THE DIGITAL BANKING CHANNEL: MAKING IT A PROFIT CENTER

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TABLE OF CONTENTS

Executive Summary

For too long, community banks and credit unions have treated their digital channel as a service appendage—a cost of doing business. That mindset and approach are no longer sustainable. Shifts in consumer behavior, competitive pressures from fintechs, and, most importantly, the need for revenue growth are rewriting the rules. Today, digital isn't just about customer convenience and cost savings—it's a critical revenue engine.

But we might be preaching to the choir. If you're reading this, you might have already bought into the idea that "digital" needs to become a profit center. What you really want to know is: 1) how to gain executive buy-in for a profit-centric digital strategy; 2) the organizational structures, roles, responsibilities, and metrics required to make digital a profit center; and 3) how to transition digital from a cost center to a growth engine.

Digital: Cost Center or Profit Center?

In 2021, Horicon Bank, a 125-year-old community bank, acquired a fintech startup and put its founder, Christian Ruppe, in charge of digital strategy. While the bank's president spoke about "driving a shift in the traditional community banking model," Ruppe internally evangelized a new mindset, saying:

> *"Technology isn't a cost center. It's a profit center. As soon as you start thinking of your digital investments like that… then investing a little more in better technology makes a ton of sense."*[1]

You can't argue with that, can you?

Well, yes, you can. While the idea of transforming digital into a revenue engine sounds compelling, there are strategic, operational, and cultural reasons for maintaining the digital channel as a cost center, especially for community-based financial institutions. Here are the pro-cost center arguments:

- **Digital is infrastructure—not a product line.** Digital banking is the modern equivalent of a branch or ATM network: it's essential infrastructure. You wouldn't expect your core IT system or HR platform to be a profit center—they're foundational services, not revenue generators. Treating digital as a cost center reinforces the understanding that it's a strategic enabler, not a standalone business. The ROI of digital comes from supporting other revenue streams, not from selling digital itself. Just because something is strategically important doesn't mean it should have its own profit and loss (P&L) statement.

Treating digital as a cost center reinforces the understanding that it's a strategic enabler, not a standalone business.

- **Customers don't want to pay for access to banking.** Positioning digital as a profit center risks pushing institutions toward monetizing access, charging for features, gating tools behind paywalls, or prioritizing cross-sell over service. Consumers expect digital banking to be table stakes, not a premium service. If digital is a profit center, you incentivize monetization over service.

- **A profit center mentality may distort priorities.** For example, as features that generate direct revenue are prioritized—even if they don't align with customer needs—essential but non-revenue-generating improvements (like better accessibility or security) may get deprioritized. A cost center lens encourages investment based on strategic value, not just earnings.

- **Digital touches everything—who gets the credit?** The line between digital and other functions is increasingly blurry. For example, a mortgage may start with a digital prequal, involve human underwriting, and close in a branch; a savings account may be opened online and be nurtured by a relationship banker. Attributing profit solely to the digital channel can be arbitrary and misleading, leading to turf wars and confusion, not clarity.

- **Digital should be integrated, not isolated.** Making digital a profit center often requires separate organizational structures and performance metrics, leading teams to compete instead of collaborate, fragmenting the customer experience. Digital should be embedded in *every* team's thinking—not isolated into a separate business unit.

- **Not every institution has the scale for monetization.** While megabanks and banking-as-a-service (BaaS) players can drive revenue through digital, most community banks can't and shouldn't because they don't have the scale to support fee-based digital models, and aggressive monetization can alienate customers and damage the institution's reputation. For smaller institutions, digital is best viewed as a cost of doing smart business, not a profit lever.

Those arguments, while good, don't address an underlying problem (or challenge) with digital being a cost center: resource allocation.

The objective of a cost center is to deliver a certain level of value for the minimum cost possible. As a cost center, the digital channel's potential revenue-generating opportunities will always be de-prioritized. In today's environment, where growth is an imperative, can your institution afford to forego those opportunities?

The Crux of the Issue

The arguments against making digital a profit center could be made for any customer touchpoint or channel, including the call center and the branch, the latter of which is a profit center in many banks and credit unions.

In practice, branches and call centers sell *and* support, and since they both support customers who came in through other channels (including digital), treating one or two touchpoints as profit centers but not the others is asking for organizational trouble.

The challenges don't go away by making all touchpoints profit centers because then investment allocations across the channels have to be made based on growth, productivity improvement, *and* cost reduction factors.

> Ultimately, the only profit centers in the organization are the products and services that generate revenue.

In essence, the only true "profit centers" in a bank or credit union are the products and services that are sold. Touchpoints (or channels) are *all* support, whether *sales* support or *service* support. Turning digital into its own profit center could create: 1) channel conflicts regarding who gets credit for a sale when a customer touches multiple channels, and 2) incentives to de-prioritize service-improvement enhancements in favor of revenue-generating enhancements.

Ultimately, the only profit centers in the organization are the products and services that generate revenue. Channels (or touchpoints) are simply conduits for the sale and support of those products and services, and the expenses incurred by those touchpoints are allocated to the P&L statements of those products and services. Financial institutions that align incentives—e.g., rewarding branch staff for guiding customers to digital tools for better service—will create a more seamless cross-channel experience.

The Digital Products Profit Center

If the only recommendation coming out of this report was to "completely overhaul your organizational structure to realign products as profit centers and customer channels as cost centers," then the sound of readers clicking the red button in the upper left corner of this PDF would be deafening.

Don't close out yet. There is an alternative: **a Digital Products group as a profit center**. What would this group do? Create, market, and deliver natively digital product and service offerings like subscription management, bill negotiation, data breach protection, and identity protection.

In 2024, consumers spent nearly $25 billion on fees and subscriptions for these digital products, an 86% jump from 2021 (Table A). Just as importantly, many consumers are "very interested" in getting these services bundled with a checking account from a bank or credit union—even for a fee (Table B).

TABLE A:

Fintech Spending by Generation

Fintech Spending ($ in billions)

	2021	2024	% Change
Gen Z	$4.45	$7.46	68%
Millennial	$4.73	$9.32	97%
Gen X	$3.29	$5.37	63%
Baby Boomer	$0.82	$2.54	209%
TOTAL	$13.29	$24.69	86%

Source: Cornerstone Advisors

TABLE B:
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

Based on these percentages, banks and credit unions could add more than $1.6 billion in revenue from just three services: credit score management, subscription management, and bill management and negotiation (Table C).

TABLE C:
Digital Financial Product Revenue Potential for Banks and Credit Unions

Revenue Potential by Generation ($ in millions)

	Gen Z	Millennial	Gen X	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

A bank or credit union could rely on its existing Digital Channel group to find partners that provide these services and offer them to the institution's existing customer or member base. But the bigger opportunity may be in 1) combining the new features and services into new product offerings... 2) for consumers in segments the institution doesn't currently serve... 3) in markets—and through channels—that the institution doesn't currently operate in.

Financial institutions need a newly formed Digital Products group—with competencies in strategy, marketing, and technology—to lead the organization into the uncharted waters of digital as a profit center.

Who's going to take the lead in driving revenue and profitability in that scenario—the current Digital Channel group whose expertise is in running the digital banking platform? The marketing department with little experience reaching new consumer segments in new markets and through new distribution channels? Doubtful.

Financial institutions need a newly formed Digital Products group—with competencies in strategy, marketing, and technology—to lead the organization into the uncharted waters of digital as a profit center.

The Digital Products Organization

Many financial institutions already have a chief digital officer in their org structure. If this position is focused primarily on managing the digital banking platform(s) that provide customers with access to their existing accounts, then some organizational realignments need to be made.

Heads of Digital Products groups, regardless of whether they hold the chief digital officer title, shouldn't oversee the digital platforms themselves. Instead, think of them more as the "category" leader in a consumer products goods (CPG) firm like Procter & Gamble (P&G).

Consumer product firms like P&G have evolved over the last 25 years from having independent and diffused product managers running the P&L of products to a category structure where a category executive oversees and ensures the management of interrelated products.

In a bank or credit union, that "category" is "digital."

Like the category executive in a CPG firm, the chief digital officer, or head of the Digital Products group, isn't just accountable for the P&L of the products. They must: 1) oversee the ongoing design of products, 2) ensure efficient "manufacturing" of the products, and 3) influence the sales efforts of front-line personnel. In a banking context, that means:

1) **Digital product design and pricing.** The digital products group will need to: a) define the needed features and functionality of the organization's digital products; b) internally develop or externally source (via partnerships) the digital products; and c) determine the digital products' price structure to ensure profitability.

2) **Application integration.** In the banking context, manufacturing equates to integration with the core system, digital banking platform, digital account opening and onboarding applications, and any third-party systems required to deliver the digital products.

3) **Sales merchandising.** The Digital Products group will need to develop sales tools (to live on the institution's website and digital banking platform) to promote and sell the set of digital products.

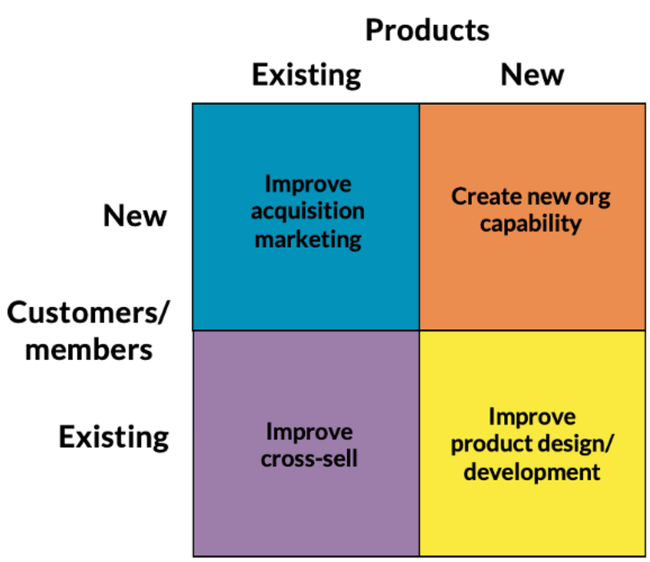
The Digital Products group, then, is comprised of a mix of three skillsets: 1) **business strategists** who understand the unmet product needs of the existing and potential customer (or member) set and who can identify, vet, and negotiate with potential partners; 2) **marketing managers** (i.e., product managers) who manage the day-to-day profitability and operations of the digital products; and 3) **integration specialists**—probably API developers—who can execute the systems integrations requirements.

The Digital Products Group and the Digital Growth Strategy

The Digital Products group should create and manage the institution's digital growth strategy. An easy assertion to make, but it begs the question: What is a digital growth strategy?

To oversimplify matters for a moment, a growth strategy boils down to two questions: 1) What are you selling? and 2) Who are you selling it to? This framework produces a matrix with four strategies (Figure 1):

FIGURE 1:
2x2 Growth Matrix



Source: Cornerstone Advisors

1. **Selling existing products to existing customers/members.** Successfully executing this strategy requires an organization to improve its cross-selling capabilities.

2. **Selling existing products to new customers/members.** This strategy requires an organization to improve its acquisition marketing efforts.

3. **Selling new products to existing customers/members.** Improving product design and development, or partnering with third-party product providers, will be required for this strategy.

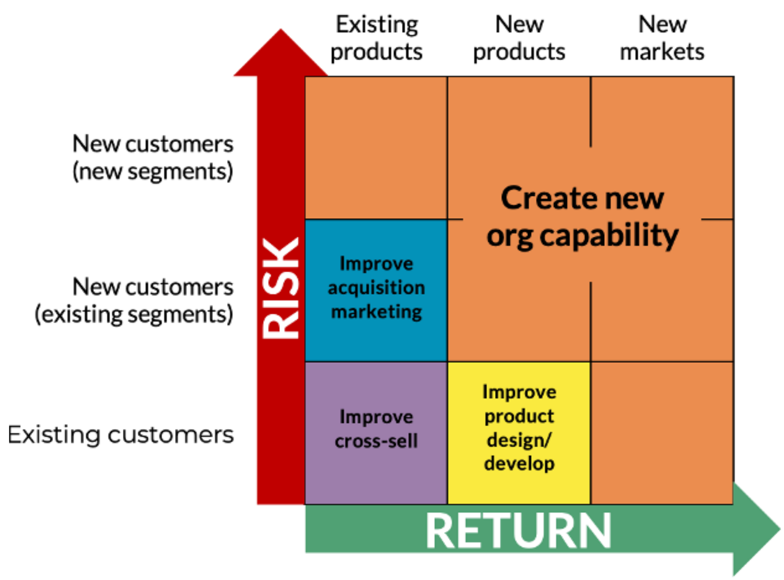
4. **Selling new products to new customers/members.** This strategy is a step outside the comfort zone for many institutions and generally requires the creation of new organizational capabilities.

Approaching growth-related decisions using this 2x2 framework is a good start, but it's too simplistic. New growth opportunities may come from your existing geographic footprint, but a vertical banking strategy can expand an institution's geographic footprint to reach new market segments.

What's needed, instead, is a growth *cube* that splits new customers into those that fall into existing or new segments served and adds new markets (or distribution channels) to capture the reality that growth opportunities may exist outside the organization's current geographic footprint (Figure 2). While the matrix helps identify growth directions, the cube adds dimensionality by incorporating customer segments and distribution channels.

FIGURE 2:

3x3 Growth Cube



Source: Cornerstone Advisors

Anticipating the Concerns and Skeptics

Making digital a profit center is a significant shift, so we anticipate concerns from the skeptics, including:

- **Will the required investment be too high, with uncertain payback?** Digital development requires investment in platforms, talent, and marketing. However, these investments should be viewed in light of the return on investment (ROI) potential and the cost of inaction. Digital products create scalable revenue opportunities that physical channels can't match. Partnering with third-party providers can reduce upfront costs and the time to design and develop new products. Revenue share agreements can further reduce the risks of new product launches.

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- **Do we have the right talent to monetize digital?** Appointing the right head of the group could be a make-or-break decision. Naming a well-respected (internally) individual with a track record of successfully growing a business line and having this individual report to the chief retail (or commercial) officer will help to gain the confidence of the senior executive team. It might be the other way around if the appointed leader has just technology chops. It's likely—and probable, for that matter—that the organization will need to bring in fresh talent with experience in digital banking, data science, and/or partnerships.

In summary, yes, it's a challenge, but it's achievable. Many banks with no prior digital forte have successfully transformed by combining internal development with external partnerships and bringing in a few strategic hires. With leadership commitment, financial institutions *can* evolve their capabilities. Doing so will energize the institution and help attract younger banking talent who want to work for a forward-looking institution.

Digital as a Profit *Contributor*

Carving out Digital Products and relegating the rest of the Digital Channel group to cost center status will be somewhat demoralizing for that group. The Digital Channel team can demonstrate its direct impact on the bottom line and on key business and customer metrics by undertaking three initiatives: 1) defining and measuring customer engagement, 2) measuring profitability by engagement segment, and 3) identifying segment migration opportunities.

Defining and Measuring Customer Engagement

Customer “engagement” is not a well-defined term in banking (or any other industry, for that matter). We’ve seen bankers allude to the number of times their customers log in online or on their mobile devices as a sign of engagement. When the term first gained popularity about 20 years ago, marketers used engagement to refer to the amount of time a consumer spent looking at a digital ad. That’s not how we look at engagement.

As a measure of login frequency or time spent interacting with an ad, engagement isn’t a very strategic metric. But it can be, depending on how it’s defined. We prefer the following definition:

Engagement = the extent to which a customer is emotionally connected to your product or organization.

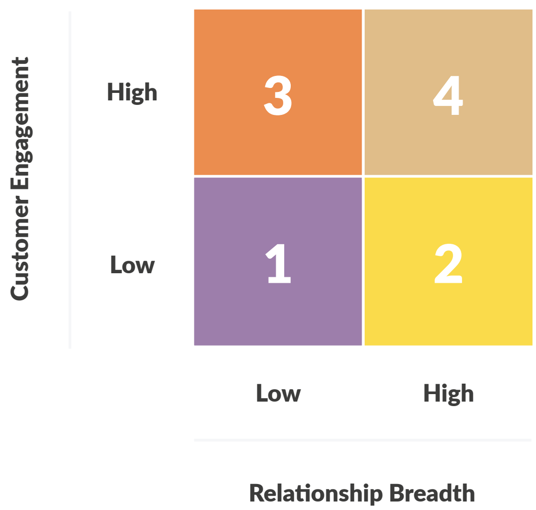
It’s not strictly a synonym for loyalty, but an emotionally engaged customer may very well be loyal. The art of measuring engagement in this context is finding (and measuring) behaviors that demonstrate this emotional connection. Because of the frequency of digital interactions and transactions among younger consumers, it’s becoming easier to construct a measure of their engagement.

The challenge is finding metrics that predict emotional connection. The metrics might include: 1) wallet share (of deposits, payments, and loans); 2) use of product features; 3) frequency of purchase; 4) frequency of service transactions; 5) types of interactions (e.g., advice, problem resolution, complaints); 6) channel activity; 7) referral behavior (and intention); and 8) rate of change in the metrics described above.

Measuring Profitability by Engagement Segment

Constructing a measurement approach for calculating engagement enables a financial institution to determine which customers or members are engaged and which aren't. Matching those engagement segments against the depth or breadth of those customers' relationships with the institution can be predictive and prescriptive (Figure 1).

FIGURE 3:
Engagement Segmentation



1. Why aren't they engaged, can we digitally engage them?
2. Can digital reduce cost to serve and improve profitability?
3. What can their digital activity tell us about unmet product needs?
4. How does their engagement and profitability differ from segment 3?

Source: Cornerstone Advisors

In addition to the segment-specific questions, this approach to segmenting customers by engagement can help the organization answer two questions: 1) What's the rate of change year-over-year between segments? and 2) What's the profit impact of migrating customers to the upper right quadrant?

Identifying Segment Migration Opportunities

Digital can become a more significant contributor to profit—even if not officially designated as a profit center—by identifying ways to digitally engage customers that move them towards the upper right quadrant of the engagement segmentation scheme. To do this, the digital team will need marketing and analytics skills that might not exist in the current organizational structure. Bringing these skills onto the team to focus on profit contribution can help evolve the digital channel to a profit center.

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Ron Shevlin heads up Cornerstone Advisors' fintech research efforts and authors many of its studies. He has been a management consultant for over 30 years, working with leading financial services, consumer products, retail, and manufacturing firms worldwide. Before joining Cornerstone, Shevlin was a researcher and consultant for Aite Group, Forrester Research, and Nolan, Norton & Co. He is the author of the book *Smarter Bank*, writes the Fintech Snark Tank blog on Forbes, and hosts the What's Going On in Banking podcast. Shevlin is ranked among the top banking and fintech thought leaders globally and is a frequent keynote speaker at banking and fintech industry events and bank and credit union board of directors' meetings.

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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 to help financial institutions thrive in today's challenging environment.

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About
Lumin Digital

Lumin Digital is the leading, future-ready digital banking solution powering remarkable growth for financial institutions across the United States. Combining innovation, data, and speed, Lumin's disruption-proof platform was born in the cloud to stay ahead of the evolving expectations of retail and business banking users. With Lumin Digital's unique approach, our clients innovate and scale at their own pace, optimize digital banking ROI, and create a strong digital relationship with their customers. Lumin has received top marks from clients on the G2 Marketplace for digital banking software. For more information, visit lumindigital.com.

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Endnotes

[1] Private LinkedIn message to the author of this report

Have questions regarding this report?

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