HOW BANKS SHOULD ADDRESS FOUR CRITICAL DIGITAL ENABLEMENT CHALLENGES

Bank IT Leaders Reveal Similar Problems in Key Areas

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By David Ritter

US banks of all sizes are focused on building better digital services and capabilities, with the most critical being the improvement of customer data and analytics. Yet, these banks all face similar challenges and struggle to find the best approaches. Recent interviews with senior banking technology executives reveal that progress is slow, while digital upstarts and incumbents with superior technology continue to grab market share.

The banks we talked to ranged from $5 billion to more than $1 trillion in assets. Regardless of size, the priorities for digital enablement had a striking number of similarities. All of the banks are at some stage of modernizing customer-facing applications by shifting them to flexible architectures such as cloud and application programming interfaces, commonly known as APIs.

They're working to break down product silos to get a unified view of each customer.
Those who have succeeded in unifying customer data are now trying to integrate transaction and behavioral data to enable insights that inform the creation and delivery of differentiated, personalized services.

They're also working to provide mobile and digital-first experiences that enable access to all banking services in a single, user-friendly interface.

Unfortunately, we would have easily noted these same priorities a few years ago. So why aren't banks getting these priorities implemented? And what approaches should they take to overcome these challenges?

In this paper, we present the best practices for achieving results in four key areas of digital enablement: personalization of data, bank-as-a-service and open banking, services innovation, and talent.

Leveraging Customer Data for **Personalized Marketing**

Banks that can identify all services used by each customer or household and track interactions with them are well-positioned to offer differentiated, personalized products and services to drive new revenue.

But most banks aren't there yet. A March 2021 survey by The Financial Brand revealed that 62% of respondents are unsatisfied with their current customer data platform and ability to access and utilize data insights.

What We Heard

"It's Complicated"

Many large banks are the product of years of acquisitions, some with technology platforms that were never fully integrated. As a result, highly-customized applications reside on aging technologies and were built in multiple contexts — for example, mobile and web — for numerous operating systems and browser types in multiple languages. The result is a tangled web that makes unifying customer data risky and complicated. The data typically resides in separate silos, but often, back-end systems connect certain elements.

What to Do About It

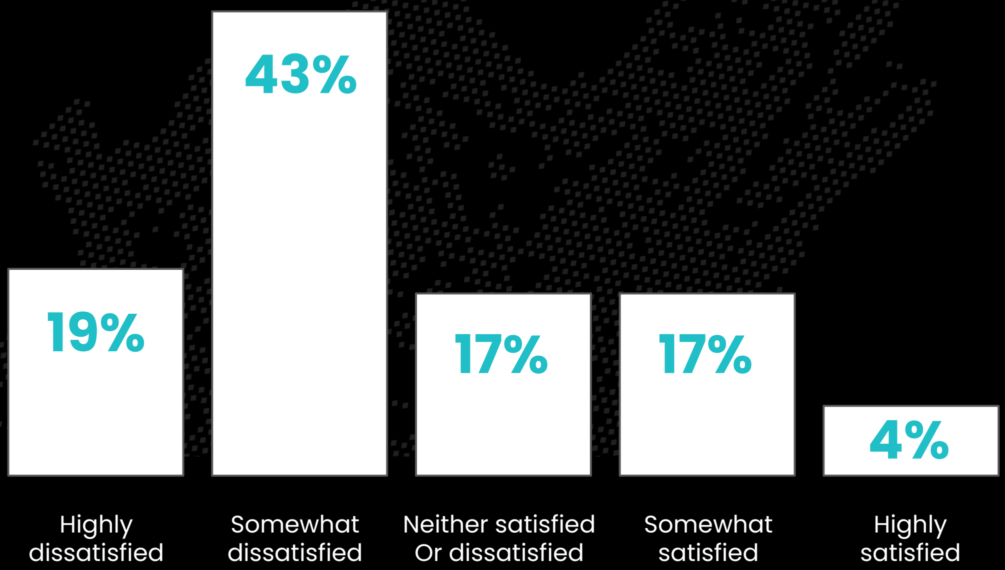
It's not enough for banks to achieve a single view of each customer across multiple products (and many are not even there yet). Instead, banks must take the next step: capturing and integrating all customer interactions — including transactions, visits to mobile apps, and contacts with customer service.

Customer data platforms, or CDPs, enable companies to leverage customer account and behavioral data to achieve business impact. CDPs are generally considered marketing platforms since the insights they generate allow for more highly targeted product offers, with personalized offers as the ideal. But that's only part of the story. Analytics applied to transactional and behavioral data can also reduce fraud on existing accounts and inform risk management models. CDPs also support better customer service outcomes that reduce costs.

Banks Are Not **Happy With Their Data Platforms**

Satisfaction with current customer data platform and insight access

How satisfied are you with current customer data platform and access to insight?



Souce: Digital Banking Report - March 2021 The Financial Brand

Open Banking & Bank-as-a-Service

Banks willing and able to share customer data securely with trusted third parties can expand their market reach with differentiated services embedded within fintech applications.

Open-banking strategies are gaining momentum, according to data from an August 2021 survey by The Financial Brand. While only about 25% of banks currently have an open-banking strategy, an additional 50% are either considering their options or planning to implement a strategy in the next two years.

What We Heard

Open-data APIs are making it easier for banks to share customer data. Nevertheless, the quality of the data itself remains a hurdle to realizing the full value of open banking.

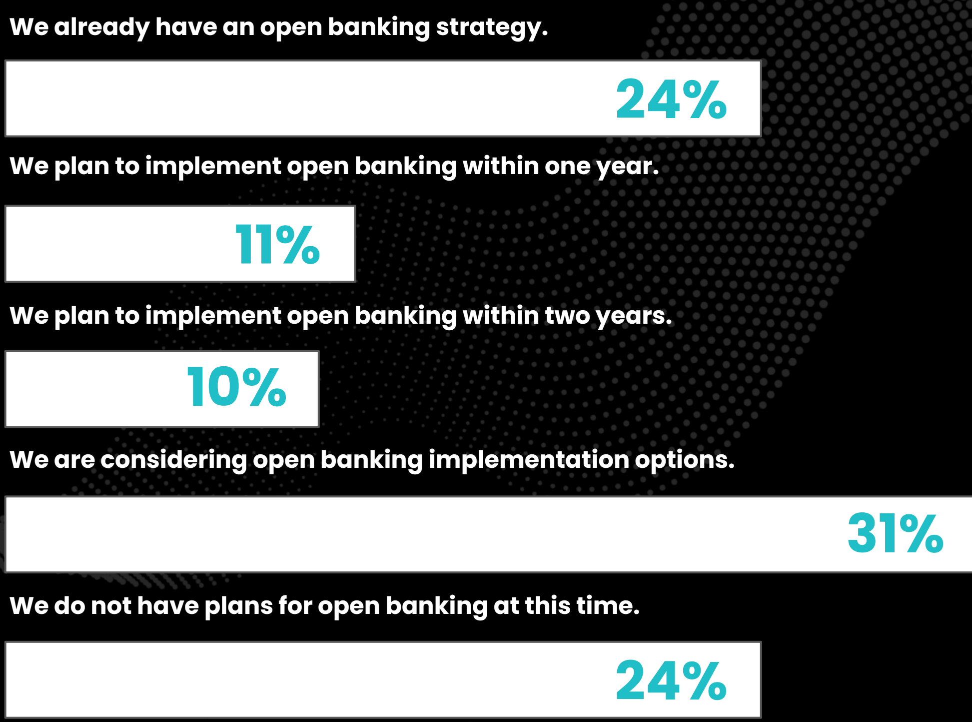
The largest banks we spoke with also remain concerned about the risks of sharing customer data with third parties. Still, these banks are pursuing a 3-step approach, starting with sharing customer data between internal business units. The next step is to share data with select external partners to develop value-added services. The final step involves broadly marketing specific banking platforms – a mortgage lending system, for example – to third parties to embed within their customer experience. The banks we interviewed are working on the first two phases but struggle with the business case and monetization strategy for the third phase, commonly known as bank-as-a-service.

What to Do About It

The first step is to identify a compelling use case for an open-banking or bank-as-a-service solution that lends itself to a differentiated, value-added solution. A monetization strategy can come later. For example, immigrants struggle to establish themselves in their new countries because they have no credit history. Many of these immigrants are professionals with significant assets and income. However, without credit, they must pay cash or tap friends and family for high-ticket essentials like cars and furniture. A data-sharing ecosystem could solve this age-old problem for immigrants, banks, credit bureaus, and other service providers. Yet, a global solution still doesn't exist.

Open Banking **strategies gaining momentum**

Please describe your organization's open banking or platform banking strategy.



Souce: Digital Banking Report - August 2021 The Financial Brand

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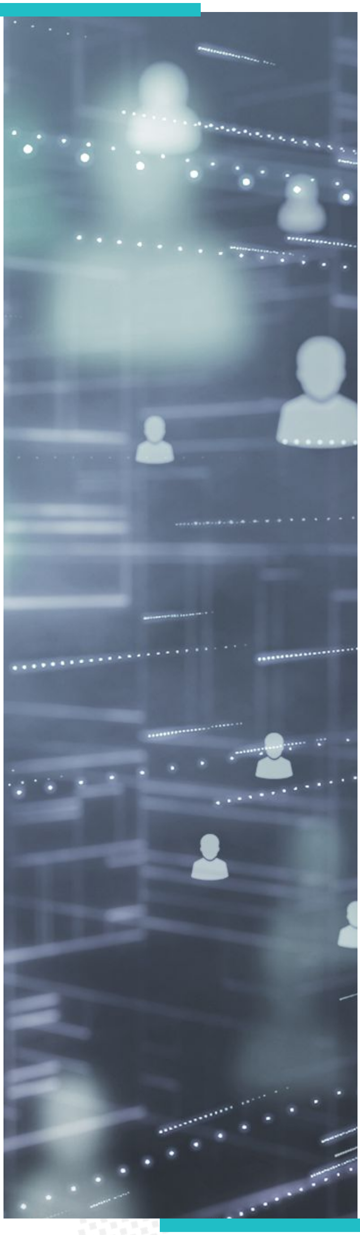
Enabling Better **Digital Services and Capabilities**

Banks are modernizing their core applications, including a shift to cloud hosting, to improve the customer experience and get new and differentiated services to customers more quickly.

Insider Intelligence **forecasts** total technology spending by US banks to continue to grow briskly, to nearly $114 billion in 2025 versus an estimated $79 billion in 2021, a compound annual growth rate of greater than 9%.

What We Heard



Progress towards digital enablement of services for banks has been painstakingly slow for many reasons, not the least of which is the dizzying multitude of service options and vendors to choose from.

"We Need to Run the Business Day-to-Day."
Technology executives at banks we spoke with face a bevy of competing priorities from their day-to-day operations that distract from, and slow down, their progress towards digitization objectives. For example, fraud continues to get more sophisticated, and merger integration work demands management attention, as do regulatory requirements concerning technology.

"Digital Transformation is 90% Analog."
Banks must change the workflows and processes they use to analyze and implement new digital technologies, starting with senior management's commitment. However, the executives we spoke with all noted that the most challenging part of digital enablement has been changing the ingrained behaviors of their people.

"Again, It's Complicated."
A common challenge to all digital projects within banks is organizational complexity. Banks are less nimble than smaller, unregulated non-banks. Specifically, new digital services require upfront approval across the organization, including risk management and regulatory compliance. Banks, large and small, struggle in this regard.

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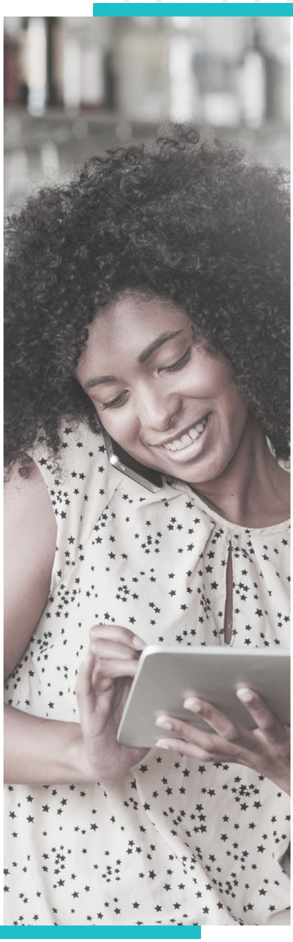
What To Do About It

Digital enablement has to become engrained in management's day-to-day thought processes. But banks are reluctant to make sweeping changes to their technology for fear of causing customer disruption. Indeed, that was a common refrain from the executives we spoke with. However, banks don't have to change all of their core operating systems to achieve business goals like making more effective use of customer data or improving the customer experience. Advances in technology have made it significantly easier and more cost-effective to build flexible new applications on top of existing core platforms.

Our view is that banks must focus on customer relationships. All but the largest should concentrate their investments on third-party technology platforms and partnerships with fintech providers. Major cloud providers are introducing platforms specific to banks that are essentially massive plug-and-plug ecosystems that may yield new revenue opportunities.

In our experience, banks that focus on incremental but impactful digital projects find the most success. Indeed, a major bank told us their approach is getting API-based services to market as soon as viable (an MVP, or minimum viable product in Lean terminology).



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What To Do About It

The objective is to demonstrate value incrementally rather than build entire applications and infrastructure before introducing any new application or service features.

Nevertheless, determining each iteration of a new capability should be driven by customer demand. Once the project clears this hurdle, validating with an appropriate sample population before full roll-out is crucial. In other words, banks should test the market and learn from feedback but must follow a process that increases their odds for success. The "fail fast" mantra of technology start-ups doesn't apply to banks in our view, particularly the largest of them.

Bottom Line - customer experience should be at the heart of all major technology decisions. Therefore, each digital transformation initiative should start with a quantifiable goal to improve a customer experience. For example, the percentage of customer service issues handled on the first contact. The next step is to determine what technologies will help achieve the goal — i.e., modernizing relevant applications, moving them to cloud architecture, etc.

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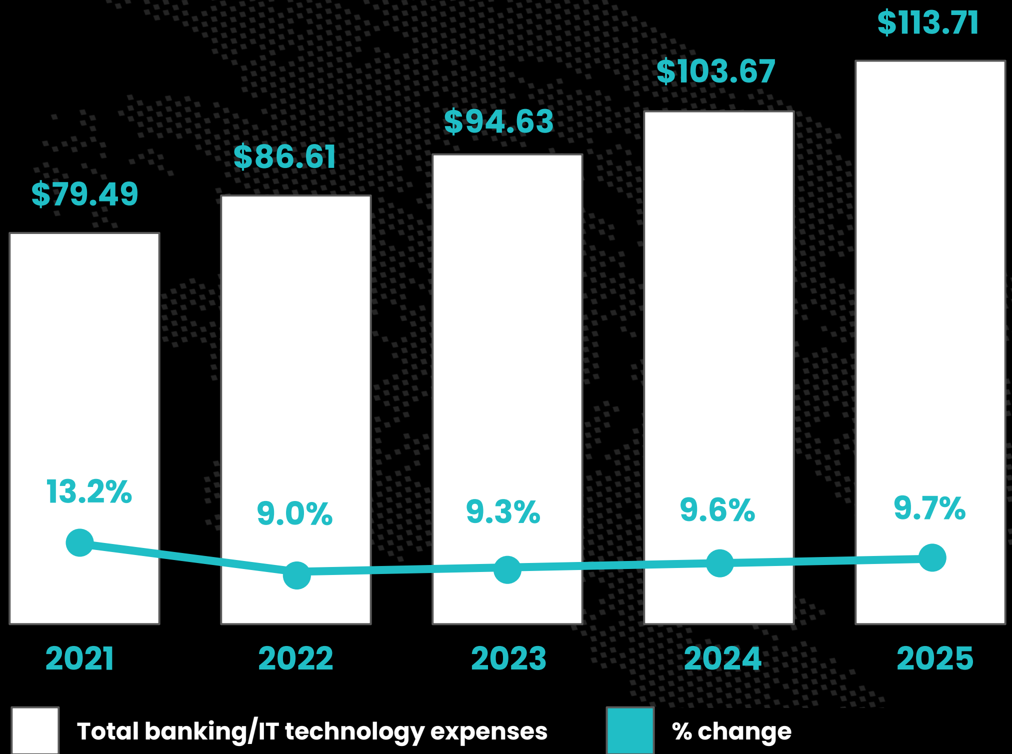
US Bank Total Technology Expenses, 2021-2025

Billions and % change

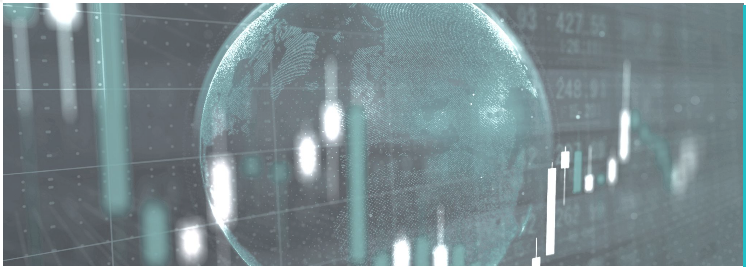


Source: Insider Intelligence, March 2021

Note: includes expenses by banks with FDIC-backed consumer and business expenses and savings accounts; expenses include core systems maintenance, modernization, innovation, transformative technology, data processing, equipment, software, digital initiatives, compliance, and cybersecurity.

Digital Talent

What We Heard



Bank executives we spoke with all agreed that attracting and retaining technology talent is the most difficult challenge they've seen in their decades-long careers.

What to Do About It

In our view, aside from competitive pay and benefits, employees value work flexibility more than anything. That means not just the option of working from home but also the flexibility to choose their most productive working hours and the projects and experiences they work on.

The pandemic has proven that remote work is not only possible but often preferable for both employer and employee. However, banks must continue to invest in the best-available collaborative tools, so they don't lose the productivity of group interactions.

With the recent success of remote work, US banks don't have to hire expensive talent from major technology centers. Instead, they can hire from regions with lower average salaries, both within the US and from other areas that are relatively close to the bank's time zone so real-time collaboration can occur. One bank executive's answer to the challenging market for talent has been to stick with technologies that offer a large pool of recruitable and retainable candidates that can be upskilled to work with other technologies.

Yes, There's Hope

We believe banks of all sizes can succeed in the digital enablement areas covered in this white paper. However, all but the largest banks will need help during the journey — from situational assessment to strategy/design to implementation. Most banks should also focus on maximizing customer relationships while letting others build the core technology that enables the realization of this value.

THANK YOU

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