Beyond the Paycheck Motel:

Strategic Imperatives for Community Banking

A Recap of Cornerstone Advisors' 2025 Research

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Introduction

Community financial institutions are hemorrhaging money, customers, and relevance.

Over $3 trillion in deposits have walked out the door in recent years, flowing into fintech-led investing platforms. Consumers are spending $25 billion annually on financial performance tools (credit monitoring, bill negotiation, subscription management) that their banks and credit unions should be providing but aren't. And the primary checking account? It's been reduced to a "paycheck motel": a brief stopover before money moves somewhere more valuable.

Meanwhile, satisfaction with mobile banking at traditional institutions has been falling for years, even as digital investment has surged. Younger generations are planning their exit. Nearly half of Gen Z and millennials intend to move their banking relationships to fintechs within the next twelve months. And when they go, they're not just moving one account. They're moving entire relationships: checking, savings, credit cards, and investments.

The gap between what executives think drives customer loyalty and what matters has never been wider or more expensive.

These findings from Cornerstone Advisors' 2025 commissioned research delve into three strategic imperatives that will determine which institutions thrive and which fade into irrelevance:

> **Part I: Strategies for Scale** addresses the existential threat to traditional deposit and lending models. With checking accounts becoming transactional pit stops and fintechs capturing investment relationships, community institutions must rethink growth entirely. Vertical and niche strategies offer a path forward, but only if executives abandon outdated assumptions about what "community banking" means.
>
> **Part II: Digital Channel as a Growth Engine** reframes digital banking from cost center to profit center. The $25 billion consumers are spending on fintech services represents a massive opportunity, but only for institutions willing to treat digital as a platform for new products, not just infrastructure for old ones. Those that don't will keep watching engagement and revenue slip away.
>
> **Part III: The Data Imperative** reveals why most AI and automation initiatives fail: financial institutions score an average 50 out of 100 on data maturity. Without clean, accessible, well-governed data, generative AI becomes expensive theater. Institutions that fix their data foundations now will unlock productivity gains that compound. Those that don't will burn budgets on pilots that never scale.

The research that follows provides the strategic context to guide your next moves. The choice of how and when to act is ultimately up to you.

Full versions of these studies are available at www.crnrstone.com/research/commissioned-research.

Happy Reading,

Elizabeth Gujral, Director
Ron Shevlin, Chief Research Officer

PART I:
Strategies for Scale

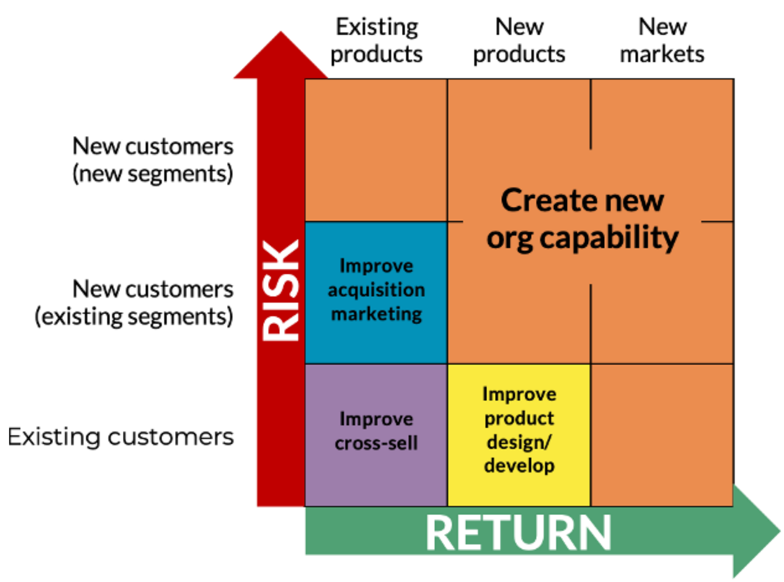
The New Growth Playbook: Vertical and Niche Strategies

Financial institutions are facing persistent headwinds in deposit growth, loan demand, and customer acquisition, and have been for a while. With interest-rate pressures straining margins, competition from fintechs and megabanks accelerating, and compliance costs consuming resources, traditional growth levers are losing effectiveness.

- **Raising deposit rates** to attract funds (now eroded by higher funding costs and fintech competition offering cash incentives).
- **Expanding branch networks** to capture local market share (harder to justify with high costs and declining branch traffic).
- **Conventional loan growth** through mortgages, auto, or small-business lending (dampened by higher interest rates and tighter credit demand).
- **M&A or consolidation** as a path to scale (increasingly slowed by regulatory hurdles).

Moreover, the traditional levers above won't deliver the growth community institutions that need to remain relevant. Instead, vertical and niche strategies offer a way to expand deposits, diversify risk, and differentiate in the market. Think of it as thinking in 3D (Figure 1)!

FIGURE 1:
The Growth Cube



Source: Cornerstone Advisors

Because a growth strategy isn't just about what a bank is selling and who they are selling it to. It is multidimensional. Long gone are the traditional days of “community” banking and growth requires a new perspective.

Cornerstone’s research reframes “community banking” as no longer defined by geography, because “community” has become an affinity- or niche-based construct. For instance, alumni networks, professional cohorts, and lifestyle segments now represent the modern communities where financial institutions can differentiate and grow with populations that are centered around what they have in common aside from where they live.

The study highlights niche strategies currently deployed at a select institution:

- **AlumniFi:** MSUFCU built a digital-only vertical brand for its 400,000+ Michigan State University alumni base. Instead of investing $5M in a new branch, the credit union launched AlumniFi, gathering low-cost deposits beyond its geographic footprint. This expansion provides growth while avoiding heavy fixed costs such as branches, boosting margins and freeing resources to reinvest in member experiences tailored to the challenges of recent graduates.

- **ROGER:** To serve military recruits, a group often underserved even by incumbents such as USAA and Navy Federal, Citizens Bank of Edmond launched ROGER. The brand’s differentiation came from solving practical problems: allowing under-18 recruits to open accounts and streamlining direct deposit onboarding for basic training. Within 20 months, ROGER grew to $50M in deposits. By targeting this community, Citizens not only grew but also diversified its base beyond its local Oklahoma City market.

- **Panacea Financial:** Founded by physicians, Panacea caters to early-career doctors with high student debt and thin credit histories, which are all too common among recently graduated students. Starting with tailored loan products, Panacea expanded into deposits and other services to deepen relationships. This niche approach and community capture a lucrative, high-quality customer segment. In essence, Panacea bet on young doctors as stable, high-income earners by addressing their unique financial pain points.

- **HUSTL:** Designed by Vantage West Credit Union for freelancers, solopreneurs, and gig workers, this niche strategy serves a fast-growing segment poorly served by general-purpose accounts. With features like invoicing tools and expense separation, HUSTL attracts new members nationally. Its digital-first design reduces the need for branch costs, improves margins, and focuses on the resilient gig economy to diversify Vantage West’s income sources beyond traditional wage earners.

Break Up With Old Growth Mindsets

It’s no easy task to get started, especially if change is already hard at an institution rooted in “this is how it has always been done”. So, to get started, consider these best practices for launching vertical and niche strategies:

1. **Product-Market Fit:** Don’t just market to a niche. Instead, design products and services around a niche’s specific needs.

2. **Accelerate with Partnerships:** Explore the use of sidecar cores and cloud-native providers to launch in months, not years.

3. **Start Lean, Then Scale:** Soft launch to test and refine, then expand aggressively once product fit is validated.

4. **Keep Brands Separate:** Vertical brands need their own identity, culture, and operations to thrive. They cannot get bogged down by traditional bureaucracy. They need to exist in an environment where they can think like a startup but have the security of a regulated institution.

5. **Design for Digital Beyond Mobile:** The technology required is not as simple as just building a new app. Niche strategies require full digital ecosystems, including websites, tailored SEO-ready content, digital service channels.

Ultimately, the report positions vertical and niche strategies as more than defensive plays. They are innovation labs that allow community institutions to experiment, learn, and extend their reach into new customer bases without diluting their core brand. By pursuing affinity-driven growth, banks and credit unions can build sticky relationships, deepen engagement, and secure more sustainable margins in an increasingly competitive market.

Billions Lost: The Cost of Bankers' Myths about Americans' Finances

For decades, many bankers have relied on conventional wisdom about consumer behavior to guide strategy. But as Cornerstone Advisors' research shows, those long-held beliefs are not just outdated, they are expensive misunderstandings that bankers are clinging to that are costing them billions in lost revenue.

Based on a survey of 2,500 U.S. adults, the report quantifies five persistent myths leading to the billions lost:

Myth #1: Direct Deposit is Key to Banking Relationships

In fact, the data shows otherwise. Many consumers have multiple checking accounts, and more than half do not cite direct deposit as the reason for choosing their primary account. Gen Zers and millennials often assign primary status based on financial health tools, credit management, or digital experience. Where their paycheck lands does not matter as much, and as mentioned in other Cornerstone research, have simply become "paycheck motels" where funds are deposited but quickly siphoned away to invest, to other savings accounts, to loan payments, to bills, and so on.

Myth #2: Fintech Deteriorates Bank and Credit Union Relationships.

In reality, consumers use fintech apps to complement their bank relationships. 41% of Gen Zers and 34% of millennials say fintech usage actually increases their engagement with banks and credit unions. Rather than eroding loyalty, fintech adoption can drive deeper relationships when paired with traditional accounts. Fintech complements, not cannibalizes.

Myth #3: Financial Health = Education + Literacy

Financial education alone isn't moving the needle and financial health is so much more than education. Consumers want tools that actively improve financial performance. For instance, credit building tools, bill negotiation, subscription management, and identity protection. In fact, they are already paying fintechs for these services, signaling that financial institutions should explore embedding these tools into their digital banking systems to support the financial health of their customers.

Myth #4: Young Consumers Get All Their Financial Advice from TikTok

Wrong! Parents remain the leading source of financial advice for Gen Zers and millennials, followed by social media. Even TikTok is not the most widely used platform for financial advice; the award actually goes to YouTube for all generations thanks to its combination of "shorts", short videos, and array of long-format videos available for educational purposes. TikTok is still important but is not the end all be all.

Myth #5: No One Pays for Fintech

Consumers spent nearly $25 billion on fintech products and subscriptions in 2024, which was a whopping 86% increase since 2021. Gen Zers and millennials drive the majority of this spend, but older generations (Gen X and baby boomers) are catching up. Services like credit score monitoring, subscription management, and bill negotiation are now mainstream and monetized.

Recouping the Billions Lost

For banks and credit unions, the takeaway is urgent: stop believing the myths and start redesigning product experiences to recapture some of the billions siphoned away to fintechs. The fact that consumers are willing to pay for fintech tools means that there is a substantial opportunity for financial institutions to integrate financial performance tools into their delivery, especially when bundled with their primary accounts. And again, this isn't just a strategy for younger consumers. It will work for Gen X and baby boomers as well to a degree. (Table A).

TABLE A:
Potential Recouped Revenue

Potential Recouped Revenue ($ in millions)

	Gen Z	Millennial	Gen X	Baby Boomer	TOTAL
Credit score management	$591	$386	$107	$12	$1,097
Subscription management	$152	$116	$13	$3	$284
Bill management	$148	$82	$13	$1	$243
TOTAL	**$890**	**$584**	**$133**	**$16**	**$1,624**

Source: Cornerstone Advisors

The path forward is paved with product innovation, pricing creativity, and fintech partnerships that put real financial performance tools at the center of the customer relationship.

Stemming the Deposit Outflow: The $2 Trillion Investing Opportunity for Banks and Credit Unions

Financial institutions are facing a mounting challenge: trillions of dollars in deposits are flowing out of traditional checking accounts and into fintech-led savings and investment platforms. Cornerstone Advisors' research estimates that more than $3 trillion has shifted away from financial institutions in recent years, with Gen X and baby boomers driving 65% of the trillions in outflow, highlighting the fact that this is not just a challenge with Gen Z and millennial customers (Table B).

TABLE B:
Deposit outflow to Fintech Investment Accounts

Deposit Outflow to Fintech Investment Accounts ($ in billions)

	Gen Z	Millennial	Gen X	Boomer	TOTAL
Megabanks	$276.6	$544.0	$245.1	$215.8	**$1,281.6**
Regional banks	$172.7	$272.6	$179.1	$188.2	**$812.6**
Community FIs	$10.8	$10.3	$16.2	$22.9	**$60.2**
TOTAL DEPOSIT OUTFLOW	**$460.1**	**$826.9**	**$440.4**	**$426.9**	**$2,154.4**

Source: Cornerstone Advisors

With so much flowing out as soon as direct deposit hit, one could say that today's checking accounts have become "paycheck motels". In other words, temporary stops for money before it moves on to better alternatives. Consumers give their primary checking accounts a lukewarm 7.8 out of 10 value rating, with younger generations even less impressed. In fact, more than one-third of Gen Zers and 40% of millennials say they'd be very likely to switch providers if offered a better option.

But what constitutes a better account? Cornerstone tested three hypothetical offerings:

1. A bundled account with credit score management, subscription management, and bill negotiation services.
2. A checking account integrated directly with investing tools.
3. A checking account that rewards transfers into investment accounts.

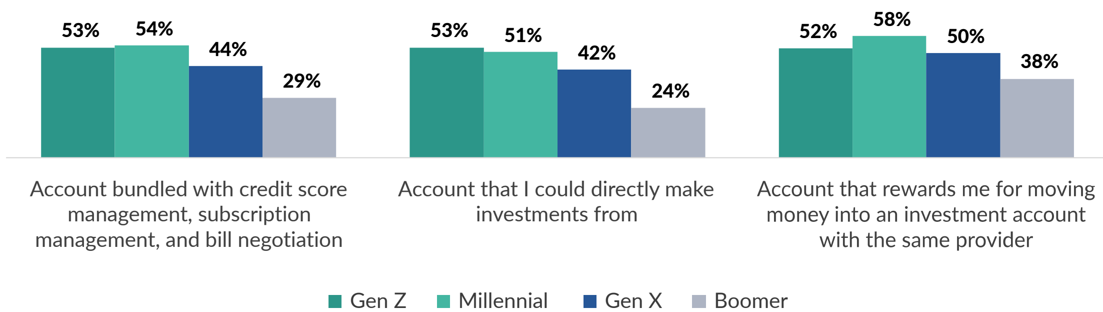
The results: younger generations see greater value in checking accounts that integrate investing and financial management features. More than half of Gen Z and millennials said they would prefer accounts that either bundled tools like credit score and subscription management, allow them to invest directly from checking, or reward them for moving money into investment accounts. In contrast, Gen X and especially boomers were less likely to view these enhanced accounts as better than they already have. So, while older consumers may be content with traditional checking, younger consumers are signaling a strong appetite for accounts that connect day-to-day banking with wealth-building and money-management capabilities. (Figure 2)

FIGURE 2:

Value Ratings of Hypothetical Checking Account Offerings

How do these hypothetical checking account descriptions compare in value to your current primary checking (or debit card) account?

(% who responded "a better value")



Source: Cornerstone Advisors

This outflow represents a $2 trillion wakeup call. Consumers are moving their money away from their checking accounts, or "paycheck motels", to gain more value on their money. But hope is not lost, as community financial institutions can recapture a meaningful share of wallet by investing in what their customers view a "better":

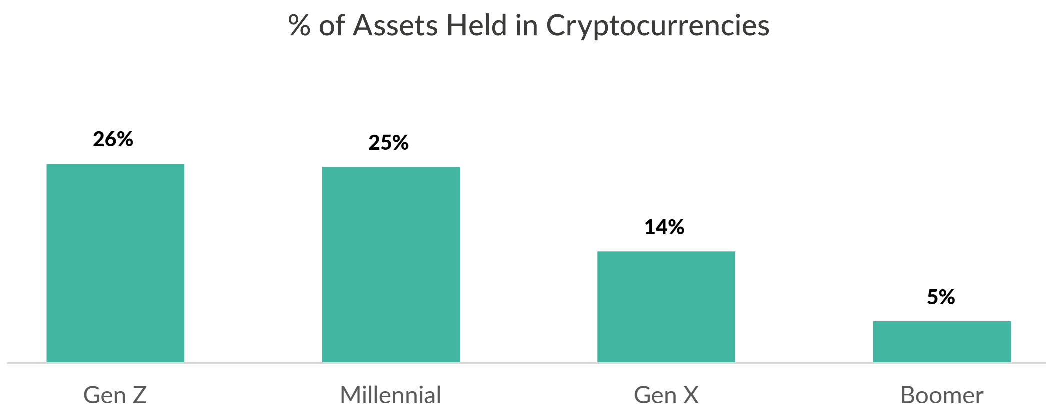
- Embedding investing options directly into checking accounts.
- Providing education and tools for young non-investors, many of whom have the savings to begin but lack guidance.
- Redesigning traditional "motel" checking accounts and integrating value-added services like investing, credit score monitoring, and subscription and bill management.

Reclaiming even a third of lost deposits is realistic, provided financial institutions move quickly to innovate beyond the basic accounts offered today. To compete, they must look beyond rate wars and adopt new product strategies that meet consumers where they already expect to manage and grow their money.

Don't Forget About Crypto

Cryptocurrencies represent a significant portion of younger investors' portfolios, with Gen Z and millennials holding about a quarter of their assets in crypto and planning to continue investing (Figure 3).

FIGURE 3:
Assets Held in Cryptocurrencies by Generation



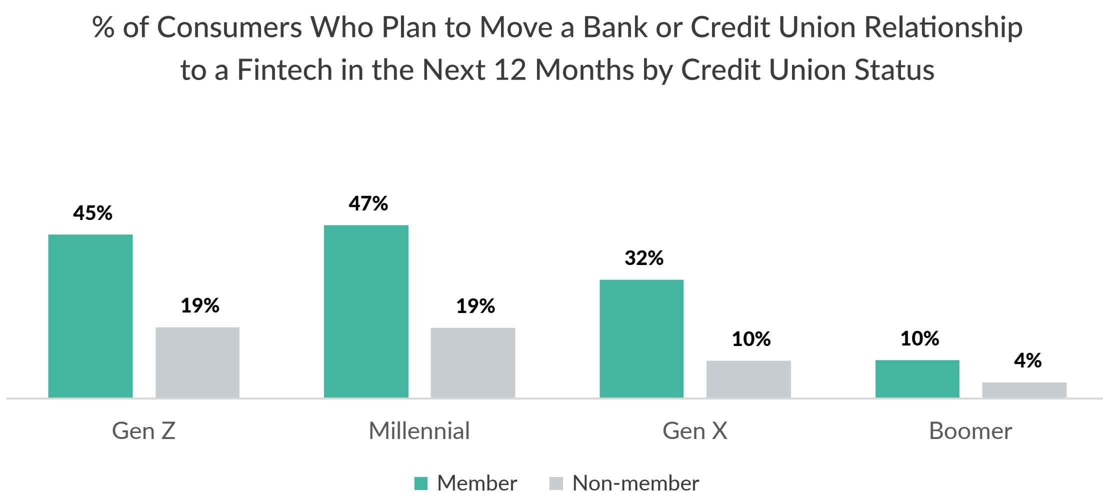
Source: Cornerstone Advisors

This isn't a fringe behavior. For a fifth of younger investors, crypto exchanges were their introduction to investing entirely. They see crypto as an opportunity to capture outsized returns quickly, accepting higher volatility as a trade-off for potential growth. For institutions looking to recapture investment relationships, understanding crypto's role in younger portfolios isn't optional—it's essential context for designing relevant solutions.

When Deposits Walk, Relationships Follow

Especially for younger consumers, investing is quickly becoming the centerpiece of their financial relationship. Nearly half of Gen Z and millennials are already investors, and just under half of those generations plan to move from a bank or credit union relationship to a fintech in the next twelve months. And once those new accounts are established, consumers often add savings, checking, and even credit cards with the same provider, pulling entire relationships out of the traditional banking ecosystem (Figure 4).

FIGURE 4:
Plans to Move banking Accounts to Fintechs



Source: Cornerstone Advisors

All in all, community financial institutions risk losing primacy of the checking, savings, and lending relationships that have historically anchored community banks and credit unions. If they don't act, customers will keep migrating to platforms that combine everyday banking with wealth-building tools. The opportunity is right in front of executives: designing products that make it simple to invest directly from checking, rewarding deposits that flow into investments, and bundle in tools that improve financial performance. Without those options, customers will find them somewhere else.

Monetizing Faster Payments

The 2023 launch of FedNow brought instant payments into the mainstream, with nearly three-quarters of demand deposits now enabled for real-time transfers. Yet most banks and credit unions remain in receive-only mode, viewing faster payments as a cost of doing business rather than a revenue opportunity. Our research found that only 11% of institutions believe commercial faster payments will become a revenue-generating profit center in the next three years, dropping to just 6% for retail instant payments.

This research challenges pessimism. Monetization opportunity exists, but it requires a fundamental shift in thinking. Businesses and consumers don't want "faster payments" - they want solutions to cash management challenges, reconciliation headaches, and payment processing inefficiencies. Faster payments can solve those problems, and banks that design the right products around these problems can capture meaningful revenue.

Realizing the Opportunity

So where are the real monetization opportunities hiding? It's not in charging consumers for speed, but rather in solving the deeper pain points businesses and households face around payments. From billers frustrated by reconciliation delays to employees struggling with rigid payroll cycles, faster payments can be embedded into products and workflows that customers already value and are willing to pay for.

The true opportunity for financial institutions lies in reframing faster payments not as a payment rail, but as the foundation for new services that improve cash flow, reduce costs, and deliver convenience:

- **Bill Payment Modernization:** QR code-enabled bill payments let customers scan and pay instantly while embedding remittance data for automated reconciliation. Billers save on float and avoid 2.5-3% card fees, creating willingness to pay transaction fees. One California credit union helped a local utility embed FedNow-enabled QR codes on bills, earning 1% of the bill amount while the payer's bank earned $0.20 per origination. The utility achieved 40% savings compared to card fees while improving cash flow and reducing delinquencies.

- **Payroll and Workforce Payments:** Traditional payroll cycles force employees into payday loans or overdrafts while waiting for wages. Instant payments enable on-demand pay, instant reimbursements, and emergency off-cycle payroll. Banks can monetize through partnerships with payroll processors (sharing fees for earned wage access) or by offering "instant payroll" modules to business customers. The key insight: with current interest rates, float revenue from holding payroll for a day or two is minimal, making conversion to transparent fee models economically viable.

- **B2B Supplier Payments:** Businesses spend heavily expediting supplier payments through couriers, wires, or same-day ACH. Instant payments eliminate those costs while enabling just-in-time payment strategies that optimize working capital. Banks can charge per-transaction fees ($1-2 for business accounts) or bundle instant payments into tiered treasury packages. One midwestern bank replaced costly courier runs for manufacturing clients with a $5 instant-pay service that paid for itself within months.

- **Corporate Treasury and Liquidity Management:** Traditional payment cycles force treasurers to maintain idle balances and predict cash needs a day in advance. Instant payments enable real-time cash concentration, intra-day liquidity optimization, and last-minute payments outside normal banking hours. Revenue models include fees for instant sweep services, extended-hours service level agreements, or new intraday credit products backed by guaranteed incoming instant payments. A California community bank charges $10 for commercial accounts, enabling clients like local governments to make emergency weekend payments that prevent service disruptions.

From Infrastructure to Product

The critical shift is from viewing faster payments as infrastructure to treating them as the foundation for new services. This requires:

- **Workflow integration, not just speed:** Build products that solve complete workflows such as invoicing, payment, reconciliation rather than just moving money faster. A "real-time accounts payable" portal that generates instant payments with remittance data and updates accounting records creates far more value than a standalone instant payment option.

- **Industry-specific solutions:** Different verticals have distinct pain points. Restaurants need instant tip payouts and rapid merchant settlements. Healthcare organizations need instant claims reimbursement. Property managers need integrated rent collection with instant vendor payments. Logistics companies need proof-of-delivery triggers that initiate instant payments. Tailoring offerings to these needs creates differentiation and pricing power.

- **Clear packaging and pricing:** Name and package solutions to convey benefits rather than rails. "SpeedPay 24/7" or "Instant Payroll" communicate better value than "FedNow enabled." Transparent pricing that replaces float economics works when the value proposition is clear.

- **System integration:** Solutions must integrate with existing accounting and ERP systems through APIs or simple file import/export. Customers won't adopt instant payments that require manual processes.

Strategic Implication to Keep in Mind

Financial institutions face a choice: productize faster payments now and capture revenue or wait and watch fintechs and payment processors build valuable services while banks become commoditized rails. The window for first-mover advantage is closing as standardization efforts like payment QR codes lower barriers to entry.

Success requires investment in product development, not just payment infrastructure. Institutions should identify which customer segments have the highest pain around payment timing, map those pain points to specific use cases, and design integrated solutions that make instant payments a natural part of solving bigger problems. The revenue opportunity is real, but it won't materialize from simply enabling a new payment rail.

The Fraud Experience: A Key Banking Relationship Differentiator

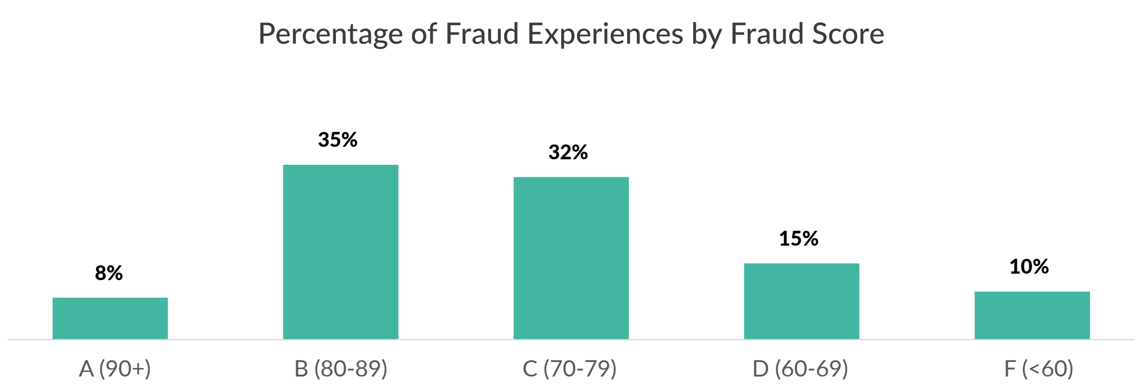
Payment fraud is rising rapidly, but financial institutions don't need more statistics confirming the problem. Cornerstone Advisors' research takes a different approach: proving the importance and impact of the fraud resolution experience on consumers' banking relationships and demonstrating that small improvements in the process can have significant effects on customer behaviors, attitudes, and relationships.

Cornerstone surveyed more than 2,000 Americans who experienced fraudulent activity on their payment cards in the past five years. The research created a 100-point assessment methodology that evaluated respondents' fraud experiences across five components: 1) fraud identification or detection, 2) provisional credit issuance, 3) investigation and documentation collection, 4) final decision and resolution, and 5) quality of communication.

The Fraud Experience Scorecard

The overall average score across all respondents was 76 out of 100. Just 8% of fraud resolution experiences received an A score, 35% were graded a B, 32% a C, and the remaining 25% were rated a D or F. Fraud identification/detection and the decision/resolution components were rated the strongest. Providing provisional credit and the investigation/data collection processes received the lowest average scores (Figure 5).

FIGURE 5:
Fraud Scores



Source: Cornerstone Advisors

American Express captured the top rating with an average score of 80.2, with 17% of its cardholders rating their fraud experience an A. At the bottom were Citibank and Chime, where nearly 1 in 5 Chime customers rated their experience an F, and 52% of Citibank cardholders rated their experience a C or D.

Shades of Gray with Major Implications

The research methodology rewarded providers who provided a "very" easy process with "very" clear information in a "very" fast timeframe and penalized those who only provided a "somewhat" good process. These differences might feel like shades of gray, but they have strong implications on cardholders' behaviors and attitudes.

Among consumers who rated their fraud experience an A, 87% said it made them much more confident in their provider's ability to protect their account. That percentage dropped to 79% among those who graded their experience a B and to 55% among those rating it a C. Nearly 4 in 10 consumers who rated their fraud experience an A use the card more frequently following the experience, compared to 20% who rated their experience a B and 12% who rated it a C.

Eight in 10 consumers who rated their fraud experience an A said it improved their likelihood of obtaining more products or services from the provider, compared to 59% who rated their experience a B and 39% who rated their experience a C. Overall, 83% of consumers who rated their fraud experience an A said it strengthened their relationship with the provider, in contrast to 69% who rated their experience a B and 46% who rated it a C.

The Technology Gap

Financial institutions have limited room to improve the results of the fraud process (charges are reversed in 94% of cases), and they're already working diligently to improve fraud identification and detection. The real improvement opportunities lie in investigation/data collection and communication. Card issuers can enhance the fraud experience by offering real-time status updates, self-service portals, and capabilities that enable cardholders to upload documents digitally.

The study found that just over half of cardholders indicated that real-time status updates helped improve their fraud resolution experience, but nearly a third said the capability wasn't available. A quarter of respondents said a self-service app or website improved their experience, but nearly 6 in 10 said it wasn't available. The ability to upload documentation wasn't an option for 82% of respondents.

From Cost Center to Competitive Advantage

The results are clear. The better the fraud resolution experience, the more confident cardholders are in issuers' ability to deal with fraud, the more cardholders will use the card, and the more likely they are to do more business with an issuer. Technology enhancements in investigation/data collection and communication could mean the difference between A and B grades and directly impact card use and relationship growth. The fraud experience isn't just a cost of doing business. It's a competitive differentiator that drives customer loyalty, card usage, and cross-sell opportunities.

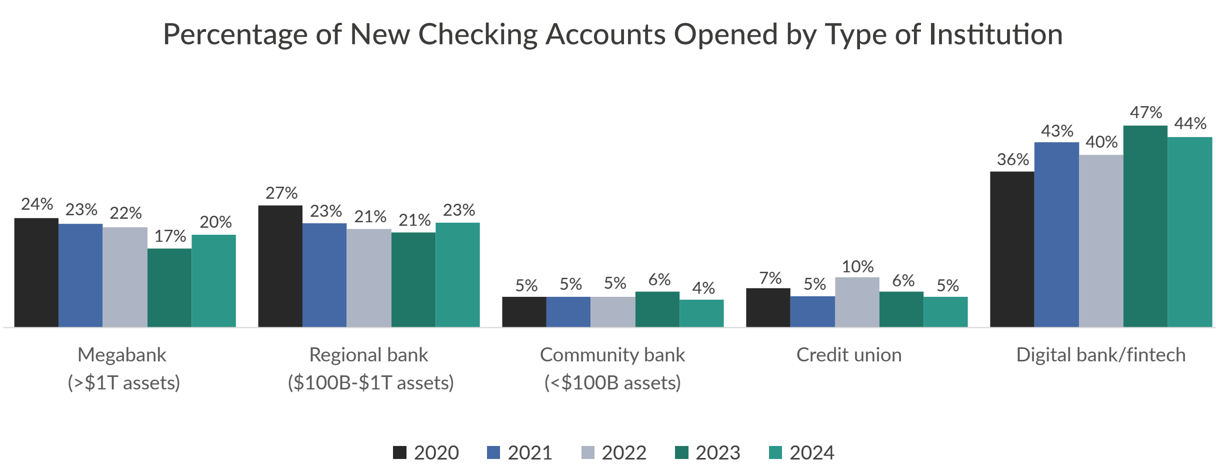
PART II:

Digital Channel as a Growth Engine

2025 Digital Banking Performance Metrics

Community banks and credit unions captured only 9% of new checking accounts opened in 2024. Let that sink in. Despite billions invested in digital banking platforms, despite countless branch renovations and marketing campaigns, the vast majority of consumers chose megabanks, neobanks, and fintechs instead (Figure 6):

FIGURE 6:
New Checking Accounts Opened by Institution



Source: Cornerstone Advisors

Now in its 6th edition, the 2025 Digital Banking Performance Metrics Report explores operational metrics from banks and credit unions with assets of $300M to $46B. It provides one of the industry's most comprehensive sets of digital banking benchmarks, and this year's edition revealed an uncomfortable truth: the industry has reached digital parity while struggling with product competitiveness.

Back in 2020, Cornerstone asked: "Do high-performing financial institutions excel in digital banking?" The answer then was a definite "yes." There was a clear gap between high performers and low performers based on corporate financial data. That gap has narrowed every year since. By 2025, the gap became so narrow that Cornerstone revamped its benchmarking approach to simply show median, 25th, and 75th percentiles overall.

Why is this happening? Cornerstone proposes two likely scenarios:

- **Low-performing institutions have "caught up"** by finally investing in digital platforms that meet basic customer expectations. The deployed-to-planned ratio for digital banking platforms has increased over the past three years, showing an uptick in institutions actually implementing new systems after saying they would.

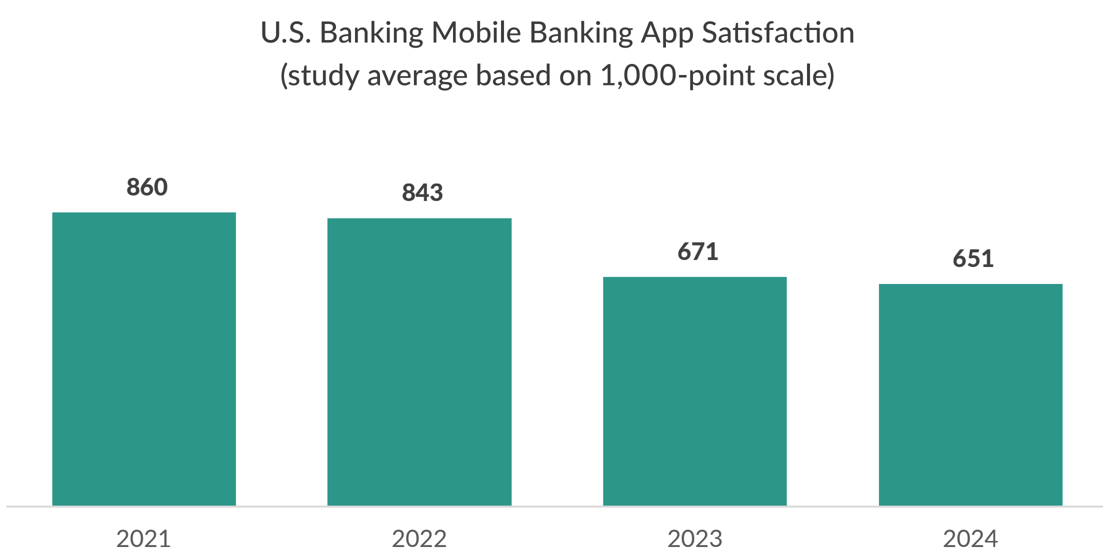
- **Financial institutions have a product problem.** Community institutions continue positioning their accounts as little more than "paycheck motels," with limited strategies to attract or retain customers through financial incentives or ancillary services. Without rethinking product strategy, digital investment alone will not reverse the trend.

The 9% market share for new accounts should be ringing alarm bells in every boardroom. Digital parity means the playing field is level. What happens on that field now depends entirely on whether institutions can offer products consumers actually want.

The Next Generation Digital Banking Platform

Despite years of investment, most digital banking platforms have hit a wall. Consumers still check balances and pay bills through their banks, but fintechs and merchant apps dominate payments, subscriptions, and financial management. The impact of fintech and the complacency of digital banking shows. Satisfaction levels of mobile banking at traditional financial institutions has been declining (Figure 7).

FIGURE 7:
Mobile Banking Satisfaction



Source: JD Power

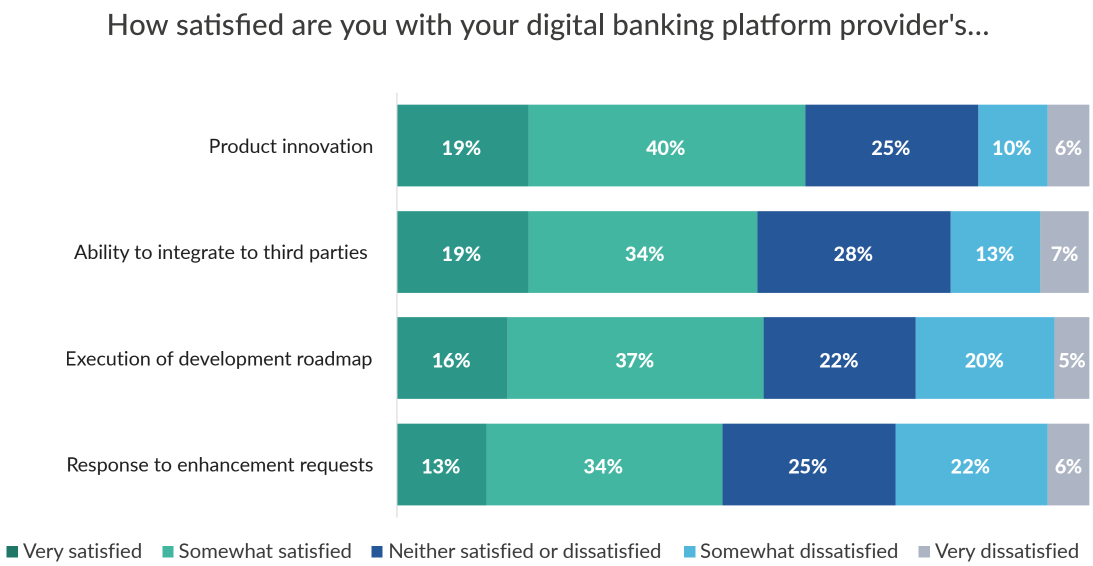
To understand what is going on, Cornerstone interviewed executives at leading community-based financial institutions about their digital banking challenges and unearthed core limitations of today's platforms that demonstrate that today's digital banking platforms have hit a wall, and it's time for a refresh.

Digital Banking Has Hit a Wall

Only half of bankers are satisfied with their provider's ability to integrate with third parties, execute on development roadmaps and respond to enhancement requests. This leaves financial institutions unable to innovate or differentiate quickly, because their digital banking vendors are an immovable barrier to change (Figure 8).

FIGURE 8:

Satisfaction with Digital Banking Providers



Source: Cornerstone Advisors

That limitations of today's platforms stem from the fact that they aren't keeping up with integration, personalization, and financial performance expectations:

- **The Integration Challenge:** Executives reported that integration remains the most acute barrier in digital banking platforms. Financial institutions struggle with connecting disparate systems, especially legacy technologies acquired from acquisitions. This is leading to poor user experience and operational inefficiencies that are hard to unravel. Many have turned to third-party middleware or APIs to bridge the gap, but this only introduces further complexity and inconsistency. And because three-quarters of bankers see fintech partnerships as key to growth, weak integration directly slows the ability to innovate, differentiate, and bring new customer-facing solutions to market.

- **The Personalization Challenge:** Despite years of investment and buzzwords, most digital banking platforms fall short of delivering experiences that feel truly personalized to individual users. As one credit union executive noted, the experience "doesn't reflect members' needs and wants." Without fixing personalization, institutions risk losing relevance to fintechs and big tech firms that are already shaping expectations for individualized financial journeys.

- **The Financial Performance Challenge:** Satisfaction with digital banking has been falling, not because platforms can't handle transactions, but because they fail to help consumers improve their financial lives. People want access to tools that can help them boost their credit, negotiate bills, cancel unwanted subscriptions, or manage debt. However, instead of relying on their bank or credit union, consumers are more and more turning to fintechs for these services. Digital banking is more than checking balances and paying bills, and bankers stay stuck in that old fashioned mindset, they will continue to cede engagement and loyalty of their customers to the more innovative and adaptive competitors. Digital banking vendors must help their financial institution partners position themselves as the true partners in customer delivery and performance.

The Playbook for Next-Gen Platforms

So, what should digital banking vendors do and what should bank executives expect from them moving forward to solve these challenges? Well, they need to deliver three essential capabilities.

First, they must embed an application integration layer. Today's reliance on messy middleware and inconsistent APIs has left most institutions struggling to connect legacy systems and innovate at speed. By building developer portals and app marketplaces directly into the platform, banks and credit unions will finally be able to achieve plug-and-play fintech integration and bring new solutions to market faster.

Second, next-gen platforms must harness embedded AI. Moving beyond static menus and clicks, digital banking will evolve to use conversational AI and agent-based models that analyze transactions, surface insights, and even execute workflows autonomously. This shift opens the door to highly practical use cases: an AI assistant that flags a forgotten subscription, negotiates a utility bill, or constructs a personalized financial plan on demand.

Finally, the platform must act as an employee workstation. Rather than serving only customer interactions, the next-gen digital banking platform will become the central hub for insights and campaign execution. By giving staff direct access to segmentation, product configuration, and marketing tools, the platform will allow institutions to test, learn, and launch in days rather than waiting on IT bottlenecks.

Realizing the Promise

Remember, achieving this transformation is about reframing digital as infrastructure for the business strategy itself. It requires strategic clarity around which customer segments to serve and how to serve them. It also demands new organizational structures that align digital with marketing, data, and product design, ensuring that digital is treated as a core business function rather than just a channel. Just as important, institutions will need better data governance to ensure AI delivers accurate and actionable insights, and a new model of fintech partnerships that emphasize shared value creation rather than vendor contracts alone.

The bottom line: today's digital banking platforms provide access to accounts. Tomorrow's platforms will define what makes an institution different and ultimately whether it can remain relevant in a marketplace where consumers' expectations are being set by fintechs, big tech, and digital-first competitors.

It's time for a digital refresh.

The Digital Banking Channel: Making it a Profit Center

For too long, financial institutions have treated their digital channels as cost centers and simply as infrastructure necessary to serve customers instead of engines to fuel growth. That mindset no longer fits the realities of consumer behavior, fintech competition, and revenue pressures. Cornerstone's research makes the case for reframing digital banking as a profit center, one that is a critical $25 billion revenue opportunity.

Unfortunately, this shift is being resisted by executives who argue that digital is “just infrastructure,” that customers expect it for free, or that attributing revenue to digital creates conflicts internally. However, when digital is only managed as a cost center, revenue opportunities are consistently de-prioritized and pushed to the wayside. The “just infrastructure” mentality is costing financial institutions more than they realize

Now, the recommended path forward is not to monetize access to digital banking itself, but to treat digital as a platform to encourage new financial products and services adoption. Consumers already spend billions on fintech services like credit score management, subscription tracking, bill negotiation, and identity protection and many are “very interested” in getting these features from their financial institution, even with fees attached (Table C).

TABLE C:

Interest in Getting Digital Financial Services from Financial Institutions

Percentage of consumers “very interested” in getting the following services from a bank or credit union if they were bundled, for a fee, with a checking or payment account

	Gen Z	Millennial	Gen X	Boomer
Identity theft protection	40%	37%	31%	21%
Credit builder/reporting	38%	31%	21%	10%
Data breach protection	37%	33%	23%	17%
Personal info removal	35%	33%	23%	13%
Debt management service	33%	27%	18%	7%
Subscription management	33%	29%	15%	9%
Bill analysis/negotiation service	32%	26%	14%	6%

Source: Cornerstone Advisors

However, transformation “digital” into a profit center isn’t as easy as it looks, requires focus on revenue-generating digital products, and requires a financial institution to measure profit-contribution.

The last one is often the hardest to achieve. Profit contribution means moving beyond top-line metrics (number of accounts, balances, transaction volume) to assess how much net profitability each customer, product, or channel generates after allocating all associated costs. A digitally engaged customer with moderate balances but high use of fee-based services may deliver far higher profit contribution than a high-deposit customer who rarely engages. Without this measurement discipline, institutions can't identify which digital investments drive bottom-line results.

Concretely, *profit contribution* is about:

- Revenue generated: fees, interchange income, interest margin, etc.
- Costs allocated: servicing, acquisition, operational costs, technology, risk, etc.
- Net contribution: the difference, which shows whether a customer/product/channel is *adding to the bottom line* or otherwise eroding it.

For example:

- A high-deposit customer might look *valuable* but if their funds are all sitting in low-yield savings and they rarely engage with fee-based services, their profit contribution could be low.
- Conversely, a digitally engaged customer with moderate balances but high use of credit, payments, and cross-sold services might deliver a much higher profit contribution.

The takeaway is clear: digital banking is more than back-end plumbing with a customer-facing interface. Consumers are already signaling their willingness to pay for digital add-ons that improve their financial lives, and fintechs are capturing that revenue. To compete, institutions must establish dedicated digital product teams, treat digital as a platform for profitable services, and adopt profit contribution metrics that move beyond counting logins or balances. The $25 billion opportunity is there. The question is whether traditional institutions will seize it or surrender it entirely to fintechs.

PART III:
The Data Imperative

Improving your FI's Data IQ

Every financial institution wants to be "data driven." Yet, in Cornerstone Advisors' survey of 128 FI executives, there is a stark gap between ambition and execution. On average, institutions scored an average 50 out of 100 on a Data IQ assessment, which means their ability to acquire, manage, and use data is barely halfway to where it needs to be.

But executives know that, and they don't need another lecture from a consultant, a vendor, or their board on "data". They know they struggle with data maturity, strategy, governance, quality and actionable use of data (Figure 9).

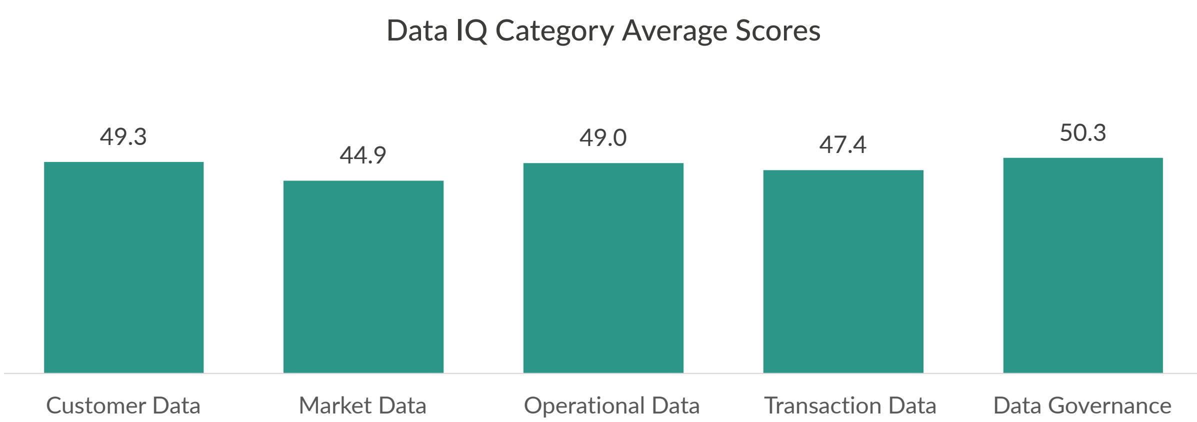
FIGURE 9:
Data Effectiveness

Source: Cornerstone Advisors

So the real question is why bankers believe their institutions are falling short.

Cornerstone identified 50 attributes across five categories in the survey to understand an institution's "data IQ": 1) Customer Data, 2) Market Data, 3) Operational Data, 4) Transaction Data, and 5) Data Governance. Bank and credit union execs rated their FIs' abilities in each attribute on a five-point scale: 1) Not done and/or with no capability, 2) Done infrequently and/or with insufficient capability, 3) Minimum level of capability, 4) Good level of capability with room for improvement, and 5) Consistently high level of capability (Figure 10):

FIGURE 10:
Data IQ Scores by Category



Source: Cornerstone Advisors

Overall, responses show that tech stacks are fragmented, org structures are siloed, and too many executives avoid the responsibility of data—even though they know that it's not just for the CIO to worry about. Weaknesses have been tolerated because things are still up and running and as a result, fixing it slips down the never-ending list of things to do.

What To Learn from High Data IQ Institutions

Cornerstone segmented the survey data into high, middle, and low performers based on their Data IQ scores to understand what sets them apart. Was it the tools they use, was it their internal culture or level of governance? The answer was more nuanced and high data IQ institutions are more likely to:

- **Review the data strategy regularly.** Nearly two-thirds of high performers did so, compared with just 7% of low performers.
- **Make data a driver of strategic decisions.** Three-quarters of leaders said data guided strategic choices, versus none of the low performers.
- **Treat data as a strategic asset.** 94% of high performers, compared to only 10% of low performers, recognized data's role in supporting core mission and goals.
- **Foster a culture around data.** More than half of high performers had embedded a "data culture" across their workforce, while zero low performers had done so.
- **Maintain real-time, clean data.** Nearly half of leaders reported real-time, high-quality data across the organization, versus just 5% of low performers.

What this tells executives is that having a high data IQ is as much about governance and leadership as it is about infrastructure. Institutions that elevate data beyond IT and make it enterprise-wide issues are the ones gaining competitive advantage. With AI adoption accelerating too, poor data is becoming a serious business problem, and not just an operational nuisance. Banks risk falling further and further behind.

Increasing the Data IQ

The path to higher data IQ isn't about building massive warehouses or hiring an army of expensive data scientists. Cornerstone's research stresses that the real shift is cultural and strategic and recommends following a few critical practices:

- **Treat data strategy as a C-suite responsibility.** Every executive must understand and enforce good data design and governance.
- **Design for outcomes.** Start with the "table-clearing" insights management needs, then build repositories and reporting to deliver them. Data warehouses, data lakes, data moats, and data puddles without purpose waste time and money.
- **Keep repositories to a minimum and synced.** A single grand database is currently impossible but letting data marts proliferate unchecked creates chaos.
- **Get nomenclature and syntax right.** A robust data dictionary that standardizes classification, naming, and formatting prevents downstream inefficiency. Measure twice, cut once.
- **Make data integrity a habit.** Clean inputs and consistent practices across the workforce matter more than flashy analytics. Sloppy or inconsistent data undermines every model and reporting tool.
- **Leverage external expertise.** Few institutions can reach high Data IQ alone. Partnerships with experienced vendors can accelerate master data management, governance frameworks, and even AI readiness.

Overall, good data management is a marathon of **discipline, design, and leadership**. Banks and credit unions that operationalize these practices today will raise their Data IQ scores and unlock productivity and gain customer experience.

The Playbook for Generative AI-Driven Productivity Improvement

It probably doesn't need to be said, but artificial intelligence, especially generative AI, has been dominating headlines since ChatGPT burst onto the stage. From that moment, bank and credit union executives have been frantically asking themselves what even is "AI", what they should be doing with it, what are others doing with it, and is it worth the time and money to invest in. The reality is that for many banks and credit unions, AI is still treated as a collection of pilot projects: a chatbot here, a fraud model there, some underwriting over there…

Now what Cornerstone Advisors' research has found is that institutions that only treat AI as a tactical solution will fall behind. Meaning, the real productivity gains come when AI is treated as both technical infrastructure but also as a strategic foundation. This simple mindset shift will distinguish between those who are left twiddling their thumbs waiting for AI to be "perfect" and those that harness AI to outrun the competition.

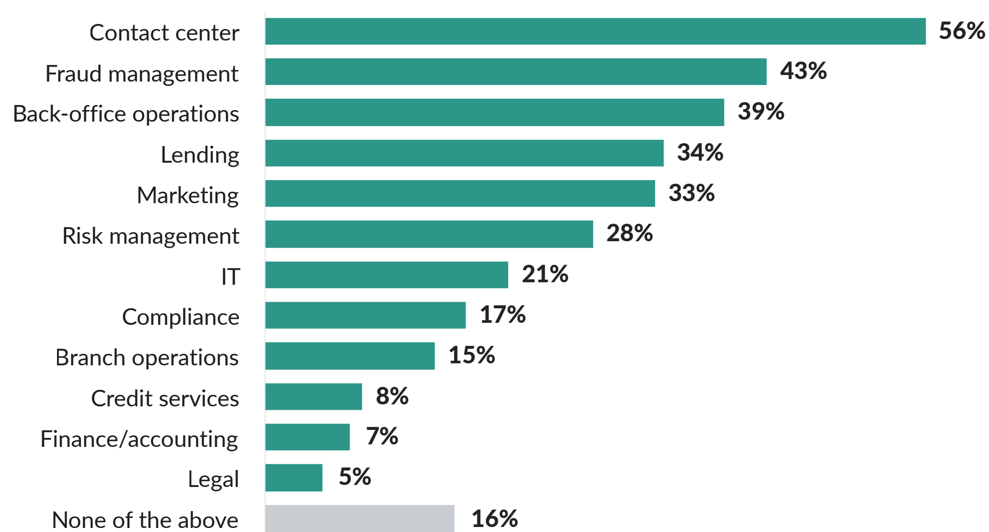
Defining and Measuring Productivity

When people think about generative AI, or really AI in general, they think about chatbots and voice bots asking how they can be helped today. Setting aside the "adoption conundrum" that often comes with these deployments (the Ais can't learn without customers actually using them, and many customers are smashing the "0" button to speak to a human), contact centers are often the first places for generative AI deployment, with just over half of banks and credit unions using, or planning to use, AI agents to help increase productivity (Figure 11):

FIGURE 11:

Banks' and Credit Unions' Plans to Use Generative AI to Increase Productivity

In which of the following areas is your bank or credit union using—or planning to use—generative AI agents and tools to help increase productivity?



Source: *Cornerstone Advisors What's Going on In Banking 2025*

But "productivity" is a word that seems to be thrown around a lot when it comes to vendors trying to sell their products into financial institutions. What does it actually mean? How is it measured? Is it monetary ROI?

AI productivity refers to the efficiency, speed, and quality gains financial institutions realize when AI tools replace or augment manual work. Now, there can be a monetary ROI, but the true gains are strategic and qualitative, and in reality are a combination of the following:

- Time savings (hours freed up by automating tasks).
- Error reduction (fewer mistakes e.g., in compliance checks, fraud detection, or data entry).
- Quicker decision-making (using predictive analytics or personalization to act faster and smarter).
- Employee capacity (freeing staff from low-value work so they can focus on higher-value activities).

In other words, it's about getting more and better output with the same or fewer resources human. AI is a tool, not an end all be all solution.

High Impact, Low(er) Effort Use Cases

The report elevates knowledge management, business process design, and personal productivity as the most logical starting points for generative AI because they combine high impact with relatively low effort. That is not to say they are zero effort as they still require clean data and AI training, but these are areas where the pain points are universal across financial institutions: employees spend too much time searching for information, compliance and risk tasks consume disproportionate amounts of staff hours, and routine administrative work drags down productivity.

Another reason is that these use cases don't require radical change or heavy integration. Tools like AI knowledge assistants, compliance summarization, and productivity copilots can often be layered onto existing processes and technology environments. This makes them faster and cheaper to deploy than more ambitious AI projects like automated underwriting or investment management, which involve deeper system integration and heavier regulatory scrutiny.

Finally, these areas are culturally safe starting points. Employees welcome tools that make their work easier and less frustrating, and these AI applications can reduce friction without workers feeling like they might get replaced by machines. By giving staff daily exposure to AI in non-threatening ways, institutions can build confidence and buy-in, which makes it easier to expand adoption into more complex, higher-stakes functions later.

Take these real-world examples as proof:

Knowledge Management

- At Elevations Credit Union, a generative AI knowledge assistant had to be scaled from 50 users to 400 within weeks as demand surged, saving frontline staff countless hours hunting for policies and procedures.

- Marine Credit Union rolled out a similar "super search" tool that cut policy lookup times so dramatically that its CIO estimated a 20 to 25 percent productivity boost.

- Magnifi Financial Credit Union introduced "Maggie," an AI assistant that scans more than 900 policies. Employees there reported saving about ten minutes per day each, which sounds like a small win, but scales into meaningful efficiency gains across the entire workforce.

Business Process Design

- Susser Bank uses Microsoft Copilot to summarize vendor financial and regulatory documents, cutting vendor review time from an hour to just 30 minutes.

- Marine Credit Union has applied machine learning to loan loss forecasting and member attrition modeling, giving it an early warning system that simply didn't exist before.

- Stride Bank is using AI to capture subject matter expertise and transform it into training materials, reducing the process from months to weeks.

Personal Productivity

- Marine Credit Union's executives said Copilot has been the single most effective tool for improving efficiency at the individual level, helping staff draft reports, refine communications, and reduce errors.

- First Commonwealth Bank has experimented with AI-driven sentiment analysis in internal meetings to improve engagement and communication.

- Many institutions are even testing AI agents that anticipate employee needs in real time. For instance, suggesting the next best step while an employee is assisting a member. These tools give staff more time for meaningful work and reduce the cognitive load of repetitive tasks, which in turn lowers burnout and improves retention.

The use cases above showcase high-impact, lower-effort use examples of generative AI deployments that deliver tangible results quickly, help build a measurement framework for AI productivity, and establish the cultural buy-in needed to scale AI into more complex areas of banking.

Don’t Stop There

Implementing generative AI tools and systems isn’t the final step in the AI-driven productivity playbook. Far from it! To truly realize AI-driven productivity, financial institutions need to treat AI like any other strategic capability requiring discipline, measurement, and continuous refinement.

First, get the data house in order. Quantitative data is often ready, but qualitative inputs like call transcripts, customer feedback, and staff notes are messy and inconsistent. Consider this wakeup call to standardize how information is captured to improve accuracy and cleaning it without scrubbing away valuable context. Banks that skip this step end up feeding “garbage” into their models and limiting AI’s usefulness, or ROI.

Second, institutions need to treat AI as more than a one-time project. AI must become part of a bank’s foundation. That shift requires changes in budgeting (from projects to platforms), organization (cross-functional AI teams), governance (bias detection and lifecycle management), and training (teaching staff how to build on AI, not just use it).

If readers had to walk away with one thing, it would be to start with targeted use cases like knowledge assistants, compliance automation, or employee productivity, track the results rigorously, and keep refining the models. Then pair these quick wins with investments in data quality and infrastructure so the gains compound. Institutions that do both will turn AI into a core capability, while those that don’t will find themselves stuck in pilot mode while others cruise by them.

Solving BaaS Ledger Reconciliation Challenges

Despite high-profile failures and increased regulatory scrutiny, Banking-as-a-Service continues to attract interest. Nearly half of all banks either have plans to pursue BaaS or remain open to considering it. Only one-quarter have ruled it out entirely. This sustained interest exists alongside a sobering reality: 62% of BaaS banks cite compliance and regulatory complexities as very challenging, and reconciliation issues have become the flashpoint for regulatory enforcement (Figure 12):

FIGURE 12:
Bank's Approach to BaaS:

Source: *Cornerstone Advisors What's Going On In Banking 2025*

The core problem is simple to state but complex to solve: traditional core banking systems weren't built for the real-time, high-frequency demands of BaaS partnerships. Six specific pain points consistently undermine BaaS operations:

- **Technical Debt in Legacy Systems:** Most community banks operate on core platforms built decades ago for batch processing, not real-time API interactions. As one executive described it: "Most community banks are building planes while they are flying them and holding the plane together with duct tape and zip ties."

- **Real-Time Visibility:** Unless a bank uses real-time APIs or webhooks, instantaneous visibility into fintech partner transactions is simply not achievable. Without it, fraud detection, liquidity monitoring, and compliance become reactive rather than proactive.

- **Settlement Timing:** Transactions processed through multiple payment rails settle at different speeds. ACH takes one to three days, cards take at least a day, wires can take one to five business days. These timing mismatches create cash flow problems and increase fraud risk.

- **Inflexible Data Transfer:** Banks prefer API-driven integrations, but fintech partners often want to send flat files, SFTP files, or spreadsheets. This disconnect forces banks to either build costly custom solutions or exclude potential partners.

- **Reconciliation Complexity:** A single transaction might involve an issuing bank, payment processor, card network, and acquiring bank, each with its own ledger entries. As one BaaS bank president explained: "Visibility is there. We can look at an account and see if it matches. But it's the volume—millions of accounts, tens of billions of transactions—that makes it an onerous process."

- **Ledger Control:** Banks that rely on third-party ledgers lack direct control over transaction data, complicating regulatory reporting and risk management.

The Path Forward

Solving BaaS ledger problems requires either building internal capabilities, buying third-party platforms, or deploying a "digital twin" approach. The digital twin model provides a standalone ledger layer that enhances legacy core systems while maintaining bank control. It enables real-time transaction authorization, granular subaccount visibility, and automated reconciliation without requiring complete core replacement.

Roughly half of BaaS bankers surveyed believe cost effectiveness depends on the specific solution, but the universal requirement is clear: real-time APIs, real-time balances, and transaction-level reconciliation. Without these capabilities, BaaS partnerships will continue to generate regulatory headaches rather than strategic value.

The future of BaaS ledgering depends on whether banks can attract the right talent and partner effectively to integrate business capability, compliance, and resiliency. Those that master this will thrive. Those that don't will become cautionary tales in the next round of enforcement actions.

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About
Cornerstone Advisors

For over 20 years, Cornerstone Advisors has delivered gritty insights, bold strategies, and data-driven solutions to build smarter banks, credit unions, and fintechs. From technology system selection and implementation to contract negotiations, vendor management, performance improvement programs, strategic planning, merger integration, and enterprise program management, Cornerstone combines its expertise with proprietary data and research to help financial institutions thrive in today's challenging environment.

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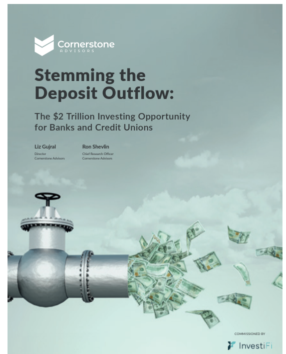

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Improving Your Financial Institution's Data IQ

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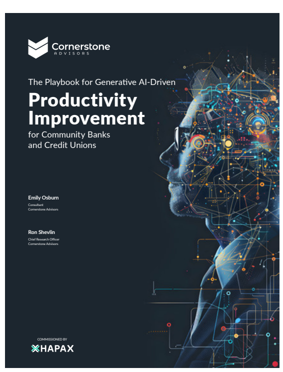

The Playbook for Generative AI-Driven Productivity Improvement for Community Banks and Credit Unions

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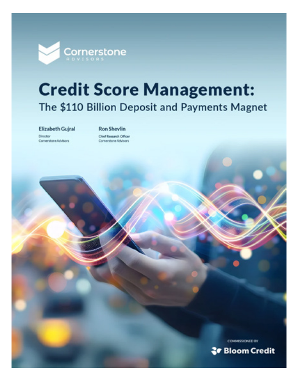

Credit Score Management: The $110 Billion Deposit and Payments Magnet

Bloom Credit

Have questions regarding this report?

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