efforts also must support a profitable business model as the industry shifts to digital capabilities.

Nowhere are these changes more significant than in the economics of serving the mass market. Competitive changes have eroded traditional sources of revenue, leading banks to face tough questions on how to serve these customers profitably.

As part of this digital revolution, the demand for faster payments is proliferating in the industry among large and small players alike.

In response to these challenging market dynamics, Curinos and Early Warning recently partnered on a study to identify and evaluate the benefits that Zelle® provides existing and prospective FIs.

This study was completed using data from FIs that have adopted Zelle®. Early Warning provided aggregated consumer deposit data from Q2 2020 to Q1 2021 that included both key customer characteristics and summary metrics.

The study found FIs that offer Zelle® experience a lift in overall customer engagement. These higher levels of engagement are most significant among low-engagement, new-to-bank and low-balance customers.

The observed gains in customer engagement contributed to additional profitability and revenue for these institutions, helping to bolster the case for implementing and supporting additional Zelle® usage among customers. FIs should factor the financial benefits of Zelle® into their investment planning as they weigh technology and marketing priorities — and other intangible benefits (see *The Intangible Benefits Of Using Zelle®* below) — as they prioritize their investments.

This study didn't analyze the impact of potential fraud and scams within peer-to-peer (P2P) payments that have recently received attention. Early Warning has previously said that *"millions of consumers use Zelle® every day, with more than 99.9% of payments completed without any report of fraud or scam."*[1]

The Challenge

Retail banking faces a profound challenge due to anemic revenue and eroding profitability among mass-market customers.

As competition from traditional and fintech players has intensified, FIs have lost half or more of the revenue generated by mass-market customers due to reductions in overdraft and other revenue streams. FIs are now challenged; 40% of mass-market customers cost the FI more to serve than they generate in revenue.

Additionally, as digital channels become a larger source of new customers, banks find that engagement levels and revenue contribution of these customers are far lower than their existing, branch-originated counterparts.

- Prior Curinos studies showed that digitally originated accounts had 1/7 the balance of branch-originated accounts.
- Furthermore, 45% of digitally acquired accounts closed within three months compared with 4% of branch accounts, according to SalesScape data.[2]

Zelle® Drives Customer Engagement

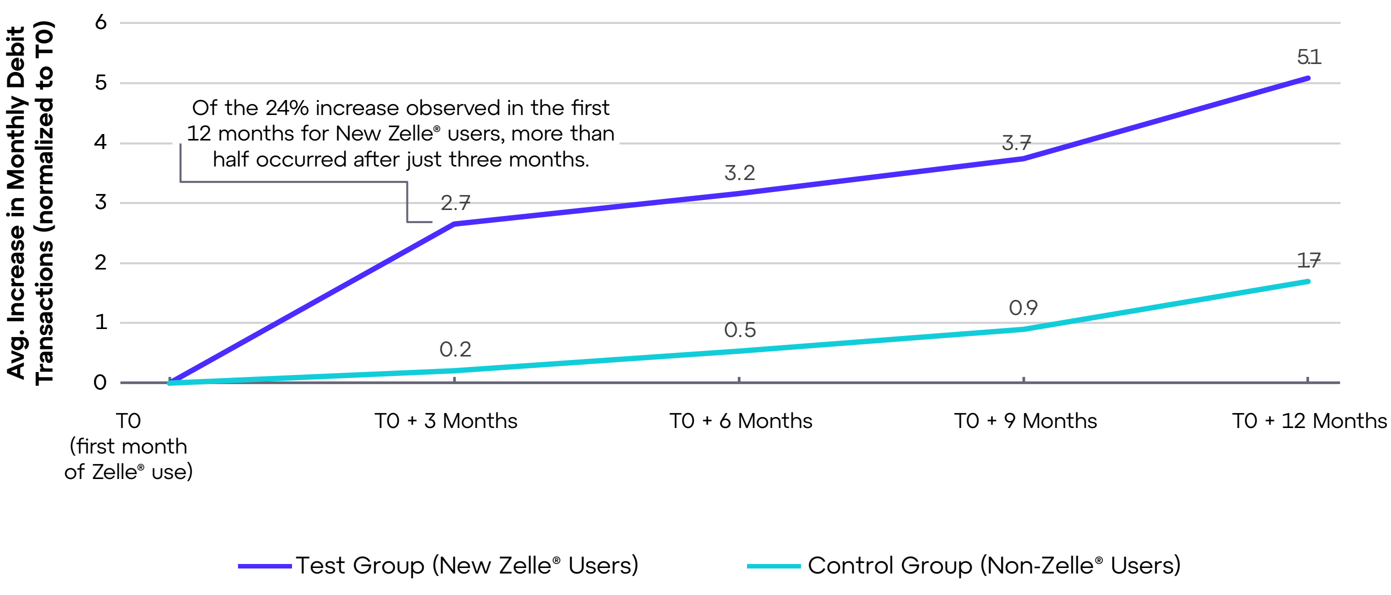
Our study found that customers who started to use Zelle® exhibited significantly higher levels of subsequent engagement (defined for this study as debit card activity and ATM transactions) with their institution compared with customers who didn't start using Zelle®. Importantly, these findings were based on a causal, not correlative, methodology that controlled for a range of factors (see *Study Objective and Methodology* below).

More frequent debit card activity was the largest driver of increased engagement, followed by growth in ATM transactions. These increased levels of activity provided evidence of higher engagement at the FIs that adopt Zelle®.

After a year of using Zelle®, these customers conducted an average of five more additional monthly debit transactions than before they started using Zelle® — a year-over-year increase of three times greater than was observed within the control group of non-Zelle® customers. (See Figure 1.)

New Zelle® customers also experienced increased ATM usage, which provided more evidence that Zelle® increased customer engagement at the FIs that adopted Zelle®.

Figure 1: Average Additional Debit Transactions For New Zelle® Users Versus Control Group

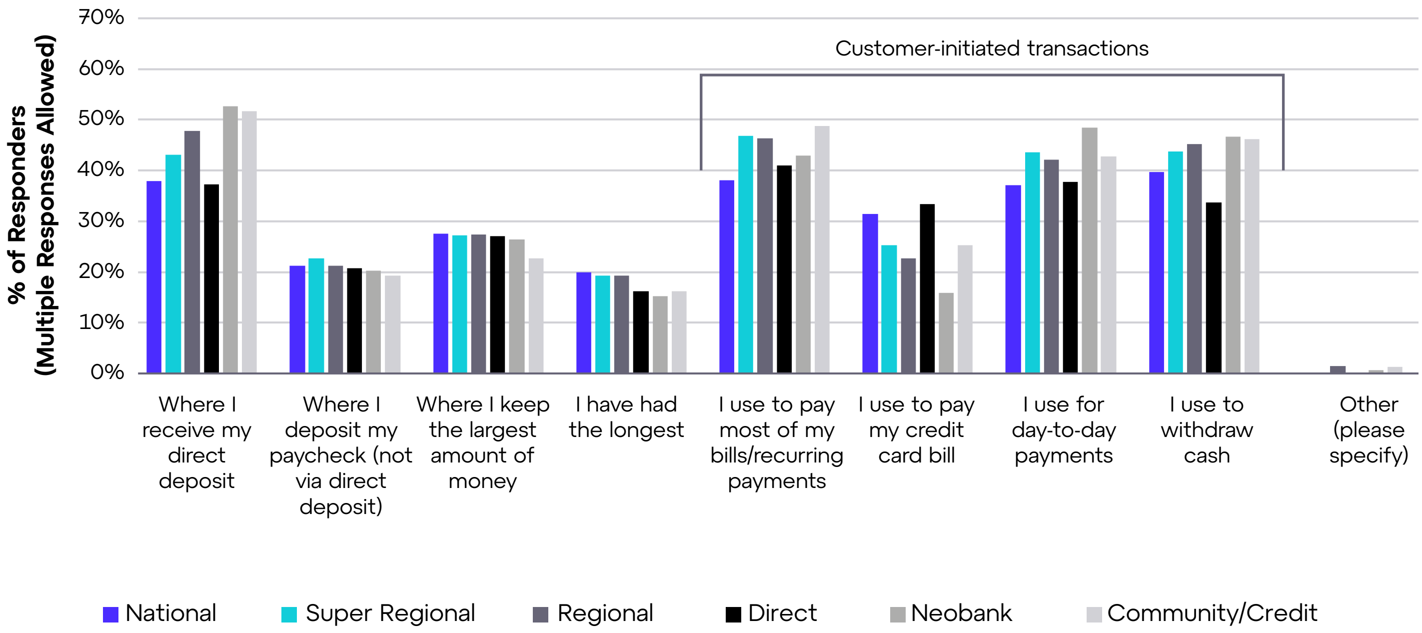


Source: EWS Customer Data, Curinos Benchmark Data, Curinos Analyses

Most of the benefit from starting to use Zelle® occurred within the first three months of using Zelle®.

Increased engagement is particularly important to FIs because most consumers define their primary bank relationship as the institution where they initiated the most transactions, according to previous Curinos studies. (See Figure 2.)

Figure 2: How do you define your primary checking account?

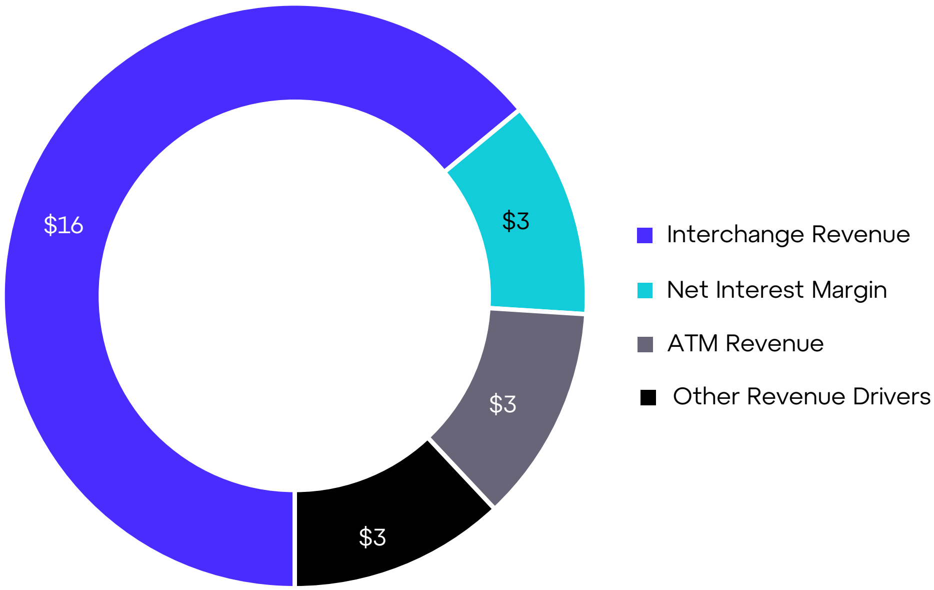


Source: Curinos Customer Knowledge | U.S. Shopper Surveys 2017-2020

Higher customer engagement leads to revenue upside

Customers who started using Zelle® became more engaged, which allowed them to derive more value from their FI relationship and incidentally generated more revenue for the FI. Specifically, new Zelle® customers increased year-over-year revenue by an average of $25 more than non-Zelle® customers. The largest benefit came from increased interchange from higher debit activity ($16), followed by increased net interest margin from higher average balances ($3), ATM revenue ($3) and other revenue drivers ($3). (See Figure 3.) Because increased engagement started shortly after the initial Zelle® use, this increased revenue began accruing almost immediately after the customer started using Zelle®.

Figure 3: Year-Over-Year Average Increase In Customers Newly Using Zelle® (New Zelle® Users Versus Control)

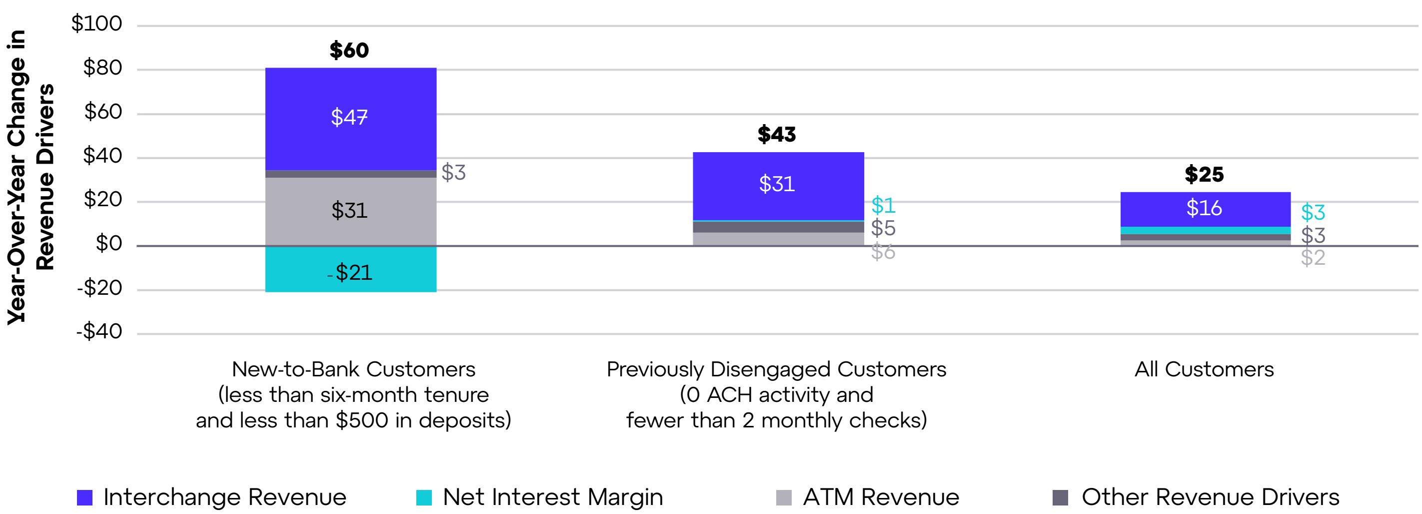


Source: EWS Customer Data, Curinos Benchmark Data, Curinos Analyses

Higher customer engagement leads to revenue upside

The Zelle® impact on engagement and revenue was particularly pronounced in some of the most challenging customer segments, including customers who were previously disengaged, as well as those who are new to the FI. More than half of the total revenue benefit from Zelle® usage came from customers in these segments. (See Figure 4.)

Figure 4: Year-Over-Year Comparison Of Average Change Revenue Drivers (New Zelle® Users Versus Control)



Source: EWS Customer Data, Curinos Benchmark Data, Curinos Analyses

For customers who were previously disengaged before starting to use Zelle® (defined as zero ACH activity and fewer than two monthly checks), the effects of Zelle® were particularly pronounced. After a year of using Zelle®, these customers conducted on average more than nine additional monthly debit transactions than previously, a year-over-year increase that was more than four times larger than the control group. This translated to an average increase in year-over-year revenue of $43 versus $25 for the average new Zelle® customer.

The impact of Zelle® was also significant on new-to-bank customers (defined as less than six-month tenure and less than $500 in deposits). Among such customers, Zelle® increased average year-over-year revenue by $60 when compared with the control group of non-Zelle® customers.

Intangible Benefits Of Using Zelle®

Additional benefits from Zelle® were outside the scope of this study but are still of strong interest to retail leaders. This is especially important for community banks and credit unions, approximately two-thirds of which offer connectivity to at least one faster-payments rail today, according to research from Aite. Some of the intangible benefits include:

- Keeps eyeballs and customer journeys within the FI rather than third-party P2P providers
- Promotes a perception that the FI provides sophisticated and competitive payment offerings
- Provides a foundation for additional use cases that real-time payments/Zelle® may offer in the future

Finally, while this study didn't find any causal reduction to expenses, some financial institutions reported reduced expenses by offering Zelle®.[3] Additionally, several participating FIs have found financial benefit from lending cross-sell, but Curinos did not have access to lending data for this study.

Conclusion

The results of this study are relevant to financial institutions that already have adopted Zelle® and those that haven't. This will be particularly important as peer-to-peer payments proliferate in consumer banking.

- For FIs that don't currently offer Zelle®, these findings can help build the investment case with constituencies inside the institution.
- For FIs that offer Zelle® now, these findings can be used in marketing campaigns aimed at customers who don't currently use the platform. Such campaigns should target customer segments that would likely have the highest levels of increased engagement.

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Study Objective And Methodology

The objective of this study was to measure the impact of Zelle® usage on customer engagement levels, and the consequent impact on the resulting revenue line items of participating FIs.

To avoid fallacies often found in industry payment studies that present correlated findings (e.g., comparing engagement and revenue levels of customers vs. non-customers), our methodology was designed to measure the causal impact from a customer initiating Zelle® usage by comparing them with customers who didn't use Zelle®, but had similar prior characteristics, as detailed below:

- This study was completed using anonymized, aggregated non-PII data from both Early Warning and Curinos. Early Warning provided data on customer deposit balances, account tenure and check transactions. From a cross-section comprised mostly of super-regional Zelle®-participating FIs, Curinos leveraged granular behavioral insights from its Comparative Deposit Analytics consortium, which provided estimates of additional customer behaviors.
- To enable causal analysis, the study observed how key drivers of deposit revenue, excluding overdraft, changed in the year after first Zelle® usage compared with a control group of non-Zelle® customers (similar across key dimensions that could explain revenue differences, as detailed below). These comparisons were taken starting in the first month of Zelle® use, then at three-month intervals up to one year later.
- Study was conducted on nine monthly cohorts of first-time Zelle® customers from Q2 2020 to Q1 2021. Results from each monthly cohort were then aggregated, weighted by total number of new Zelle® customers in each cohort.
- Test Groups were created from customers who started using Zelle® in a given month. An analogous Control Group of customers was created from those customers who hadn't previously used Zelle® and didn't start using Zelle® over the entire one-year performance window. The Test and Control Groups were then placed into micro-segments based on their characteristics up to 90 days prior to first Zelle® use.
    - o Active vs. Inactive Account (more than two monthly checks or ACH transactions)
    - o Number of ACH Transactions (6 cuts)
    - o Number of Check Transactions (3 cuts)
    - o Balance of Deposits (16 cuts)
    - o Tenure of Account (7 cuts)
    - o FI Size (large vs. small)
- To control for population differences between each micro-segment, results were then normalized by the distribution of the Test Group at first month of Zelle® usage.
- Study considered main drivers of deposit revenue, including net interest margin (NIM), interchange, maintenance, ATM, check, and other fees. The study didn't analyze any potential impact of Zelle® on OD and NSF revenue.
- The performance indicator in this study was year-over-year change in the Test Group compared with year-over-year change in the Control Group. See example below, which shows how the average $25 Zelle® impact on revenue was calculated.

Revenue per Customer	Test	Control
Revenue at T0	$293	$265
Revenue at T0+1yr	$393	$340
Year-Over-Year Change:	**$100**	**$75**

$100 - $75 = $25

Limitations: These results are representative of past behavior from a sample of FIs that were participating in Zelle® as of Q2 2020 and how newly enrolled Zelle® customers behaved during the Q2 2020 to Q1 2021 interval. These results may not be indicative of future performance. Similarly, FIs with different incoming customer compositions (e.g., differing levels of engagement, differing levels of monthly new relationship acquisition) may yield different results.

About Early Warning Services, LLC

Early Warning Services, LLC is a fintech company owned by seven of the country's largest banks. For almost three decades, our identity, authentication, and payment solutions have been empowering financial institutions to make confident decisions, enable payments and mitigate fraud. Today, Early Warning is best known as the owner and operator of the Zelle Network®, a financial services network focused on transforming payment experiences. The combination of Early Warning's risk and payment solutions enables the financial services industry to move money fast, safe, and easy, so that people can live their best financial lives. To learn more about Early Warning, visit www.earlywarning.com

About Curinos

Curinos is the leading provider of data, technologies and insights that enable financial institutions to make better, and more profitable, data-driven decisions faster. Born out of the combination of two familiar industry powerhouses, Novantas and Informa's FBX business, Curinos brings to market a new level of industry expertise across deposits, lending and digital experience solutions and technologies. Through access to comprehensive datasets and analytics, intelligent technologies and connected behavioral insights, Curinos is the partner of choice to help you attract, retain and grow more profitable customer relationships. To learn more, visit www.curinos.com

Study Impetus

This study was initiated at the request of Early Warning. Curinos independently designed, analyzed and documented research results.

1 Press Release: "Early Warning Releases Statement Regarding Recent Reports of Fraud and Scam Rates," Oct. 13, 2022
2 Fall 2022 issue of the Curinos Review: "How to Acquire (and Retain) Good Retail Customers in Digital Channels," Sept. 28, 2022
3 IncredibleBank Case Study: "IncredibleBank Reported Data," Oct. 2021
4 Aite Group Study: "Faster Payments for Community Banks and Credit Unions: Priorities for Growth," Oct. 2020