Affinity Banking

The intersection of digital banking and financial inclusion
The movement toward polyculturalism in recent years has proven that representation is broader than just race, gender, or sexual orientation. This renewed commitment to equity as a direct response to exclusion of certain groups has underscored the need to reevaluate leading practices within all industries — financial services being among the most critical.

Addressing this underrepresentation necessitates looking at how groups who share common identity drivers (or affinity groups) define themselves and their own needs — such as groups that connect around:

- Race
- Gender
- Vocation
- Ethnicity
- Nationality
- Age
- Sexuality
- Religion
- Education
- Income
- Social values
- Political beliefs
- Geography
- Socioeconomics
- And more...
A HIGHER BOTTOM LINE:

Banks should continue to make progress in addressing inequities.

Firms are in a position to impact almost every corner of the economy, proactively rebuild trust, and transform not just financial services, but also our collective human experience, aspiring to what can be called a “higher bottom line.”
66% of Americans surveyed believe banks have a responsibility to support diverse and underserved communities*

CULTURAL TRUTH:

Digital banking is pushing financial services to catch up with society’s demand for representation.

As shared values become the influencing factor in selecting products and services, negative interactions become more likely to drive consumers to seek services that better reflect their identity and affinities.

Today, with more options and lower satisfaction than ever, US. consumers are now 2.6x more likely to transact with banks associated with high humanity.
One in six Americans surveyed feel unwelcome purchasing banking products due to their race, gender, socioeconomics and/or sexual orientation.
The shift from incumbent banks to digital challengers is expected to continue as underrepresented groups look for new places to put their money.

31%

Of Americans surveyed are interested in switching to a bank supporting diverse and underserved communities

+44%

Likelihood of Black and Hispanic customers surveyed to select a bank based on personal values COMPARED TO THE AVERAGE CONSUMER

$1.04T

Potential available market of annual investible assets in retirement and wealth acquisition funds for those looking to switch*

*Extrapolations based on reported monthly investment thresholds for retirement and brokerage accounts
While there is broad interest in switching, needs vary across underrepresented groups:

**LATINO AMERICANS + DEBT**
Having experienced a disproportionate rate of job loss and income insecurity due to the Coronavirus Pandemic (COVID-19), almost half of Latino (46%) consumers surveyed worry about debt – by far the highest of any affinity group.

**BLACK AMERICANS + RETIREMENT**
Black consumers surveyed are almost two times (1.76x) more likely to worry about having enough in retirement than current job security.

**WOMEN + EDUCATION**
Almost one in five women surveyed worry about the financial realities of educational debt for both themselves and their children, which is +80% higher than their male counterparts.

**RURAL COMMUNITIES + FINANCIAL ADVICE**
Almost half of rural consumers surveyed find it difficult to find financial professionals for support resulting in approximately $400bn of unadvised investment funds.

**ASIAN AMERICANS + DIGITAL BANKING**
A third of Asian consumers surveyed go to self-service financial tools for advice – but are 20% less familiar with digital banking than the average American.
Which has created a market for Affinity banks, founded by and for the underrepresented:

- **Asian-American Communities**
- **Black Business Owners**
- **Lesbian, gay, bisexual, transgender, and queer (LGBTQ+ Communities**
- **US Immigrant and Refugee Communities**
- **Black Communities**
- **Eco-Conscious Communities**
- **Immigrants in the US**
- **Latino Communities**
- **Women-Owned Businesses**
- **Underrepresented and Underserved Small Business Owners**
Our conversations with affinity bank founders and leaders shed light on how they are seizing the opportunity to address marginalization directly...

We are seeing a digital banking revolution, but none are curated for Asian-Americans, and few are for immigrants. We want to serve these underrepresented populations that are overlooked by traditional banks.

Ken Lian
CEO & Co-founder, Cheese

Not only have legacy banks underserved Black communities for decades, but they have also undervalued the financial opportunities available in these communities. There is not a single solution to closing the wealth gap, but digital banks can help by providing broader access to core services and capital, especially where incumbents fail.

Kelly Ifill
CEO, Guava

People join because of identity – who they want to be, who they want to show.

Andrei Cherny
CEO, Aspiration

I wanted to solve my own problems while transitioning in America. I keep having to use my dead name for certain financial activities, essentially ‘outing’ myself.

Billie Simmons
Chief Operating Officer, Daylight
Small business owners deserve a better way to bank. BetaBank is committed to building a digital bank that provides small business owners an unbiased and efficient way to access the flexible capital their businesses need to thrive.

We see creating community as a core tenet to our mission - we want to create an ecosystem that feeds reinvestment into our community. A big part of that involves building financial education into our system.

Given the particular difficulties that immigrants, and specifically refugees, face in establishing financial relationships in the United States, we seek to eliminate as much friction as possible in our user journeys - even if that means we take on more costs to avoid additional difficulties for our customers.

We are living in an era with more people moving across borders. Our company is founded on the principle that it should be easy to thrive and succeed in a new country. While immigrants come from many different places, they share similar problems - getting access to financial services and managing their cross-border life, all at a fair price. That’s why we built a digital banking solution for immigrants.
These banks strive to differentiate themselves by their value-driven design, with rewards and features built to benefit the affinity groups they serve...

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<tr>
<th>Transparency</th>
<th>Feedback on financial footprint, and how spending activities impact the community and suggestions to improve</th>
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<td>Philanthropy</td>
<td>Directed donations to organizations that benefit underrepresented groups</td>
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<td>Advocacy</td>
<td>Values-based business models for transacting with companies and engaging communities</td>
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**Billie Simmons**, Founder and COO, Daylight

“*We have a lot of people who sign up because it helps the LGBTQ+ community. We need to help the community through our products.*”

**Aspiration**
Aspiration's Impact Measurement (AIM)\(^1\) gauges the social impact of your purchases through their app.

**Cheese**
Cheese Giveback\(^2\) is a charitable fund partnering with Asian social organizations.

**Daylight**
Up to 10% cash back is offered for spending at LGBTQ+ allied businesses\(^3\).

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1. HTTPS://WWW.ASPIRATION.COM/SUMMIT/AIM
2. HTTPS://WWW.EARNCHEESE.COM/CHEDGIVEBACK
3. HTTPS://WWW.JOINDAYLIGHT.COM
...and the credibility and agility to expand their services beyond transactional banking, diversifying their revenue streams in the process.

Affinity banks will look to continue to embed themselves within the groups they serve by:

- Connecting members across the community.
- Using their platform to scale beyond banking, (e.g., insurance, health care products).
- Rewarding members who engage with the community.
- Embedding financial wellbeing and education into the user experience.
- Creating new opportunities for impact investing.
What does the affinity market mean for incumbents and aspiring challengers in the days ahead?
OUR PREDICTIONS

01 Incumbents’ risk losing up to 10% market share to digital challenger banks if they do not seriously serve underrepresented affinity groups.

02 Digital challenger banks will likely evolve from exploratory customer acquisition to retention due to values and maturity of the offering.

03 Aggressive Merger & Acquisition and Joint Venture markets could emerge with incumbents trying to inorganically buy challengers for their capabilities and value propositions.

04 Affinity banks will strive to move beyond being transactional banking providers, becoming linchpins of the affinity groups and communities they serve.

05 Market relevance and brand strength of incumbents could be eroded, as customer stickiness will be driven by feel and personal values (ethos).
Creating lifetime value for the market and customers requires banks to be proactive in:

- Properly aligning brand, purpose, and profit...
- Adopting a multidimensional segmentation strategy...
- Implementing features and rewards...
- Designing human experiences...
- Looking beyond banking...

...to create a business model that benefits both clients and communities.

...that evaluates customers’ needs and values holistically.

...that align with customers’ values and directly benefit their peer community.

...through inclusive innovation and embedding affinity values systematically.

...and leveraging digital platforms to offer diversified non-bank products which are desired by customers.
Let's talk!

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