

A woman with dark hair and glasses is looking upwards and to the right. The background is dark with bokeh light effects. The image is partially obscured by a white circular shape on the right side.

The 2021 Banking Impact Report

New trends redefining the role of
community banks and credit unions
in the U.S. financial system

MANTL

Foreword

The banking industry remains in flux. 2021 introduced new challenges for traditional banks, from the added competition of digital-only entrants to shifting consumer banking behaviors and lingering fallout from the ongoing COVID-19 pandemic. However, there was one steadfast constant: the increased demand for digital banking experiences and rising digital expectations from consumers and businesses alike.

This year, an overwhelming amount of industry and media attention has been focused on sky-high neobank valuations, big tech's continued foray into banking, and emerging finance trends, like buy-now-pay-later and the growing cryptocurrency market. All the while, traditional community financial institutions have quietly served their local communities, playing an instrumental role in COVID-19 recovery and laying the foundation for nationwide resilience, starting with their local economies.

Community banks and credit unions are critical to maintaining competition and equity in the U.S. financial system. But their role can go overlooked in an industry that is constantly evolving and focused on bigger, faster and shinier. We commissioned the 2021 Banking Impact Report to explore how banking trends are impacting local communities and the perceived role of community banks and credit unions in the U.S. banking system.

What we found is that community financial institutions are widely championed by consumers and small business owners as drivers of economic mobility, financial inclusion and access to financial services. The report findings underscore the resilience of the traditional banking model in generating trust and delivering personalized service but foreshadow how rising digital expectations among consumers and small businesses owners might eclipse other banking needs. For community banks and credit unions that have fallen behind the digital transformation curve, the opportunity cost of not modernizing is now a matter of survival.

As we look ahead to 2022, we want to celebrate the significant ways that community banks and credit unions continue to serve their local communities and highlight the digital transformation gaps that must be addressed to remain competitive in today's banking landscape.



– **Nathaniel Harley**
Co-founder and CEO
of MANTL



Report overview

The 2021 Banking Impact Report, commissioned by MANTL in partnership with Wakefield Research, surveyed bank executives, small business owners (SBOs) and consumers to identify how evolving banking trends impact the local community and the role that community banks and credit unions play in the U.S. financial system.

- The Consumer Survey was conducted by Wakefield Research among 1,000 nationally representative U.S. adults ages 18+ who have a bank account, between August 2nd and August 16th, 2021, using an email invitation and an online survey. The data has been weighted to ensure reliable and accurate representation of the U.S. adult population ages 18+ who have a bank account.
- The SBO Survey was conducted by Wakefield Research among 500 U.S. Small Business Owners who have a bank account, defined as those with annual revenue of \$25M or less, with a 20% quota for \$1M+, between August 2nd and August 16th, 2021, using an email invitation and an online survey.
- The Banking Executives Survey was conducted by Wakefield Research among 100 community banking executives and 50 credit union executives, defined as those VP+, who manage between \$500M and \$50B in assets, between August 2nd and August 16th, 2021, using an email invitation and an online survey.



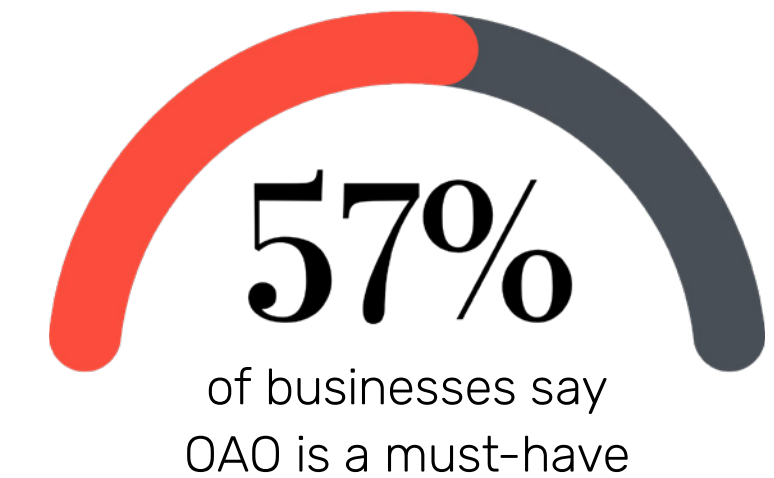
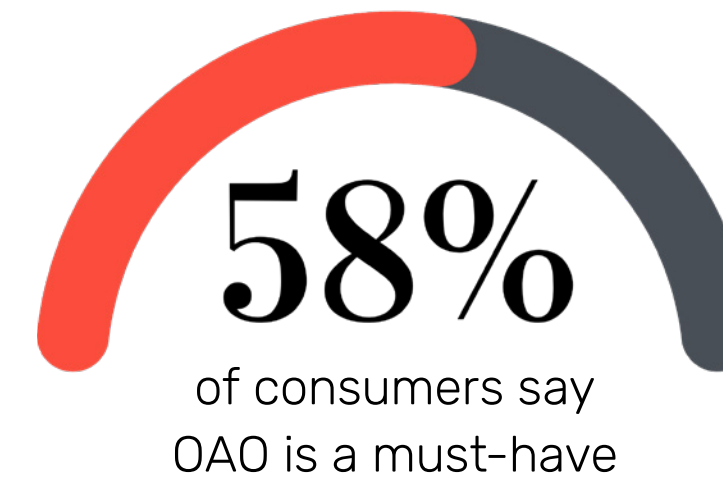
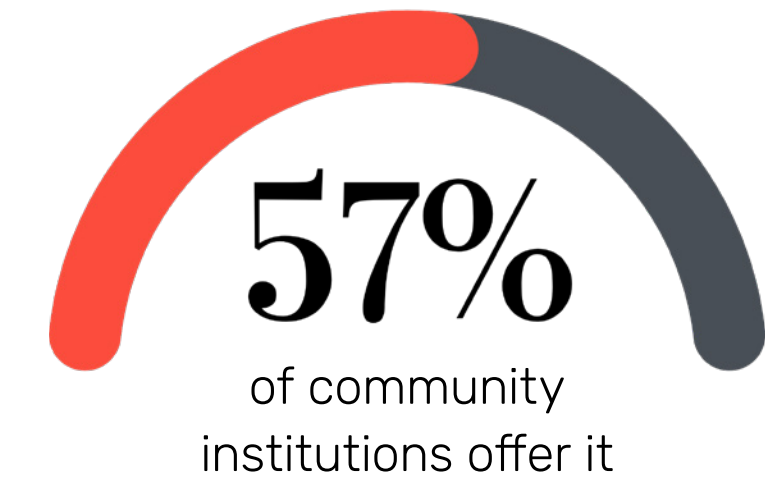
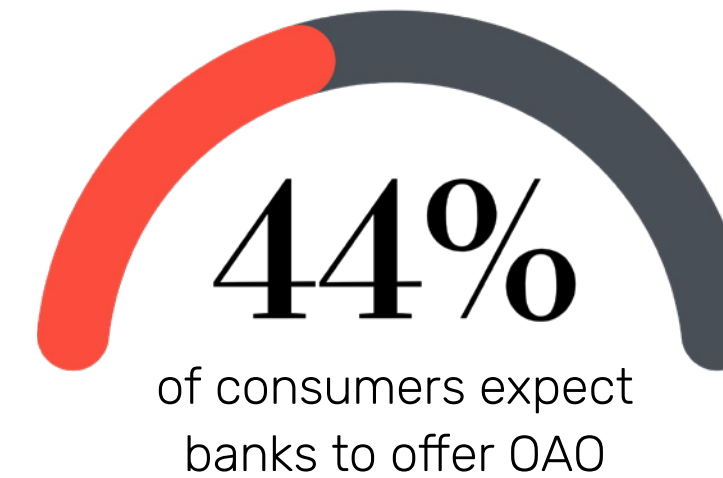
Key findings

- 7%** of consumers and 8% of businesses trust neobanks over a traditional bank
- 78%** of bank executives think a housing market crash is likely in the next five years
- 61%** of bank executives observed an increase in fraudulent activity with accounts held at neobanks in the past 12 months
- 48%** of consumers and 50% of SBOs are likely to open an account at a community bank or credit union in the next 12 months
- 70%** of consumers are more likely to trust a private institution over a government-run institution for their banking needs
- 80%** of SBOs believe it's important their bank serves underserved communities
- 92%** of SBOs and 89% of consumers agree that community banks and credit unions are as or more vital to the U.S. banking system as large national banks

Online account opening is now expected

Nearly half of consumers (44%) expect banks to offer online account opening, but only 57% of community banks and credit unions have online account opening for consumers.

Over half of consumers and businesses will not use a bank that doesn't let them open an account online.





The role community banks and credit unions play in enabling nationwide resilience

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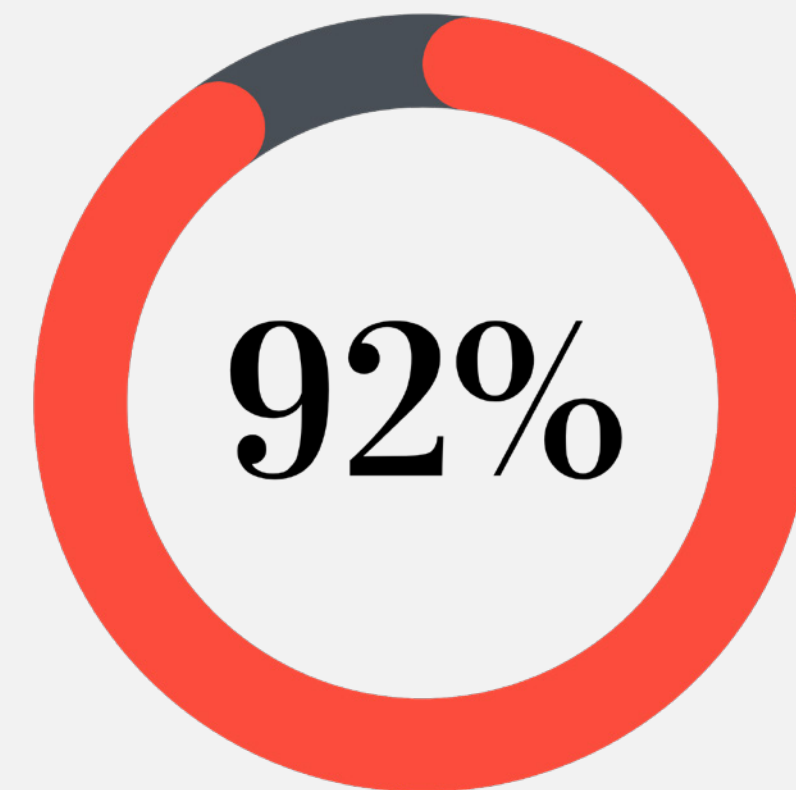
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A spotlight on community financial institutions

Community banks and credit unions are critical to maintaining competition and equity in our financial system. The report data shows that SBOs and consumers recognize the important role these community institutions play on both a national and local level. An overwhelming 92% of SBOs and 89% of consumers agree that community banks and credit unions are as or more vital to the U.S. banking system as large national banks. However, local bank executives feel their efforts are often overlooked by the national media. 90% of bank or credit union executives believe the national media does not adequately report on the role that community banks and credit unions play in the U.S. banking system.

The data illustrates that community banks and credit unions are critical to enabling nationwide resilience in three key ways: facilitating COVID-19 economic recovery, creating a positive local impact in communities and expanding access to financial services and inclusion.



→ 92% of SBOs and 89% of consumers agree that **community banks and credit unions are as or more vital to the U.S. banking system as large national banks.**

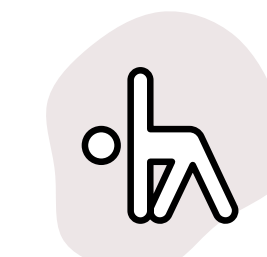
Consumers believe that community FIs deliver:



55%
Greater local impact



44%
More personalized service



41%
More flexibility

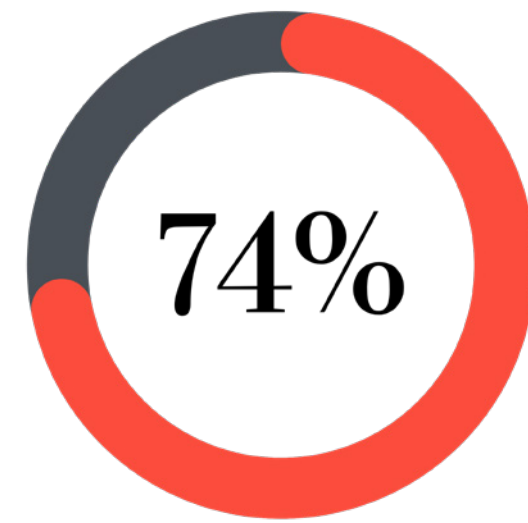


37%
Lower rates and fees

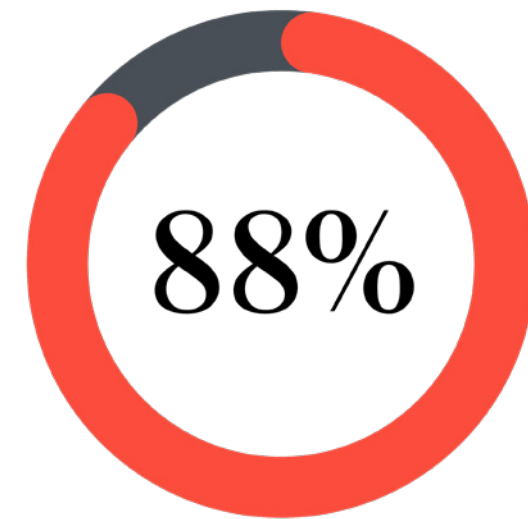
COVID-19 economic recovery

The report highlighted the critical role that community financial institutions played in COVID-19 recovery nationwide. Three out of four consumers (74%) believe community banks and credit unions were important to their region's ability to manage economic conditions caused by COVID-19 and 88% of SBOs agree that community financial institutions played a role in the economic recovery. Furthermore, bank executives report a full quarter (26%) of their business customers, on average, would have gone out of service during the pandemic had it not been for their assistance.

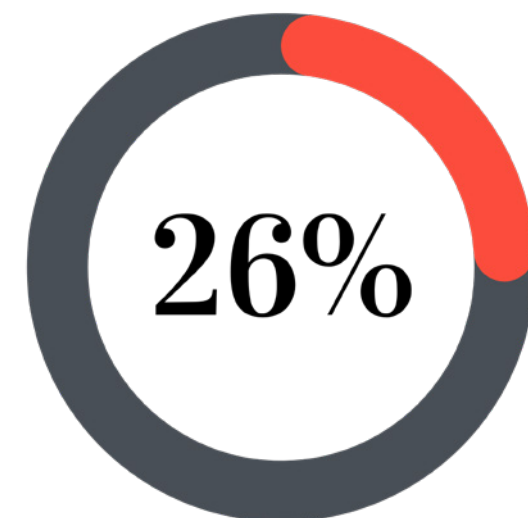
Despite the fact that 89% of bank executives say their institutions have been slow to embrace technological change, 92% introduced new advanced banking features since the start of COVID-19.



of consumers believe community banks and credit unions were **important to their region's ability to manage economic conditions**



of SBOs agree that community financial institutions **played a role in the economic recovery**



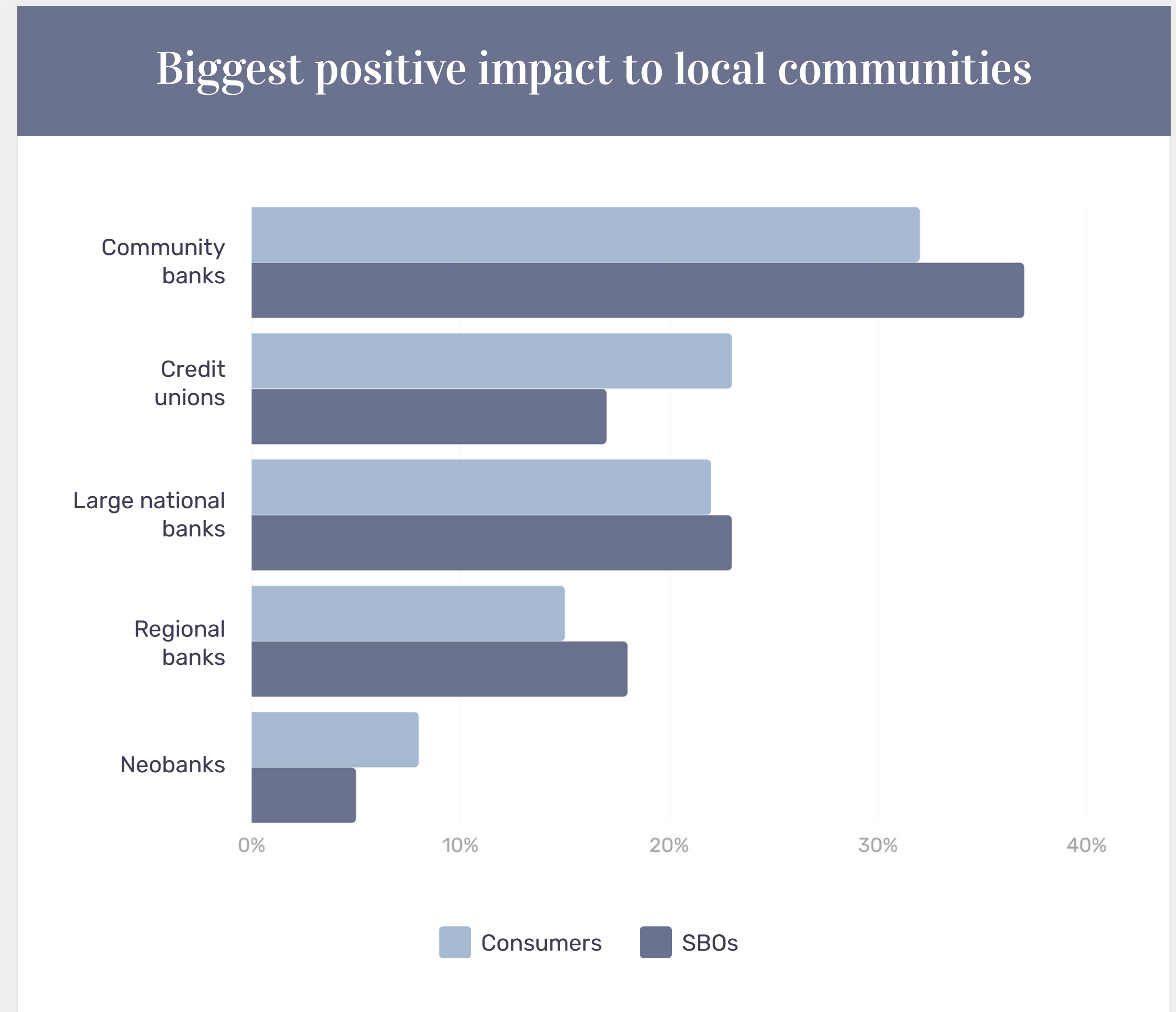
of business customers, on average, **would have gone out of service during the pandemic had it not been for the assistance of community banks and credit unions**

→ Because of their role in economic relief efforts and community support, banking executives remain positive about near-term recovery from the pandemic.

95% of banking executives are optimistic about the economic conditions in their local community over the next 12 months. However, a shocking 78% predict a housing market crash in the next five years, signaling caution as housing market prices reach record highs in 2021.

A bigger local impact

Community banks and credit unions are central to their local economies. 41% of community banks and credit unions give back up to 5% of their annual revenue to the community or donate through corporate social responsibility initiatives. One in five (20%) of community banks and credit unions reported this number to be between 25%-50%. More than half of consumers (55%) said a community bank or credit union had the biggest positive impact on their community over large national banks (22%), regional banks (15%) and neobanks (8%). Small business owners agreed that community banks had the biggest positive impact in the local area (37%), followed by large national banks (23%), regional banks (18%), credit unions (17%) and neobanks (5%).

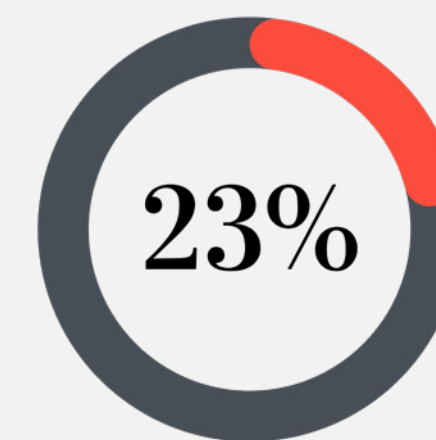
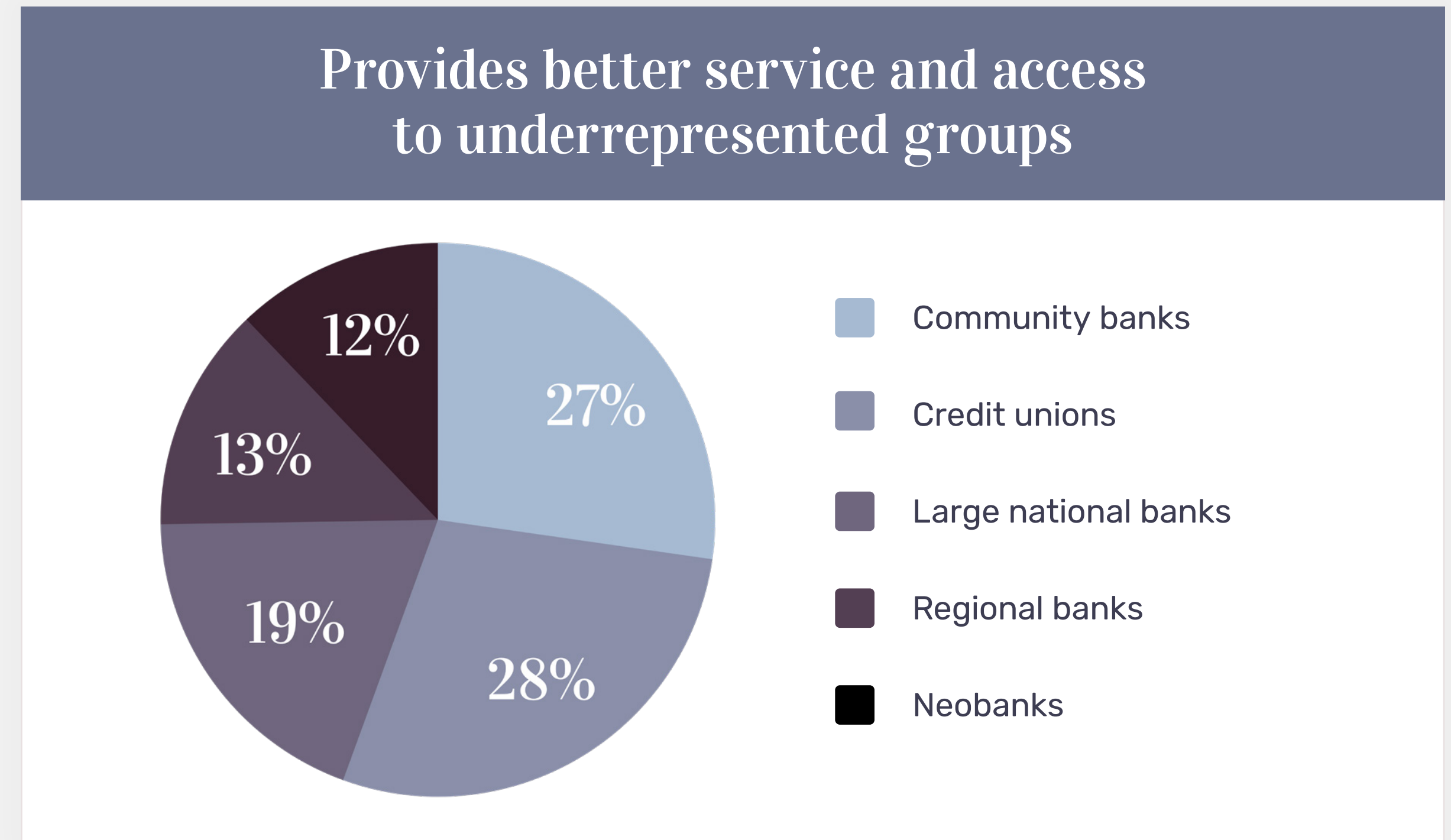


The growing importance of financial inclusion

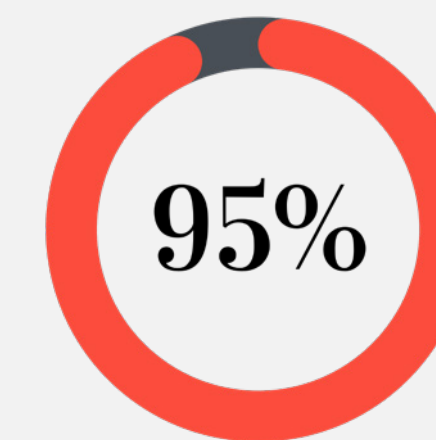
Consumers, bank executives and businesses emphasize the growing importance of providing access to financial services and financial inclusion, particularly among underserved communities. Half of bank executives (48%) said their primary banking benefit was providing financial inclusion for underserved communities and 90% of community banks and credit unions have or are planning on implementing a formal program for financial inclusion for underserved groups.

The study shows that these institutions are being recognized for these efforts: the majority of consumers (55%) said community banks and credit unions better serve and provide access to underrepresented communities over neobanks, regional banks or megabanks. Furthermore, one-fourth of community bank and credit union customers (23%) came to their institution after being underserved by a large national bank and 95% of community banks and credit unions have provided a loan for a small business denied by a large bank.

Four out of five SBOs said it is important that their bank serves underserved communities.



of community banks and credit union customers came to their institution after being underserved by a large national bank



of community banks and credit unions have provided a loan for a small business denied by a large bank

Non-white SBOs (38%) are more likely than white SBOs (26%) to say community banks and credit unions are more vital to the U.S. banking system than national banks—a big-picture statement backed by their individual experience. Non-white SBOs (44%) and Hispanic SBOs (48%) are more likely to say their bank was essential or a great help in surviving COVID-19 than their white (29%) or non-Hispanic counterparts (29%).

It's essential to these SBOs that their financial institutions continue this support. To non-white (77%) and Hispanic SBOs (69%), having a bank that supports underserved communities is more important than it is to their white (49%) or non-Hispanic colleagues (51%). Perhaps that's why they're significantly more likely to open a new account at a community bank or credit union in the next 12 months (70%, compared to 47% of white SBOs).

77%

of non-white SBOs believe it's important that their bank support underserved communities

70%

of non-white SBOs plan to open an account at a community bank or credit union in the next 12 months

Large national bank customers pay more in bank fees

Almost half (48%) of consumers listed low or no fees as their top banking need and 37% of consumers recognized lower rates and fees as a top-three benefit that community banks and credit unions provide. Community bank and credit union executives agree: 44% listed better rates and fees for their services as a top benefit.

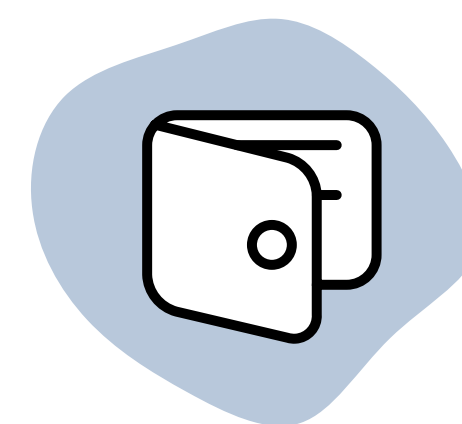
Almost half of consumers (47%) have not paid bank fees in the past year, whereas 16% of large national bank customers report paying \$200 or more in bank fees over the last 12 months. The average amount of bank fees paid in the last year is \$128.51 and, on average, community bank customers pay 42% less than large national bank customers in annual bank fees.

Interestingly, primary account holders at large national banks report the lowest levels of trust in their bank. More than one-third (34%) of large national bank customers said this is because these banks are only interested in maximizing profits (compared to just 18% at community banks and credit unions).



48%

of consumers listed low or no fees as their top banking need



47%

of consumers have not paid bank fees in the past year



42%

less paid in annual fees by community bank customers compared to national bank customers

The growing digital transformation gap

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Why community institutions are falling behind the digital transformation curve

Despite playing a leading role in the financial health of their local communities, community banks and credit unions are falling dangerously behind the digital transformation curve. An overwhelming 99% of community banks and credit unions admit they have not fully embraced digital banking. Executives list three primary reasons why: 45% lack the banking infrastructure to support it, 44% say leadership does not believe in digital banking and 44% reference concerns around security and risk.

More than three out of four community banks and credit unions (81%) rely on physical printed documents for operations like opening accounts, managing funds and record keeping, but bank executives still believe they have competitive digital services. Nearly half (45%) of community bank and credit union executives report their digital services are more convenient than big national banks, but consumers and business owners do not agree. Large national banks outranked community banks and credit unions for the most convenient banking services by both consumers (33%) and business owners (40%).

Top reasons local institutions have not adopted digital banking



Online account opening is now table stakes

Currently, 43% of community banks and credit unions do not offer online account opening for consumers and 47% do not offer online business account opening. However, more than half of consumers (58%) and SBOs (57%) will not do business with an institution that doesn't offer online account opening, regardless of whether they prefer to open an account online or in-person. When 48% of consumers and 50% of SBOs are likely to open an account at a community bank or credit union in the next 12 months, this will severely limit new customer acquisition, particularly among younger demographics and high-earning SBOs, for institutions that do not offer it. 73% of Millennials said they simply wouldn't use a bank or credit union that doesn't offer online account opening and 74% of Generation Z agreed. Notably, 77% of SBOs with over 50 employees and more than half of SBOs (59%) with \$1M to \$25M in revenue also require online account opening to do business.

Of the community banks and credit unions that do offer online account opening for businesses and consumers, 21% developed and launched the capability since the beginning of the COVID-19 pandemic.

The online account opening expectation gap



58%



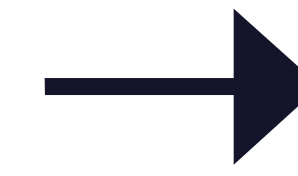
57%

of consumers say online account opening is a must-have

of community institutions offer it



57%



53%

of businesses say online account opening is a must-have

of community institutions offer it

The legacy infrastructure challenge

Bank executives listed legacy infrastructure as the primary reason they haven't adopted digital banking. When it comes to online account opening, legacy banking infrastructure remains a problem:

- 17% of community bank and credit union executives said offering consumer online account opening was impossible with their current banking infrastructure and expertise.
- 19% said offering online business account opening was impossible with their current banking infrastructure and expertise.

17%

of FI executives do not believe consumer account opening is possible with their current infrastructure

19%

of FI executives do not believe business account opening is possible with their current infrastructure

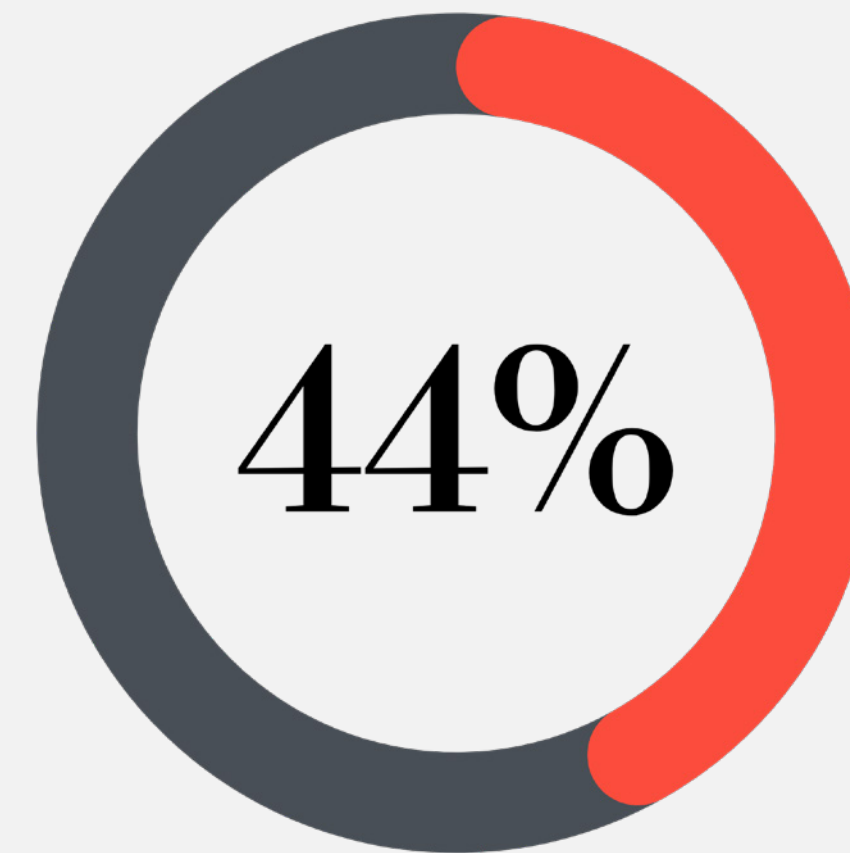
Online account opening: In-person vs. online

Increasingly, more consumers and small business owners are looking to open accounts online. Currently, 44% of consumers and 46% of business owners prefer to open an account online. For both audiences, that number increases with younger demographics:

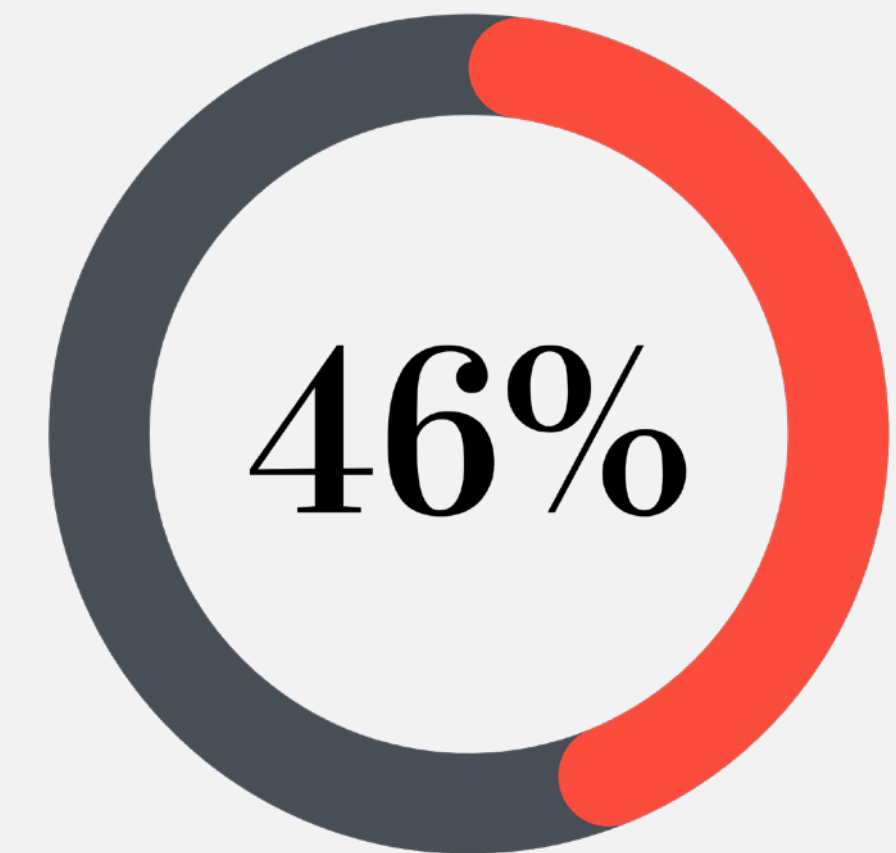
- **Gen Z:** 57% of consumers and 91% of SBOs prefer to open an account online
- **Millennial:** 60% of consumers and 55% of SBOs prefer to open an account online

The findings also indicated that the larger the business, the greater the demand for online account opening: 61% of businesses with 50 employees or more prefer to open an account online.

Despite the growing importance of online banking offerings, physical branch locations still carry weight with consumers. 41% of consumers listed physical locations near them as a top-three banking need.



of consumers
prefer to open an
account online



of business owners
prefer to open an
account online



Looking ahead: Digital transformation expectations, threats

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Advanced banking features expected by consumers and SBOs

Local institutions are falling short on a variety of consumer expectations for quick and convenient digital banking. For example, while 61% of consumers and 71% of SBOs expect their banks to offer mobile transfers and check deposits, just 51% of community banks and credit unions offer this.

The implementation of AI-enabled customer support and biometric and voice recognition rank lowest on both consumer and business banking expectations. They are also the least adopted of the advanced digital banking features, with only 39% of community banks and credit unions offering biometric or voice verification and 37% using AI-enabled customer support.

Despite the fact that consumers and SBOs do not expect banks to offer biometrics for account login or verification, fraud is still a concern. More than half of consumers (57%) and two-thirds of SBOs (67%) expect their bank to offer notifications for fraud and large purchases. Currently, only 45% of community banks and credit unions offer this.

	Expected by consumers	Expected by businesses	Offered by community FIs
Mobile transfers and check deposits	61%	71%	51%
Notifications for fraud, bills due, and large purchases	57%	65%	45%
Consumer online account opening	44%		57%
Business online account opening		50%	53%
Accounting and payment tools		49%	58%
Integration with payment apps like Venmo and Apple Pay	35%	47%	57%
Financial management tools for spending and budgeting	34%		50%
Cardless/mobile access to ATMs	28%	32%	50%
Peer-to-peer payment methods	25%		57%
Integration with point-of-sale systems		28%	51%
Biometric or voice verification		22%	39%
AI-enabled customer support		20%	37%

Consumers, SBOs are wary of neobanks

Neobank valuations continue to rise, but only 7% of consumers and 8% of businesses trust neobanks over a traditional bank. Neobanks also ranked lowest on providing personalized service, a positive impact to local communities, convenience and better access to underrepresented communities when compared to community banks, credit unions, regional banks and megabanks.

Furthermore, nearly two-thirds of bank executives (61%) observed an increase in fraudulent activity with accounts held at neobanks in the past 12 months.

What consumers say about neobanks (relative to other FIs):



More trustworthy



More personalized



More impactful in the community



More convenient



Better service for underrepresented groups

What businesses say about neobanks (relative to other FIs):



More trustworthy



Best one-to-one service for your business



More impactful in the community



Most convenient for business account holders



Most accommodating with business loans and fee scheduling

Consumers are cautious about FedAccounts as well

Consumers are also wary of the government's involvement in their finances. Lawmakers have proposed legislation around government-backed bank accounts, called FedAccounts, which would give consumers access to digital accounts held at the Federal Reserve that are accessible at bank branches and post offices.

However, nearly three-fourths of consumers (70%) trust a private banking institution over a government-run institution for their banking needs. Gen Z is most likely to trust a government-run institution, which aligns with the generation's willingness to embrace new ways of managing finances, like banking at a neobank.

70%

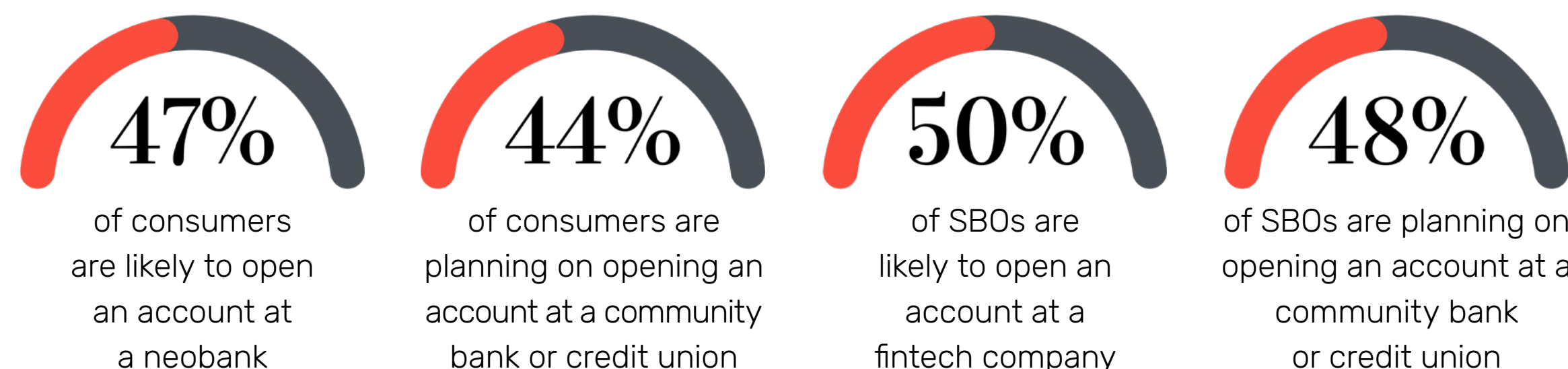
of consumers trust a private banking institution over a government-run institution for their banking needs

The 2022 account opening forecast

Despite low trust levels and fraud concerns, consumers and small business owners are still considering digital-only offerings. Nearly half of consumers (47%) are likely to open an account at a neobank in the next 12 months and 44% of small business owners are likely to open an account with a fintech company in the next 12 months. Meanwhile, 53% of consumer large national bank account holders are likely to open an account at a neobank in the next 12 months, compared to just 31% of community bank customers and 34% of credit union customers.

Small business owners (50%) and consumers (48%) are slightly more likely to open an account at a community bank or credit union in the next 12 months than at a neobank. A significant percentage of Millennial (73%) and Gen Z (82%) SBOs are considering opening an account at a community bank or credit union. Notably, more than half (53%) of big bank primary account holders are likely to open an account at a community bank or credit union in the next 12 months.

In the next 12 months...



Gen Z SBOs Are Likely to Open an Account at...



Conclusion

The need for modernization has been a macrotrend in the banking industry for decades as financial institutions attempt to keep pace with innovation. However, in today's digital-first banking landscape, it is now critical to an institution's long-term success.

Community banks and credit unions play an important role in the U.S. banking system and their value is widely recognized by consumers and small business owners. But the reputation they've built in the community and the benefits they provide—like superior customer service and low rates—could soon be eclipsed by the clear demand for digital banking experiences across every channel.

Looking ahead to 2022, community financial institutions must prioritize meeting consumers and businesses where they want to bank—whether in-branch, online or mobile. Community banks and credit unions that recognize these massive industry shifts and digitize accordingly will be in a better position to future-proof their institutions, connect with new audiences and reinvest in the long-term resilience of the communities they serve.

About MANTL

MANTL is a banking technology firm offering the leading account opening software. Our platform empowers regional and community banks and credit unions to grow up to 78% faster. These institutions play a critical role in our economy and we're passionate about preserving that. Founded in 2016, MANTL's customers have raised billions in core deposits to date. MANTL is a privately held company headquartered in New York with the backing of prominent venture capital investors.

Visit mantl.com or contact sales@mantl.com to learn more.

MANTL