2024 Retail Banking Trends and Priorities

January 2024

Q2

DIGITAL BANKING REPORT

Generating and operationalizing insights through analytics, machine learning and AI represents the keys to the retail banking kingdom in a digital environment marked by personalization.

— Jim Marous

Owner and CEO,
Digital Banking Report
Host, Banking Transformed Podcast

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Brecksville, OH 44141, USA. Phone: +1 (216) 218-4257
admin@digitalbankingreport.com

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Publisher: **Jim Marous**, *jmarous@digitalbankingreport.com*

Creative Director: Carol Ann Ryan

Letter from the Author

DIGITAL BANKING REPORT
Jim Marous, Owner & CEO
jmarous@digitalbankingreport.com
5582 Hollythorn Drive
Brecksville, OH 44141, USA
(216) 218-4257

Issue 304

Jim Marous

We are excited to present the 2024 Retail Banking Trends and Priorities Report, sponsored by **Q2**, highlighting strategic shifts underway across the industry. As disruption accelerates, this report guides strategic planning amid intensifying digital demands.

Several dominant themes emerge across the 2024 retail banking trends research spanning over 250 institutions globally. Most notably, an overwhelming industry focus lands on leveraging data, AI and advanced analytics to deliver hyper-personalized consumer experiences amid fierce competition.

Over 75% of firms already employ third-party solutions driving targeted improvements across areas from account opening to payments. And prioritization of data and AI initiatives spike for 2024 strategies, confirming these as urgent strategic imperatives after years of tentative adoption by slow movers.

Additionally, many organizations have set remarkably low bars regarding overall digital maturity in the future. While most firms believe they have digitally transformed critical processes like account opening, metrics indicate significant progress remains in foundational capabilities like user experience and seamless omnichannel delivery.

Legacy perspectives equally dominate channel strategies, with questionable expansion plans in 2024 for costly, low-ROI branches that accelerate brand dilution. Consumer-centric digital excellence clearly emerges as the primary driver of both defense and offense.

Priority Insights

Beyond confirming urgent data, analytics and digital transformation demands, additional survey insights warrant highlighting:

- Over 50% of financial institutions will struggle to offer real-time payments, limiting transactional convenience amid faster settlement leader gains.

Letter from the Author (continued)

- Specialized deposit products have been launched, but still most organizations will rely on ineffective overall rate increases versus sophisticated targeting to win funds.
- Fraud and risk use cases will continue to lead AI adoption for the next 12 months, but momentum is building rapidly across CX personalization applications.
- Quickly improving mobile and digital small business experiences are mission critical as fintech firms lure customers.
- Payments and embedded finance represent threats from big tech and fintechs eyeing primary bank status.

The Path Forward

While ambition abounds, most institutions have set conservative digital change timelines, risking catastrophic displacement from born-digital entrants. Significantly fewer organizations qualify as true transformation trailblazers re-architecting experiences amid disruptive uncertainty.

Success in 2024 and beyond hinges on reallocating technology investments and priorities from defensive stability to strategic growth. Composable capabilities and willing fintech partners offer possibilities if supported culturally through talent development and customer-obsessed metrics.

With expectations rising exponentially alongside economic volatility, time has expired for tentative digitization. As digital fluency increasingly determines winners, competitive separation already widens rapidly across a fragmenting financial landscape.

As we review what happened in 2023 and what is expected to occur in 2024, the question is whether banks and credit unions will lead disruption or follow it? It is clear from the responses to this year's survey, transformation can no longer wait.

Best regards,
Jim Marous

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Preface

Kirk Coleman
President, Q2

From Uncertainty to Cautious Optimism — Opportunities for Growth in 2024

When we began 2023, we were faced with mounting uncertainty. The threat of a looming recession, along with geopolitical conflict, had many financial institutions bracing for the impact that lay ahead. Now, as we enter a new year, we can look back at the past 12 months with a better understanding of the current economic environment. While we continue to face geopolitical unrest, economic uncertainty has leveled out, with one to three rate cuts likely this year. We hope financial institutions can reset and hopefully find some optimism for what 2024 holds.

This year's edition of The Retail Banking Trends and Priorities Report can help guide and direct financial institutions to the next right step and where they should keep their strategies focused. Improving digital banking, the use of data, AI and advanced analytics, and simplifying the customer journey are all top priorities for financial institutions.

As we embark on this new year, it is critical for bank and credit union executives and board members to focus on a few key priorities to help their financial institutions achieve their goals.

Get Clear on Digital Transformation

A recent report by **Stephens Bank Research** showed that 42% of bankers said investing in digital banking solutions is a top priority in 2024. As our customers are doubling down on their digital transformation efforts, they see the benefit of an enhanced digital experience for their account holders. We know our customers' account holders log in, on average, 20-22 times a month, and digital touchpoints have become the most important engagement channel that account holders have with their financial institutions.

However, the results of this year's report reveal that many banks and credit unions are still struggling to determine where they are on their journey. Sixty percent of respondents claimed they are one to five years into their digital transformation journeys, but 36% say they are in the early stages or have not yet made progress toward their goals. We believe that is because financial institutions are doing digital transformation piecemeal, as opposed to taking a holistic and strategic approach.

From Uncertainty to Cautious Optimism — Opportunities for Growth in 2024 (continued)

Taking the time to assess an organization's digital transformation efforts, the key milestones they want to achieve and the steps they need to take in 2024 will help set their organizations up for success.

Offer More Personalized Solutions

According to **J.P. Morgan's 2024 economic outlook**, consumer spending is expected to slow down in the coming year due to diminished savings, stagnant wages and low savings rates. Borrowers will also be expected to resume payments on their student loans.

Furthermore, with the rise of interest rates over the past couple of years, we saw a decline in consumers' ability to save and spend without going into debt. Now, credit card debt and delinquencies are rising, which means financial institutions need to be conscious of their balance sheets, weighing their liabilities with their assets.

Enhancing digital banking solutions and expanding the services offered are essential to retaining account holders, increasing deposits and winning new business. To help their account holders navigate through financial challenges, banks and credit unions can offer more personalized solutions. For example, for account holders facing a financial setback, financial wellness education and counseling, flexible payments, grace periods, and debt consolidation offerings are all helpful ways to serve account holders' needs while ensuring the balance sheet stays balanced.

Make SMB a Priority

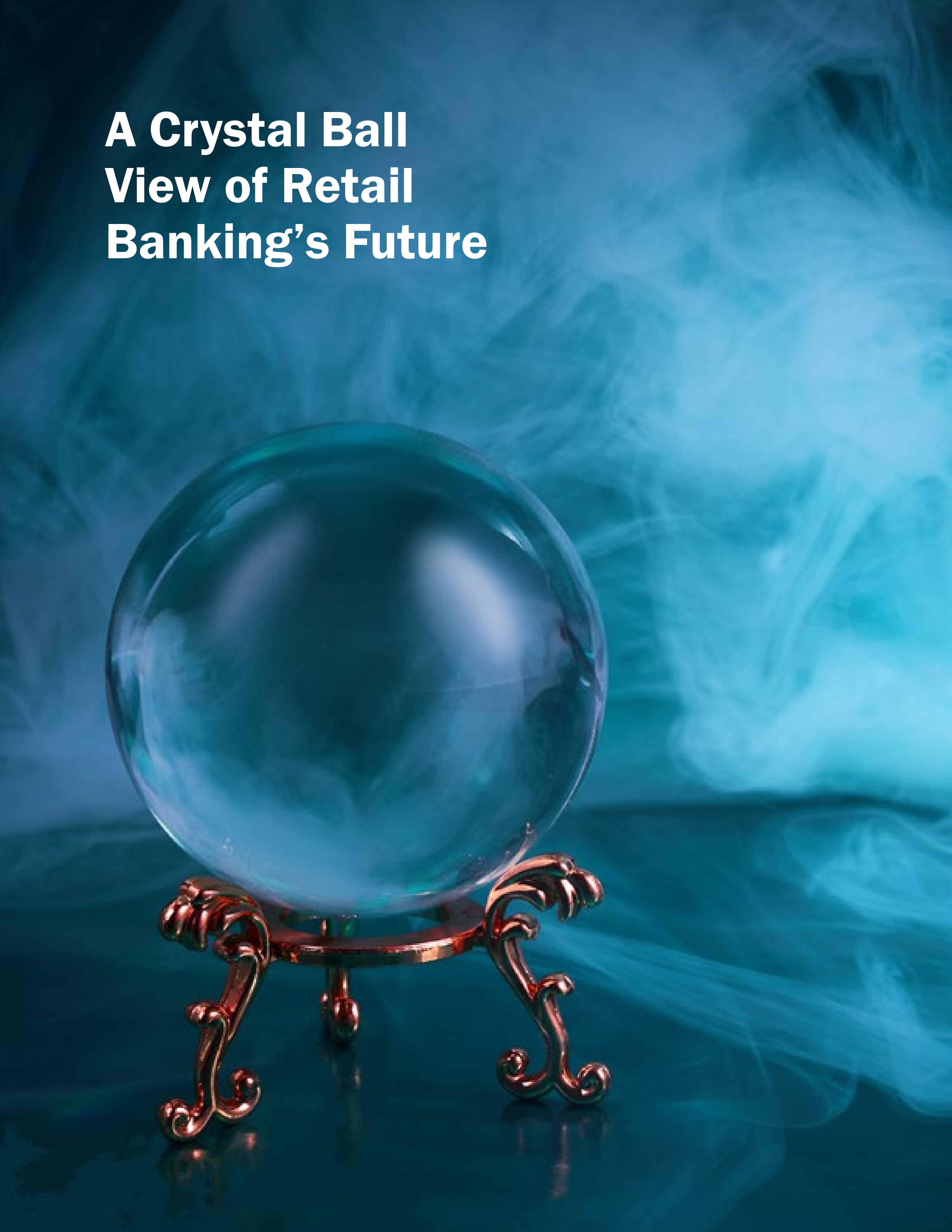
Historically, the SMB sector has been greatly underserved by financial institutions. Commercial offerings are often too complex for typical small business needs, while retail offerings don't quite hit the mark. According to a *2023 Datos Insights Report* on small businesses, 49% of SMBs want more sophisticated capabilities than what their primary financial institution offers. Of those SMBs that partner with tech companies to deliver payroll, invoicing, payments, etc., 81% said they'd prefer to get those services from their primary financial institution.

There is a large opportunity for financial institutions to make their SMB customers a priority. Still, in this year's report, only 23% of respondents said that helping SMBs get a current, accurate picture of their business finances was their top priority.

Are there sole proprietorships and gig workers hiding in plain sight because they're using their personal accounts to do business? What types of small businesses need some of the sophisticated capabilities usually offered only to larger companies? Banks and credit unions can better understand and anticipate the needs of their SMB account holders by leveraging data to identify areas of growth and new opportunities.

This will be a year of opportunity for banks and credit unions to enhance their customer experience by investing in innovation and expanding their services to meet their account holders' expectations. With a more cautiously optimistic economic outlook, financial institutions can make great strides in focusing on executing their long-term growth strategies and progressing their digital transformation journeys in 2024.

A Crystal Ball View of Retail Banking's Future



A Crystal Ball View of Retail Banking's Future

Our global study of over 250 banking industry insiders revealed intriguing and sometimes conflicting perspectives on the pace and nature of change that lies ahead in retail banking over the next few years.

The 2024 Retail Banking 'Crystal Ball' research gathered input from large global and national banks as well as regional banks, community institutions, credit unions, fintech firms, vendors and advisors spread across North America, Europe, Asia and other regions. To answer questions facing financial institutions as we embark on 2024, the **Digital Banking Report** asked people in the industry to provide their projections regarding what will happen in the future ... and when?

The research focused on 14 perspectives — shown on chart one, within four key areas of banking:

- Competition and Consolidation
- Modern Technologies
- Payments
- Digital Transformation

The insights collected are very enlightening, but they obviously need to be taken within the context that no specific component of financial services can be forecast with certainty. That said, the projected speed of adoption of some tools and techniques — e.g., use of generative AI and movement to the cloud — can't be ignored. Likewise, the slow adoption of other projections (e.g. impact of social responsibility and use of blockchain technologies) should not be assumed.

2024 RETAIL BANKING TRENDS AND PRIORITIES

There was significant diversity in the anticipated speed and extent of change in some areas, but a few powerful themes emerged consistently:

- **Digital disruption will dramatically alter retail banking.** New competitors, technologies and customer behaviors are colliding to force the pace of change faster than many expect. Leaders see a vastly different competitive landscape emerging by 2025.
- **Change will be uneven.** Innovations in areas like modern technologies and payments will likely outpace the ability of banks to transform legacy systems, processes and culture. This mismatch creates risk.
- **Being digital is no longer enough.** Delivering excellent digital experiences is merely the price of admission today. The winners will combine digital maturity with customer-centricity, agility and efficiency.

The Only Consistent Theme: ‘Change is Everywhere’

As can be seen on chart one, the greatest consensus among retail bankers was around the likelihood of generative AI being used by 50% of financial institutions. Close to 30% of financial institutions expected this to occur by 2025, with another 50% expecting this level of acceptance by 2030. In 2021, our research showed that almost four in ten executives who responded to the survey thought there would be a 25% consolidation by 2025. (Upon reflection, this mid-Covid-era estimate was too aggressive).

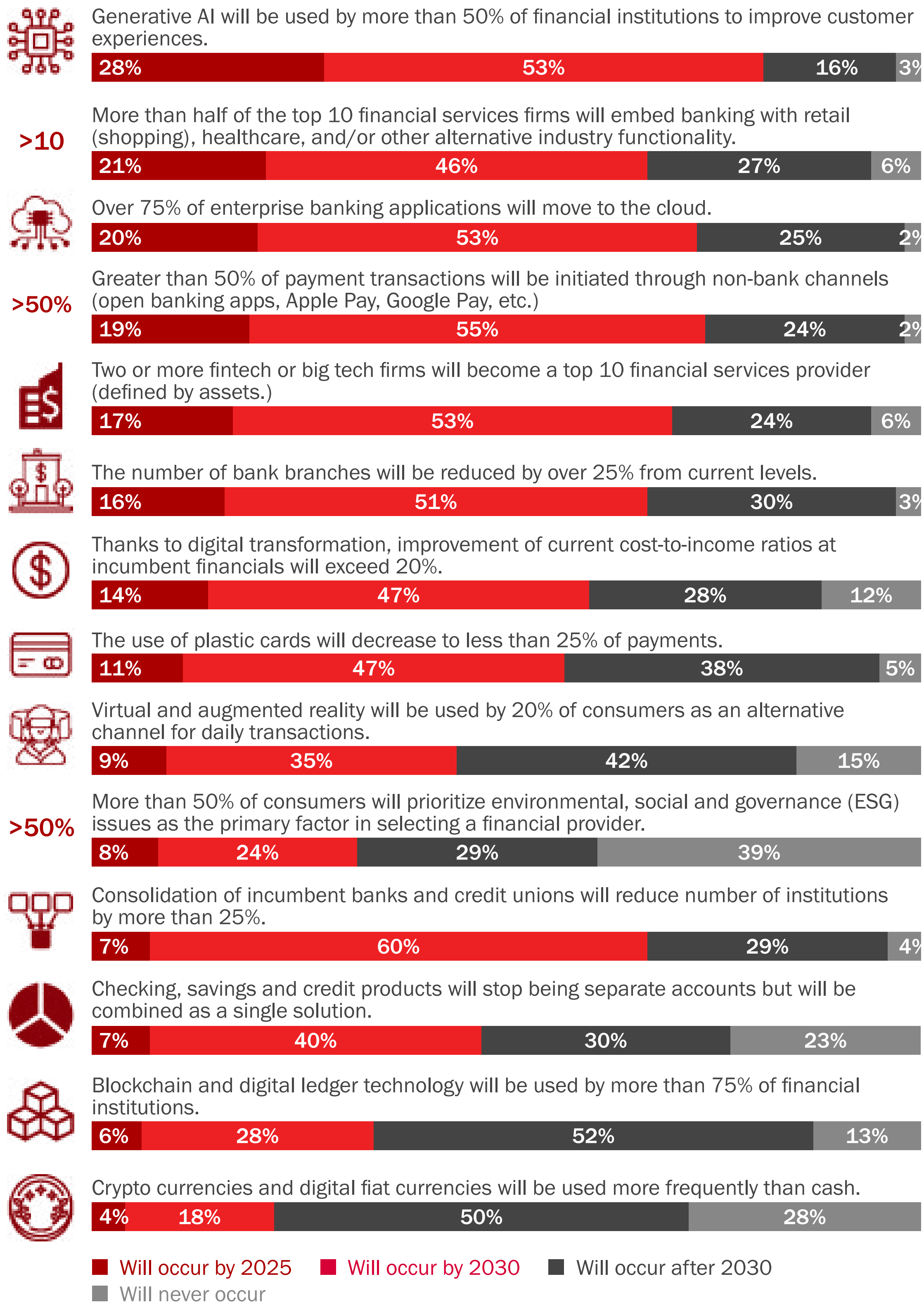
Compared to all of the other findings, the projection around deployment of generative AI solutions had the lowest number of respondents thinking it would happen after 2030 or not at all. Interesting, given that the technology was introduced to the world barely one year ago.

As was the case in 2021, on the other end of the spectrum, the least number of respondents saw crypto currencies being used more than cash in the near or mid-term, with the highest number of respondents seeing crypto currencies surpassing cash use only after 2030 — if ever.

The greatest diversity in response range was seen when we asked financial industry executives whether consumers would use plastic cards for less than 25% of payments. While 58% saw this happening before 2030, a modestly smaller percentage (42%) saw this consumer trend happening beyond 2030 or not at all. Interestingly, while 32% of banking executives saw ESG (environmental, social and governance) issues as being important to consumers by 2030, the “not at all” perspective for this projection was the highest of all projections (39%).

CHART 1:

CRYSTAL BALL PROJECTIONS FOR THE FUTURE OF BANKING



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Bracing for Competitive Disruption

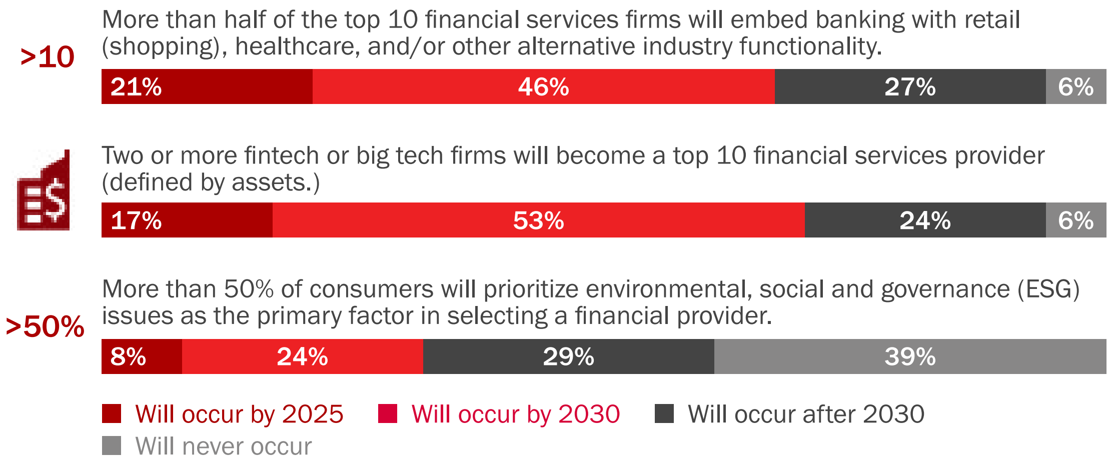
The opening salvos have already been fired heralding imminent collisions that will dramatically reshape the banking battlefield.

Big tech and fintech encroachment continue to accelerate, with 70% of respondents believing two or more fintech or big tech firms will crack the top 10 of financial services providers by 2030, increasing from 63% in 2021. Given that the previous research was conducted three years ago, an increase in near-term likelihood of this scale is unusual.

While not believed to be the most imminent scenario by 2025, two-thirds of executives surveyed thought that more than half of the top 10 financial services firms will embed banking inside non-financial services by 2030. Only 55% of respondents felt this way in 2021.

As mentioned above, the belief that ESG will drive consumer selection of financial services organizations remains tepid at best.

CHART 2: COMPETITIVE LANDSCAPE



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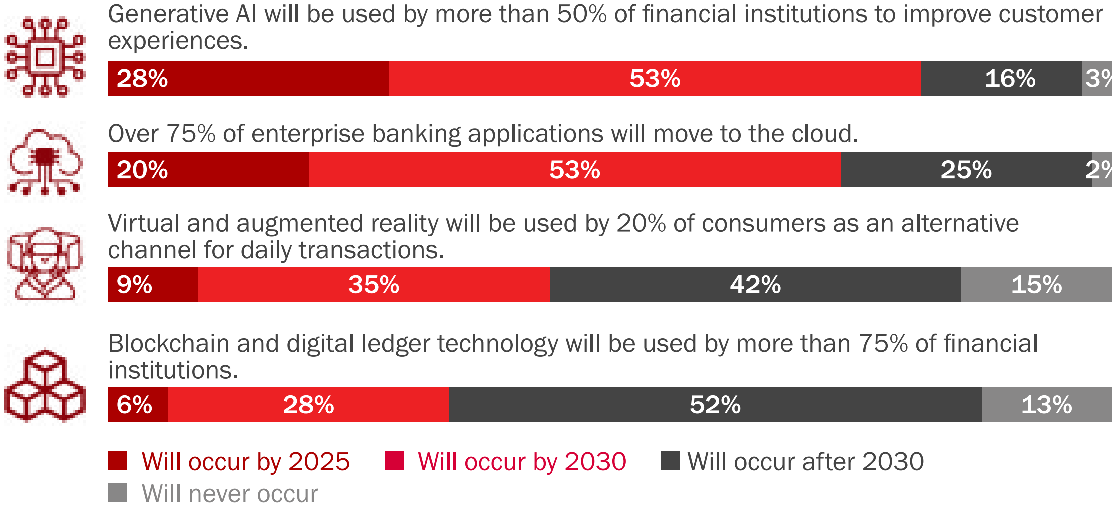
These perspectives indicate retail banking may look completely different in just a few years. Pressure from digitally savvy competitors, will likely force difficult consolidation decisions for weaker players. Even industry leaders cannot afford complacency, especially when we look at the area of embedded banking.

Modern Technologies Redefine Banking

Emerging innovations will profoundly reshape banking in coming years. Over 80% of financial services executives believe that generative AI will be used to improve customer experiences by 2030, with 83% of institutions seeing the vast majority (75%) of enterprise bank applications shifted to the cloud by 2030.

Surprisingly, views diverge much more on legacy modernization. Less than 50% think digital improvements like augmented reality and blockchain technology will be mainstream by 2030, with both of these projections being less aggressive than in 2021. This reveals lingering doubts on banks' willingness and ability to transform aging infrastructure, especially during times of economic uncertainty.

CHART 3: MODERN TECHNOLOGIES



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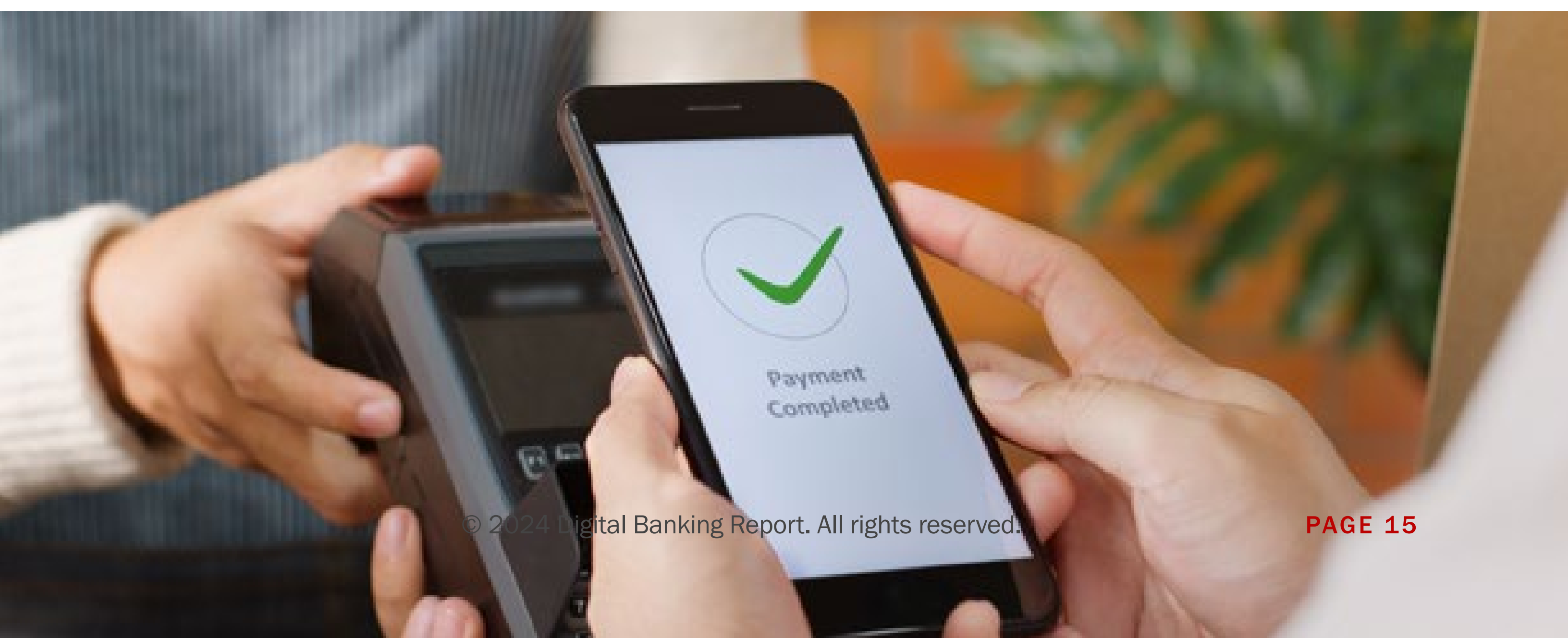
The crystal ball views of modern technology deployment illustrate that while promising technologies are emerging, realizing their full potential depends heavily on financial institutions overhauling obsolete systems and processes. Banks that drag their feet on modernization may find the innovations only make competitors stronger rather than benefiting their own institutions.

Speed of Payments Changing Expectations

The digitization of retail payments will advance markedly by 2030 according to financial services industry oracles. More than two-thirds say that greater than 50% of purchase transactions will be initiated through non-banking channels by that date. This highlights the crucial role mobile technology and digital wallets will play in payments connectivity and the speed of money transfer. These projections are similar to what we found in 2021.

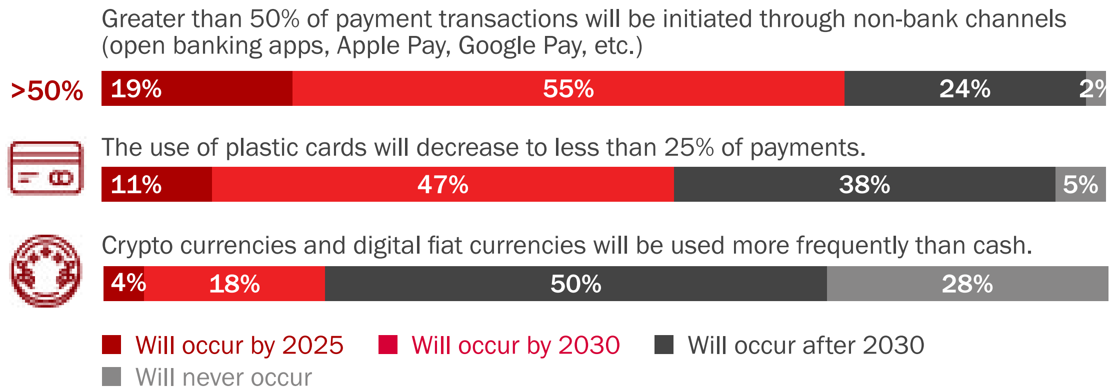
Plastic card usage will eventually plunge as mobile wallets and payment apps gain favor, but a majority still expect plastic cards to retain dominance through 2030,



indicating the resilience of older payment types. This stubbornness of payments transformation is reinforced by the fact that the projected movement away from cards is actually lower than what was projected in our 2021 research.

As for newer payment rails, adoption time frames remain hazy. Only 22% expect blockchain transaction volume to hit mainstream scale by 2030. The doubt around crypto currencies is reinforced by the belief that 28% don't ever expect crypto to overtake cash.

CHART 4: PAYMENTS



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These outlooks signal that while mobile wallets clearly represent the next era of retail payments, yesterday's payment formats will continue to play a role for some time. As a result, banks should prepare for a hybrid payments environment where digital and analog formats coexist for many years to come.

Digital Maturity: An Imperative for Growth

Consumer expectation studies and ongoing research by the Digital Banking Report resoundingly show that digital maturity has graduated from nice to have to an indispensable capability for retail banks.

At the same time, we have found digital banking maturity to be lacking at the majority of banks and credit unions.

Digital Banking Report asked financial executives about the possibility of a move from a product-centric business model to a customer-centric model, in which checking, savings and lending are combined as an integrated solution. Only 7% of those surveyed saw this happening by 2025, with a modest 40% saying it would happen by 2030.

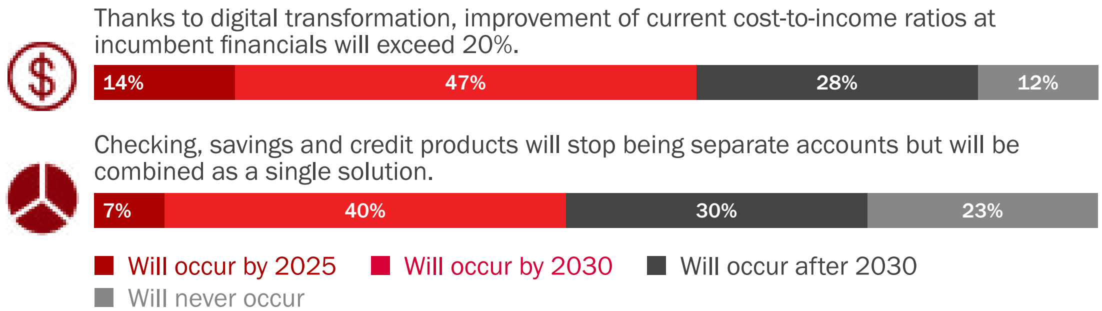
Not surprisingly, more of those surveyed saw increased economies from digital transformation in the near-term, with nearly two-thirds of executives believing a cost-to-income improvement of more than 20% will be achieved by 2030. As we move forward, financial institutions should focus on key elements of digital transformation that will support customer engagement to halt silent attrition. These include:

- **Wellness replaces wealth.** Rather than maximizing share of wallet, forward-thinking banks will focus on share of customer life, improving financial wellbeing through holistic digital advice and guidance.

"While external digital forces impacting banking seem clearly mapped, survey responses on the pace and success of banks' own digital maturity journeys remain murkier, showing divergence. To be sure, consumer-facing innovation often outpaces tedious back-office overhauls."

- **Speed of first impression.** Banks and credit unions must build new account opening and loan application processes with an inside-out digital support platform. These platforms must be able to execute the entire process in less than five minutes ... entirely on a mobile device.
- **Hyper-personalization rules.** Segment of one marketing powered by data and analytics will surpass broad demographic clusters. Banks must tailor solutions to individual identity, behaviors and life stage journeys.

CHART 5: DIGITAL BANKING TRANSFORMATION



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The research provides a mixed read on banks' internal digital transformation progress. Significant pluralities see legacy constraints hampering competitiveness and limiting institutions from realizing the full benefits of emerging innovations.

While external digital forces impacting banking seem clearly mapped, survey responses on the pace and success of banks' own digital maturity journeys remain murkier, showing divergence. To be sure, consumer-facing innovation often outpaces tedious back-office overhauls. But this gap portends risk if not closed quickly.

Mapping the Road Ahead

Like any research exercise, the 2024 Crystal Ball project offers directional guidance rather than promising definitive certainty. But several key insights stand out that retail banking leaders can ill afford to ignore as they chart strategies for thriving in the coming years not just surviving:

- **The competitive field will bear little resemblance to banking as we know it today.** Big tech, fintech and lean digital players will push their way up the league tables as legacy institutions face pressure from both disruption and consolidation forces.
- **Mobile-first, cloud-supported and AI-driven will constitute the new norm.** Emerging innovations will gain widespread adoption as consumers flock to providers delivering seamless digital money management integrated into their daily lives.
- **Banking must replace obsolete systems, processes and mentalities.** While instantly implementing every shiny new innovation is not the answer, banks must carefully balance digital agility with stability and resilience.
- **Holistic financial wellbeing and hyper-personalization will drive differentiation.** Succeeding with fickle digital natives and savvier boomers alike means

understanding their financial lives deeply and delivering intuitive money guidance tailored to individual needs and life stages.

- **Transformation must focus on customer life cycles.** Improving pieces of the banking business will no longer suffice. "Reinvention of the wheel" must be supplanted by customer journey reinvention, with the enterprise conceived, designed and orchestrated around delivering exceptional end-to-end experiences.

While grappling with all these monumental forces may seem daunting, the research provides reason for optimism. Banking has evolved for centuries by leveraging new innovations, talent and ways of thinking. With clarity of purpose, commitment to customers, and courage to change, banks can adapt for the future. The clock, however, is ticking.

The Evolution of Retail Banking Trends

The Evolution of Retail Banking Trends

The retail banking trends research reveals a pronounced strategic evolution since 2021 as institutions scramble to address how digital disruption impacts on consumers. What remains concerning is the lack of correlation between anticipated trends that focus on customization and personalization and the lack of prioritizing data, AI and anticipatory recommendations.

As recently as 2021, banks only emphasized basic digital capability expansion in their priorities. The focus landed predominantly on new payment options, better integrating uneven customer touch points, and simplifying at least initial online applications for improved convenience.

These priorities signaled banks recognizing vast mobile and web experience gaps left unfilled during the 2010s compared to leaders. But they still failed to grasp the personalization amplitude consumers already experienced with tech titans. Initiatives mostly addressed discrete pain points instead of complete digital lifestyle intimacy.

2023 Trends: Recognizing the Loyalty Imperatives

By 2023, competitive pressures clearly compounded exponential consumer desire for digitally-native, customized money interactions. Appreciating the stakes, banks

and credit unions rushed to map more complete journey experiences, prominently boosting commitment to longer-term innovation.

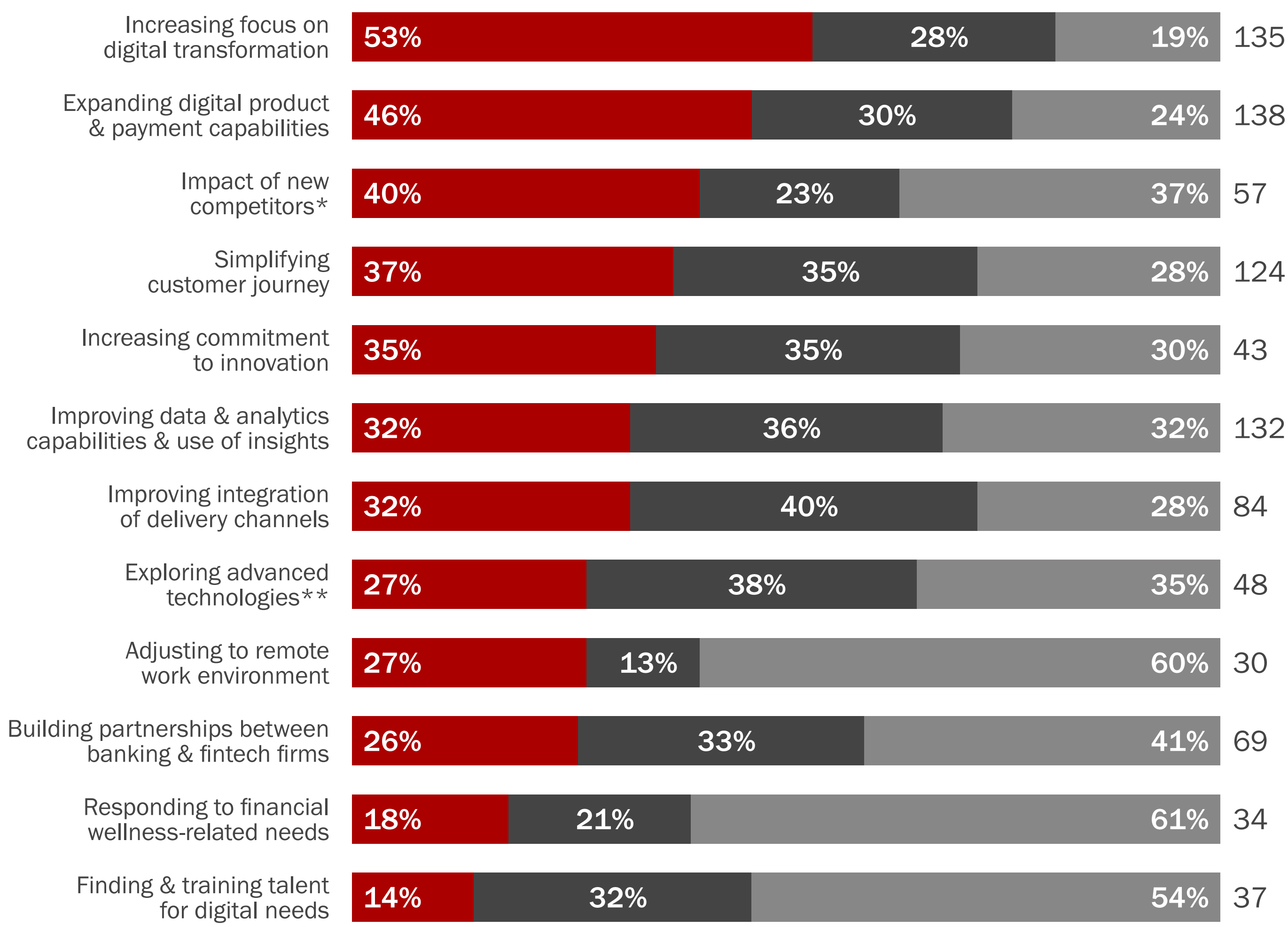
But these efforts remained hampered by ineffective foundational analytics. Few banks yet understood purchase preferences, behavioral signals across platforms, and emotional context clues essential to prevent churn.

Siloed legacy systems also obstructed crafting contextual insights from fragmented data, creating hurdles for banks wanting to create consistent omni-experiences.

CHART 6:
MOST IMPORTANT RETAIL BANKING TREND IN 2023

What do you think were the (3) most important retail banking trends in the past year (2023)? (Select one answer for each column.)

# of total responses



* Fintech firms, large tech firms etc.
**IoT, Voice, Blockchain, Web 3, Metaverse, etc.

Top trend in 2023
Second most important trend in 2023
Third most important trend in 2023

Source: Digital Banking Report Research © January 2024 Digital Banking Report

2024 Trends: Embracing the Data-Driven Mandate

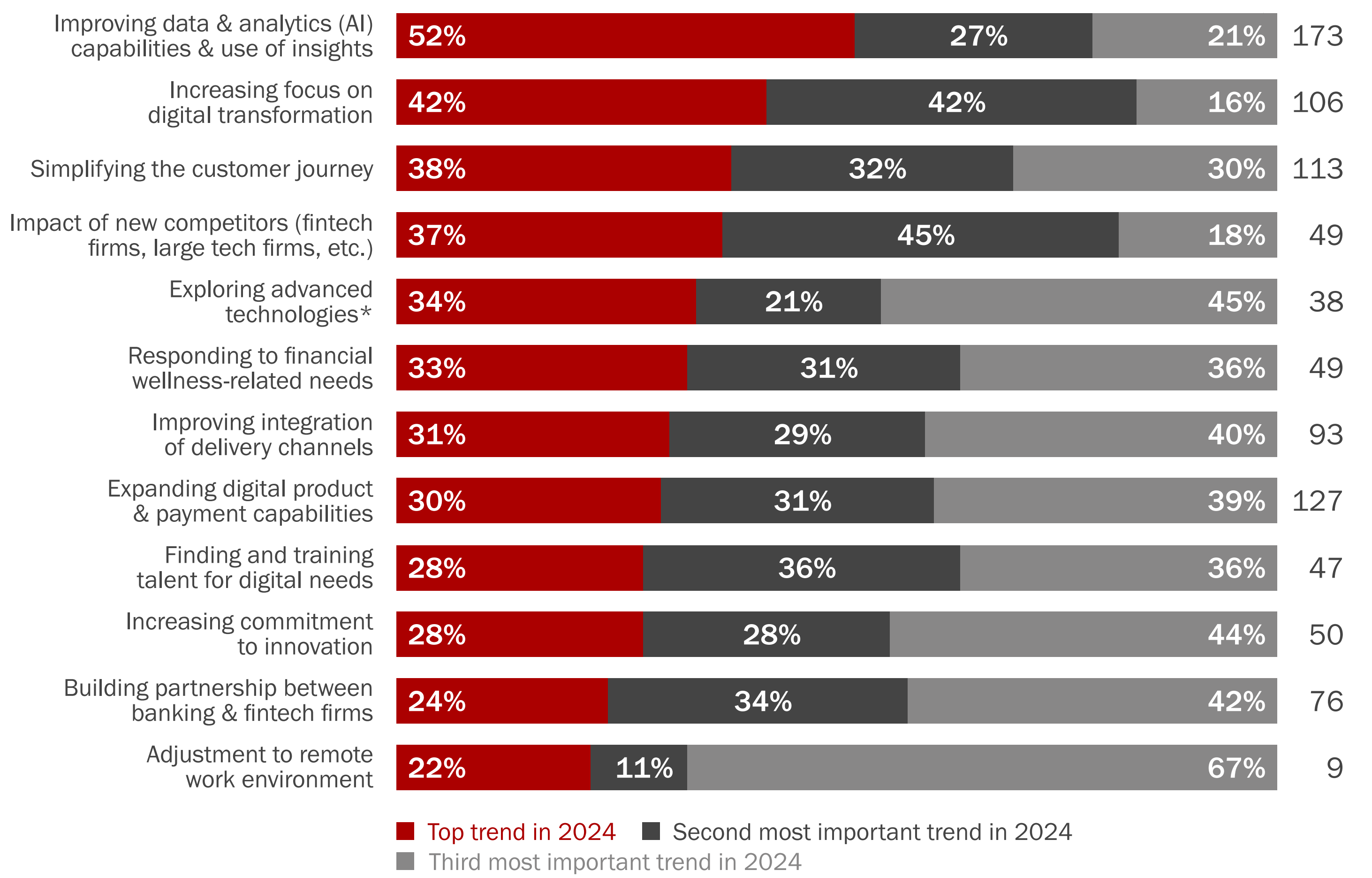
The 2024 strategic priority spike for improved data and analytics capabilities demonstrates acute acknowledgement that personalized emotional connections now determine consumer lifetime value more than rates or fees. Disrupters keep raising expectations with predictive engagement reflecting the impact of the beginning of the Fifth Industrial Revolution, where embedded personalization and contextual recommendations create value beyond price and experience.

This retail banking trend shift demands enterprise analytics engineering urgency to consume purchase transactions, interactions, declared and implicit preferences in unified profiles. Only then can AI recommend fit-to-purpose solutions in anticipated moments that resonate trustfully.

With consumers seeking guidance aligned with complex financial lifestyles, investment priority shifts to data confidence — signify comprehension that only modern intelligence engines generating extreme customization at scale earns relationships in the future. Lagging banks must now sprint to regain lost ground.

CHART 7: THREE MOST IMPORTANT RETAIL BANKING TRENDS IN 2024

What do you think will be the (3) three most important trends for the retail banking industry this coming year (2024)?



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An Incongruous Response to Defining Trends

Despite strong consensus that optimizing data and AI now represents ubiquitous banking imperatives in 2024, survey responses reveal worrying inconsistencies between these acknowledged forces shaping competitiveness and actual strategic priorities reported globally.

Just over half of financial institutions anticipated improved data/AI capabilities and leveraging actionable insights as the most impactful trend this coming year. Alternatively, only 22% of global financial institutions list enhancing analytics and intelligence as their top priority focus areas for 2024. (Note: This strategic priority did receive the second most organizations listing this as a priority.)

This alarming disconnect illustrates potential denial or lack of cultural readiness to undertake required enterprise analytics foundations enabling personalized engagement at scale using AI despite confessions it defines market futures.

Several hypotheses may explain gaps between confessed urgency and response prioritization:

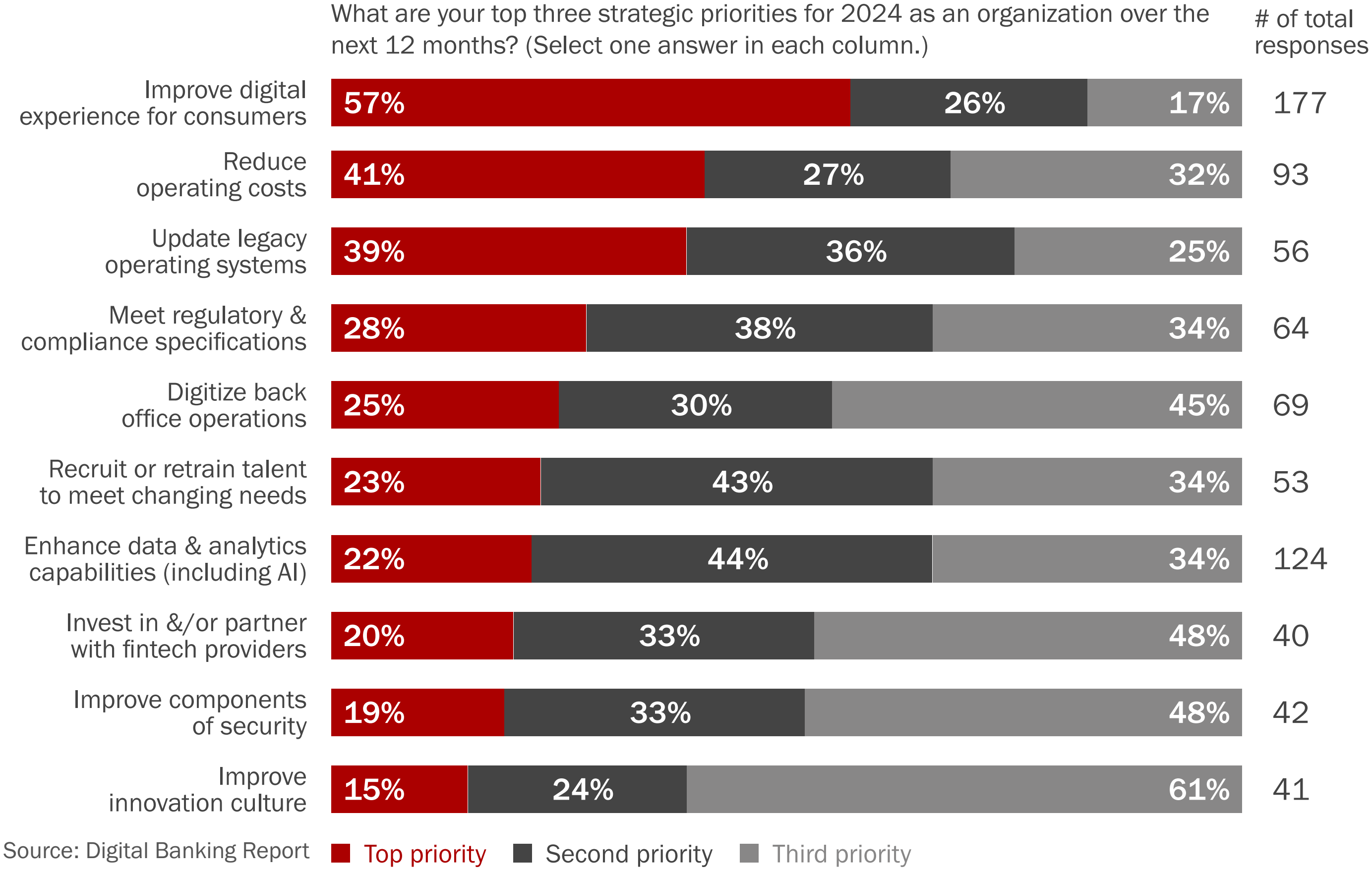
- **Budget Reallocation Difficulty -** Funds remain locked in outdated systems without growth impact as legacy debt obligations recur before modernization.
- **Skill Set Shortages -** Analytical talent wars limit abilities to build data engineering, data science and UX design teams rapidly to inform personalization initiatives.
- **Lack of Leadership Conviction -** Overly risk-averse executive culture skews against investment cases perceiving AI as unproven despite obvious consumer adoption signals.
- **Irrational Legacy Biases -** Emotional ties to branch distribution weight strategic discussions even with contradictory branch usage data ever-present.

Over half of institutions expect to still rely predominantly on legacy providers resistant toward disruptive models that compromises cloud-native, composable agility digital known to enable scale advantages with consumer data leverage.

Unless courageous leaders challenge these inconsistencies obstructing market reality acknowledgements internally, many banks will find time has run out to traverse their wide digital divide as early movers consummate power through intelligence.

CHART 8:
TOP THREE STRATEGIC PRIORITIES FOR 2024

What are your top three strategic priorities for 2024 as an organization over the next 12 months? (Select one answer in each column.)



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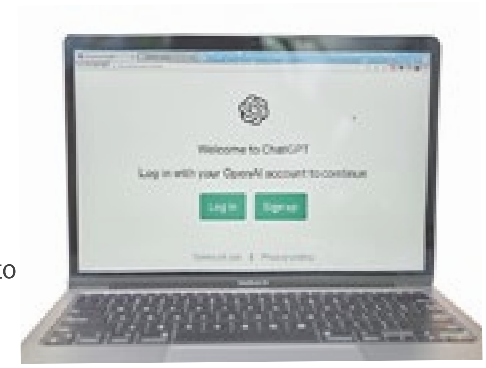
Current Use of AI Needs to Progress

Financial institutions are leveraging data and AI in a variety of ways, though many current use cases are still focused on risk management and cost savings rather than advanced customer engagement. Some of the key ways financial institutions are using data and AI include:

- **Risk Modeling and Fraud Detection:** Banks are using machine learning models trained on large datasets to better detect fraud, asses risk, and make lending decisions. This allows them to avoid risk more efficiently.
- **Process Automation:** Many repetitive back office tasks like loan processing and compliance checks are being automated using robotic process automation and AI. This provides cost savings through efficiency.
- **Chatbots and Virtual Assistants:** Banks are deploying conversational AI chatbots and robo-advisors to handle basic customer inquiries and services. This provides more convenient self-service options for customers, though the level of “intelligence” is still fairly basic.
- **Customer Insights:** Some institutions are doing more advanced analytics on customer data to understand behaviors, anticipate needs, and provide personalized offerings. However, this is not yet widespread.

As for future prioritization, financial institutions should look beyond risk and cost focused use cases and pursue customer-centric AI that provides true personalization, predictive insights, and value-added services. The chart below shows that most organizations are not yet embracing some of the more advanced use cases:

- **Predictive Life Event Marketing:** Use data to anticipate major customer life events like marriages, births, new jobs, etc. and provide tailored product offers.
- **Intelligent Advisory Services:** Provide specific and tailored financial advice similar to a dedicated personal advisor using all available customer data.
- **Advanced Alerts and Notifications:** Notify customers of unusual account activity, optimal timing for transactions/payments, personalized deals, etc. using predictive analytics.
- **Hyper Personalization:** Serve up the right content, products, perks to customers at exactly the right time without any requests.

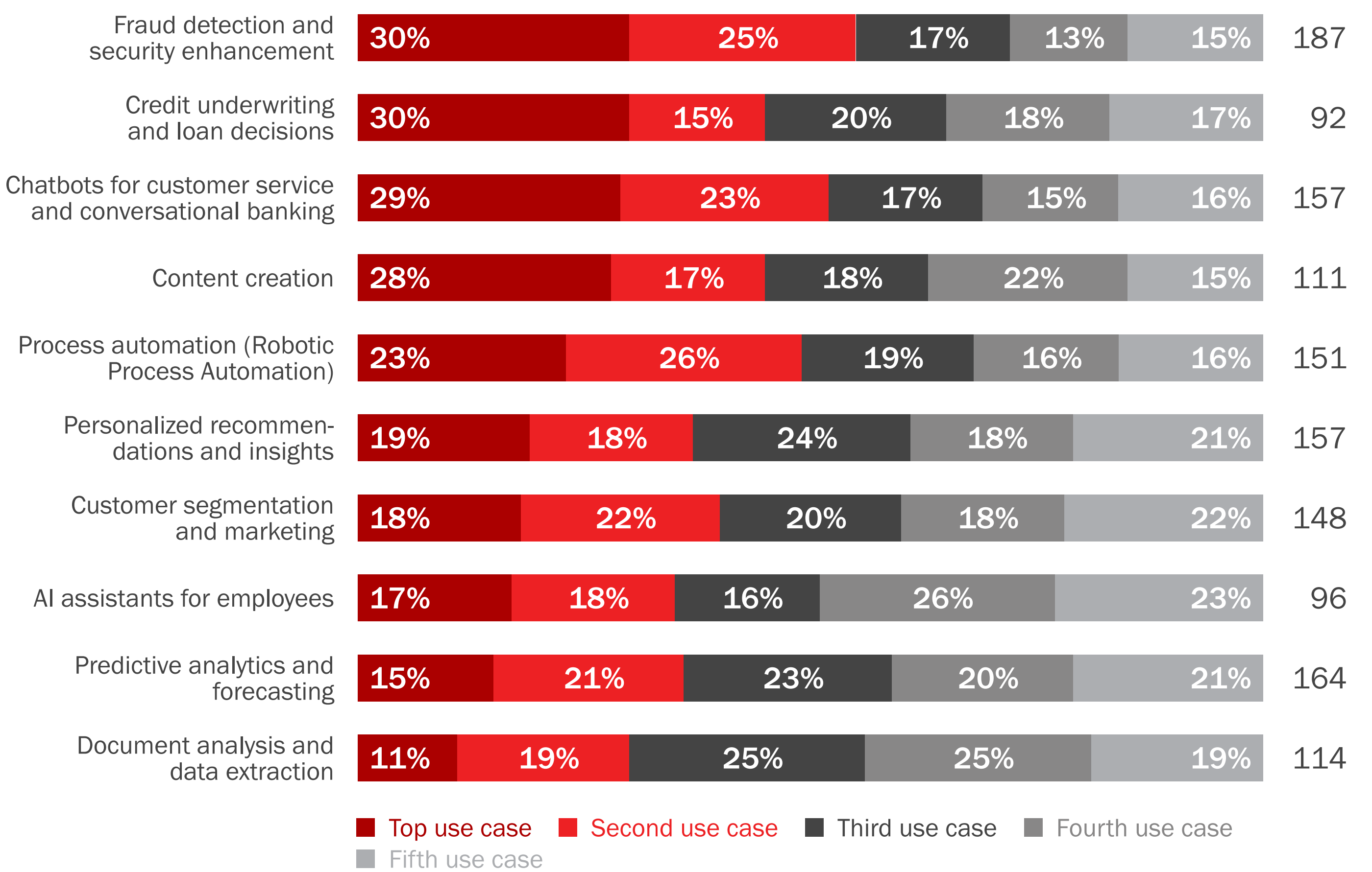


Pursuing more advanced use cases like these focused on individual customer engagement and value will require investments in cutting edge AI but provide great opportunities for differentiation. The key is having the right customer data foundation.

CHART 9: HOW ARE FIS CURRENTLY USING AI?

Please rank the five most important ways your organization is using AI currently. (Select one answer for each column.)

# of total responses



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The Long Road Ahead for Digital Transformation in Banking

The banking industry understands the critical importance of digital transformation. In a world where fintech disruptors and big tech firms are luring away customers with superior digital experiences, traditional institutions face existential threats without modernization. However, the current state of transformation across banking reveals the long road still ahead.

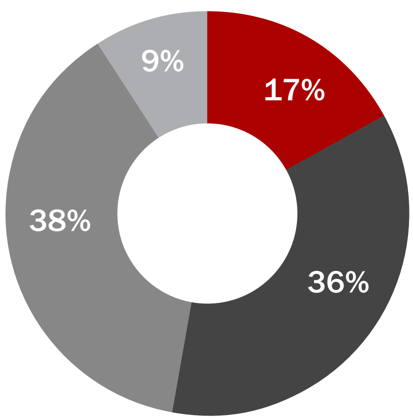
9%

Digitally Mature

According to our research, only 9% of banks globally are fully digitally mature today. Alternatively (53%) are still developing digital capabilities or are in the very early stages of digital transformation progress. 38% believe they are at the 'mid-point of progress'. This indicates that despite an almost universal understanding of the need for digital transformation, most banking institutions are still in relatively early stages of implementing comprehensive change.

CHART 10:
STATUS OF DIGITAL BANKING TRANSFORMATION INITIATIVES

Which of the following best describes the current status of your company's transformation initiative? (Please choose the ONE closest to your status.)



- We have some active projects but it is hard to say where we are, as we do not have clearly defined goals or measures of success in place.
- We are in the early stages of our digital transformation initiative. We have some active projects but have not yet made substantial progress towards our goal.
- We are mid stage in our digital transformation initiative. We have achieved at least 50% of our goal.
- We have fully achieved the goals we set ourselves. Digital is just part of how we do business.

Source: Digital Banking Report Research © January 2024 Digital Banking Report

CHART 11: PRESENCE OF OVERARCHING STRATEGY FOR DIGITAL BANKING TRANSFORMATION

Does your company have an active initiative or strategy designed to digitally transform the way that you work as a business, or the way you deliver experiences to your customers?

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Digital Banking Report
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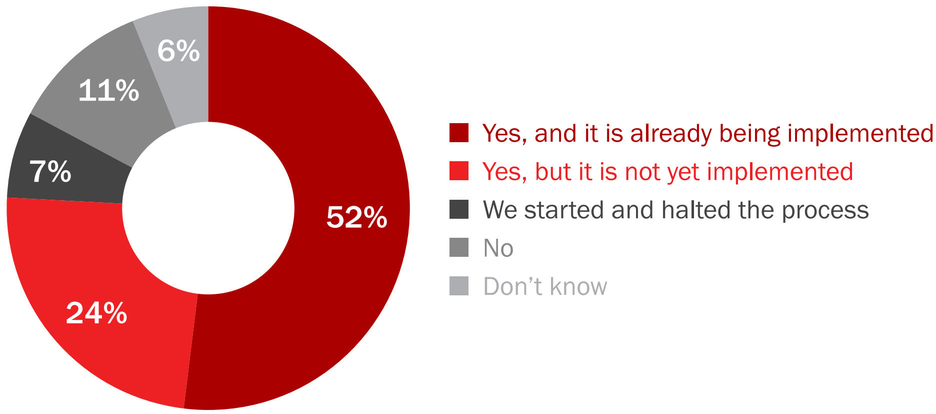


The Struggle Behind Banking's Digital Divide

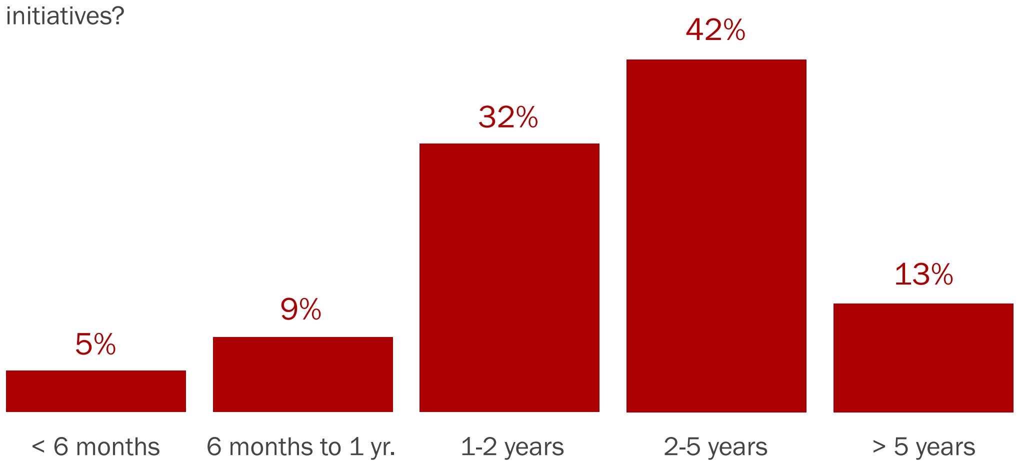
This divide separates not just maturity, but future success and relevance. Banks unable to digitally transform risk extinction within 10-20 years. Those embracing disruption will solidify market positions for decades ahead. So why the uneven progress?

Banks face tougher barriers than most industries in delivering enterprise-wide digital transformation. The foremost obstacle is overcoming extensive technology debt accumulated over generations before cloud, mobile and APIs existed. Core banking systems designed piecemeal since the 60s remain key transactional backbones. Massive legacy investments delay modern integrations.

CHART 12: LENGTH OF FOCUS ON DIGITAL TRANSFORMATION

How long has your company been working on your digital transformation strategies/ initiatives?

Source:
Digital Banking Report
Research © January 2024
Digital Banking Report



Equally challenging are organizational and cultural hurdles. Leadership misalignment around transformation stalls direction. Unable to attract digital talent and skill deficits slow execution. Outdated management practices hinder agility. Together, these barriers span people, processes and technology — a difficult combination requiring multi-year change management.

Focus Areas Reveal Need for Bolder Innovation

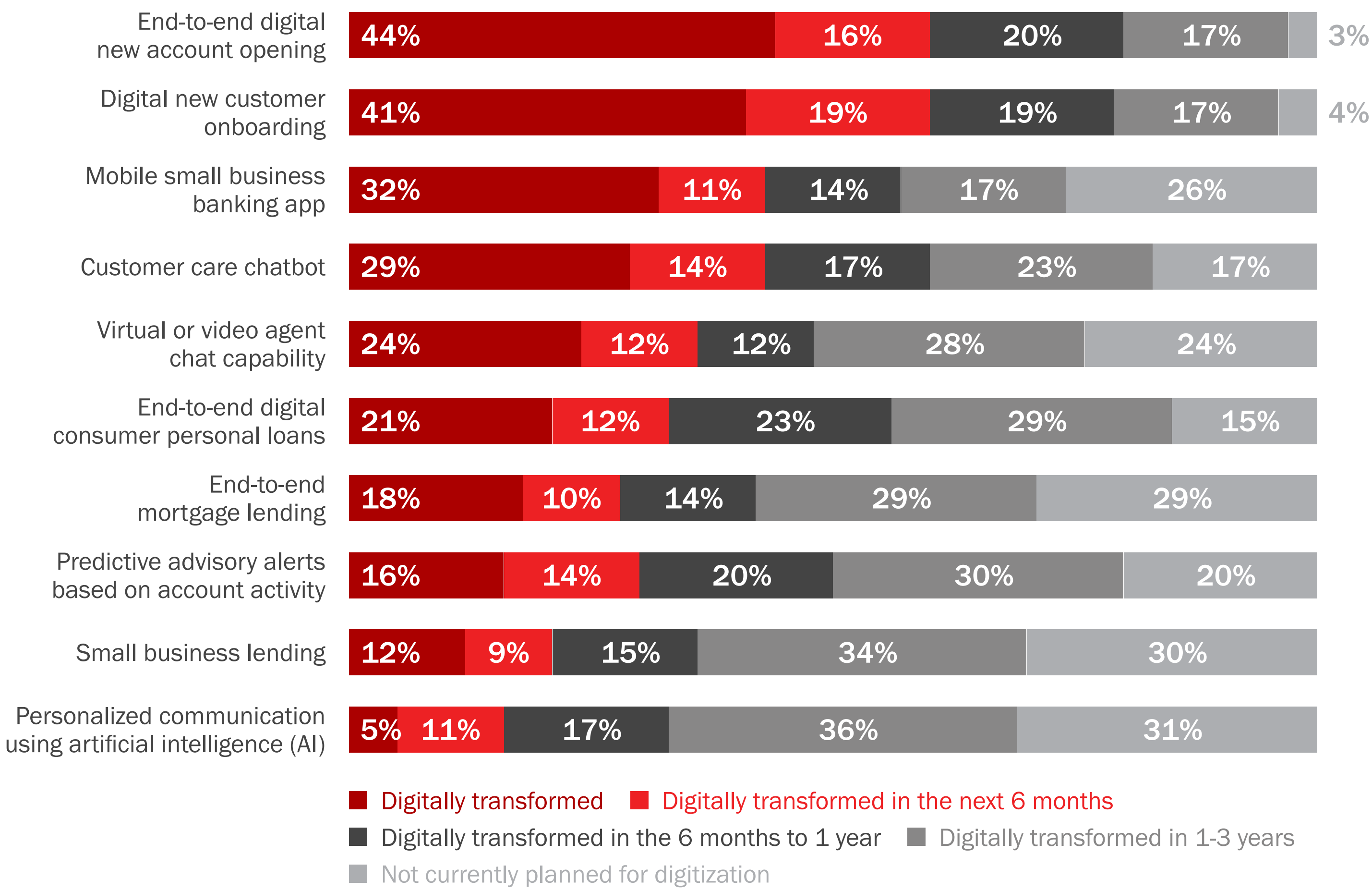
Despite stumbling blocks, banks are targeting focused investments to drive digital maturity. The priority areas center on improving productivity, efficiency and baseline customer experiences — check boxes necessary but insufficient for digital leadership.

Specifically, operations, productivity and customer experiences top these investment areas. This manifests through initiatives like automated processes and self-service tools aimed mainly at cost savings and basic CX needs. While important, these table stakes will not shift the needle enough long term. Alarmingly, few banks are prioritizing innovation or ecosystem-centric investments more tied to top line growth.

CHART 13:

CURRENT STATUS OF SPECIFIC DIGITAL TRANSFORMATION STRATEGIES

What is the current status of the following digital transformation strategies?



Source: Digital Banking Report Research © January 2024 Digital Banking Report

"At some point, banks must deliver the pace of rapid improvements customers already experience daily from Netflix, Amazon and Apple. The economic opportunity cost also becomes too large to ignore."

The data also affirms banks' internal technology and culture inadequacies over any external shortcomings around ideas or software capabilities. Just 1 in 10 cite lack of use cases or vendor solutions as top barriers, whereas 80% raise people, leadership and legacy challenges. The bottom line is incumbents clearly understand innovation areas worth pursuing, but falter building organizational readiness and technology foundations to support them. That comes next.

Minding the Digital Transformation Gap

Despite present struggles, the impetus for change remains unavoidable. The digital maturity gap projection shows laggard banks significantly under-performing leaders on customer satisfaction, revenue growth and other metrics within a few years. Even today, the bottom 25% of performers lag toppers by nearly half in key productivity and economic return rates. This reckoning will only intensify as both big tech and fintech upstarts keep delivering innovations — setting even higher consumer expectations.

At some point, banks must deliver the pace of rapid improvements customers already experience daily from Netflix, Amazon and Apple. The economic opportunity cost also becomes too large to ignore. To leave such value unclaimed while combating attrition is irrational in the long term.

Constructing the Pillars of Digital Transformation Success

Clearly, digital laggards must learn from and replicate leaders making more headway on transformation initiatives spanning both customer and employee experiences. Accelerating change starts with establishing several key pillars:

1. **Leadership & Culture Alignment:** Every bank needs an inspirational vision from the CEO through managers centered on becoming a thriving digital enterprise. Both business and technology leaders must then align closely translating that into an executable roadmap backed by patient capital investment. Cultural change programs are integral to driving necessary new ways of working.

2. **Talent & Organization Restructuring:** Digital talent shortages chronically hinder incumbent banks who must almost double hiring for critical architecture, analytics and agile roles over typical rates. Nearly 40% plan extensive reorganization of business and operating models to embed capabilities more sustainable in the long term.

3. **Core Modernization:** Legacy tech renewal remains imperative through systematic programs to decommission legacy systems and migrate core functions to cloud data centers leveraging orchestration and containerization. This modern foundation supports greater agility.

4. **Composable Architecture:** Banks must architect open and componentized technology stacks using APIs and micro-services, enabling modular upgrades.

This "compose anywhere" approach accelerates improvements and innovation cycles.

5. **Ecosystem & Partnership Centricity:** Forward-looking banks expand partnership ecosystems with external innovators, platforms and data providers through their organizational competencies and composable architectures. This multiplicative effect compounds innovation.

The Digital Imperative Has Never Been Greater

As daunting as today's challenges appear, the imperatives for digital transformation will only grow more intense. Big tech and fintech alike will raise expectations higher through relentless disruption. The stakes now center on banks securing positions to still thrive serving digital generations ahead.

Fortunately, the necessary pillars for digital success are well understood by industry leaders even if long term commitment is required for progress. The capabilities not only to digitally transform, but perennially refresh experiences abound in modern architectures. The larger question is whether boards and leadership teams summon their own transformation ability to execute on this vision before time runs out. That digital clock ticks louder every passing day.

The Future of Composable Banking

The Future of Composable Banking

The accelerating pace of technological innovation is upending traditional business models while customer expectations for digital experiences rapidly increase. To remain competitive, banks must undertake a digital transformation journey that re-architects both front-end customer experiences and back-end processes. Composable banking has emerged as a key enabler for this transformation.

At its core, composable banking involves breaking down monolithic banking systems into modular components that can then be rapidly reassembled in different combinations. This introduces much needed agility, flexibility, and innovation into what has traditionally been a rigid banking technology ecosystem. Through composable architectures, banks can continuously optimize and upgrade experiences that are part of the Fifth Industrial Revolution by plugging in best-of-breed components from a library of modern micro-services.

The State of Play for Composable Banking

A vanguard of both fintech firms and legacy institutions are driving adoption of composable banking today. On the fintech side, firms like **10x Banking**, **Q2,**

"Our survey shows the majority of financial executives are planning or already implementing composable architectures over the next 1-3 years."

and **Thought Machine** are providing core banking platforms based on cloud native, API-first designs. These solutions allow banks to access an ecosystem of plug-and-play banking services. In parallel, partnerships between fintech firms and banks are accelerating composable implementations.

At the same time, the most advanced incumbent providers are re-architecting offerings into composable technology stacks. Further opportunities exist for banks to embrace composable designs from big tech players like Amazon or Microsoft, which provide proven platforms leveraging server-less compute, messaging queues, and low-code tooling.

Across both third-party packages and homegrown systems, we are in the early days of widespread composable adoption. However, all signs point to it becoming the new normal. Our survey shows the majority of financial executives are planning or already implementing composable architectures over the next 1-3 years.

CHART 14:
HOW FIS USE THIRD PARTY SOLUTION PROVIDERS

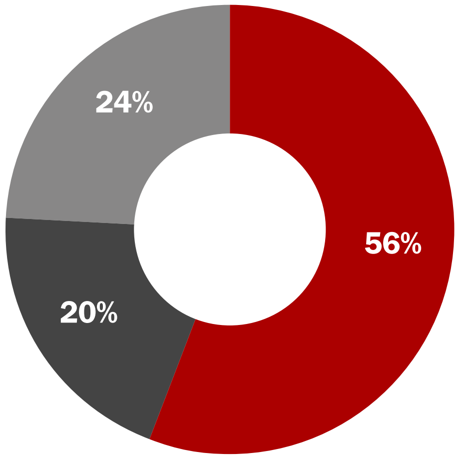
What are the top 3 solutions where you would partner with a third-party provider? (Select one answer for each column.)

Source: Digital Banking Report Research © January 2024 Digital Banking Report

"Additionally, composability enables continuous innovation. Banks can constantly integrate cutting-edge capabilities from the thriving fintech ecosystem into experiences and operations using APIs".

CHART 15:
INCIDENCE OF PARTNERING WITH FINTECH FIRMS

Has your organization partnered with a fintech firm?



- We have already established a partnership with a fintech firm.
- We plan to partner with a fintech firm in 2024.
- We have no plans to partner with a fintech firm in the foreseeable future.

Source: Digital Banking Report Research © January 2024 Digital Banking Report

The Business Imperative for Composability

Composable banking solutions introduce game-changing operational advantages that make it a competitive necessity looking ahead. The first advantage is agility. Composable systems, built on micro-services and APIs, can be quickly reconfigured to launch new products, test variations, enter markets, and support partnerships. This is in stark contrast to monoliths that make even small changes slow and expensive. Imagine introducing something like Apple Card in weeks rather than years.

Next is scalability and resilience. As banks process growing volumes of data, transactions, and customers in the digital age, the ability to elastically scale capabilities up and down is critical, as is building redundancies to prevent downtime. Composable architectures running on cloud infrastructure provide both. No more scrambling when customer loads spike.

Additionally, composability enables continuous innovation. Banks can constantly integrate cutting-edge capabilities from the thriving fintech ecosystem into experiences and operations using APIs. New technologies around data analytics, security and payments can all be refreshed in real-time instead of through painful upgrades occurring once every few years.

Finally, composability leads to productivity boosts long term. Lower change costs and simpler integrations reduce expenses and complications tied to legacy custom projects. Staff can focus innovation rather than maintain siloed systems. Through all these gains in responsiveness, efficiency and innovation velocity, composable systems deliver outstanding ROI.

“The composable model ultimately bridges the speed gap between fintech disruptors and incumbents. It unlocks infrastructure innovation as a force multiplier to application innovation occurring in products.“

The Innovation Imperative

While the composable paradigm shift is operationally and economically compelling on its own merits, arguably its greatest value is as an innovation accelerator. Software innovation has become the lifeblood of customer centricity and market leadership in banking. Delivering category-defining experiences like Apple Card or Bank of America’s Erica requires new technologies continually layered into products and processes. Doing so sustains differentiation and relevance over time.

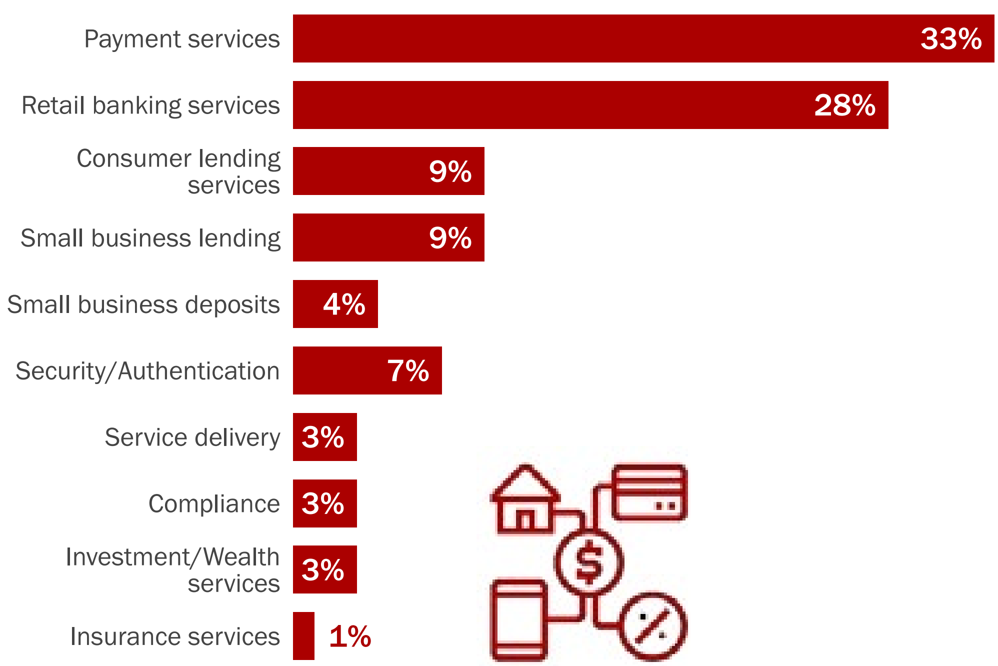
However, legacy banking architectures severely impede the innovation velocity required in today’s market. Any changes get funneled through narrow release windows, necessitating long cycles. Demand for engineering resources chronically outstrips supply. Partnership integrations drag out endlessly. Try innovating at the pace of today’s fintech firms with mainframes and monoliths!

This is where the composable advantage fuels a massive innovation multiplier effect. With modular building blocks orchestrated using APIs and software connectors, new capabilities slide cleanly and rapidly into ecosystems. Complexity flows into the piping while products on top evolve freely. Suddenly, the latest AI, modern application platforms, cutting-edge data infrastructure and more, reformat banking experiences without friction.

The composable model ultimately bridges the speed gap between fintech disruptors and incumbents. It unlocks infrastructure innovation as a force multiplier to application innovation occurring in products. This inside-out/outside-in pincer movement generates tremendous combinatoric opportunities. Exciting partnerships, embedded marketplaces, open banking ecosystems all flourish atop the composable foundation.

CHART 16: SERVICES PROJECTED TO BE IMPACTED BY NON-TRADITIONAL PROVIDERS

Which area of traditional financial services is most likely to be impacted by big tech and fintech providers in 2024? (Choose one.)



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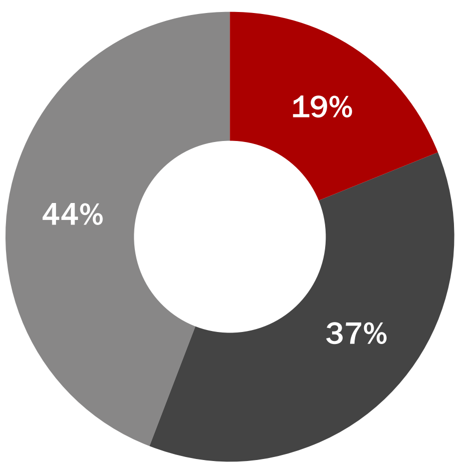
Modernizing Back Office and Operations

While the customer-facing innovation possibilities spark excitement, composability also pays major dividends revamping back-office systems and operations. On this side of banking, obsolescent infrastructure built up over decades such as COBOL mainframes, batch processing, and Byzantine middleware severely hamper efficiency and insight. The effort required just to gather data for analytics leaves little room for actually improving operations.

Here as well, composable systems reconstituted using cloud servers, containers, and orchestration tools alleviate massive friction. API-driven data flows and modular services then optimize processes piecemeal or through sweeping automation initiatives. Functions like fraud monitoring, loan underwriting, regulatory compliance get individually upgraded leveraging modern AI/ML capabilities. New analytics tooling generates operational insights from transaction activity signals previously locked away in black box systems.

CHART 17: PARTNERSHIPS DRIVE TECHNOLOGY MODERNIZATION

How does your organization modernize technology?



- We use our core provider for the vast majority of technology improvements.
- We rely on our core provider for more than 75% of new tech solutions, but also consider third-party providers.
- We use third-party providers whenever possible to deliver the best solutions at speed and scale.

Source: Digital Banking Report Research © January 2024 Digital Banking Report

Measured in cost savings and risk reduction, revitalizing back-office operations and infrastructure may ultimately contribute even more value than innovating consumer experiences with composability. Since margins also factor prominently, the operational enhancements matter greatly for banks' financial health. When woven together, we see composable banking as an indispensable catalyst on two sides of the business — for both customer-centric innovation upfront and enabling modernization in the back.

Strategic Recommendations

For bank leadership teams seeking to flourish amidst the Fifth Industrial Revolution, pursuing composable banking merits top strategic priority. Every major bank should have a multi-year roadmap to shift towards a composable technology posture. The capabilities this unlocks to drive innovation, efficiency and growth outweigh the tremendous inertia inherent in existing systems.

As incremental modernization initiatives lay stepping-stones, leadership should socialize an inspiring north star vision across the organization centered on composability principles. Both business and technology stakeholders require alignment on the value to fully leverage this paradigm shift. Platform thinking must take hold.

In parallel, banks should take an ecosystem view of partners and capabilities that can accelerate their composable journey. The technology underlying composability offers immense choice and flexibility to stitch together solutions. Stratifying products, functions and components that could integrate through composable pipes will illuminate partnerships.

Make no mistake, the composable model entails a multi-year modernization effort full of intricacies. But equally without doubt, it constitutes a one-way door to the future of banking innovation through the Fifth Industrial Revolution and beyond. With cloud, everything composes — the question is how quickly leadership decides to make that future a reality.

Achieving Sustainable Growth in Banking

Achieving Sustainable Growth in Banking

Understanding customers is the foundation to a sustainable competitive advantage in banking. Therefore, financial institutions can no longer wait to embrace the power of advanced analytics to gain insights and evaluate opportunities that will improve acquisition strategies, cross-selling, up-selling and enhanced share of wallet.

It is amazing how some topics continue to stay relevant in banking despite the passage of time. One such topic is the importance of customer analytics in banking. In 2013, I referenced *a report from Celent* entitled 'Customer Analytics in Banking: Why Here, Why Now?', where senior analyst, Bob Meara wrote that it was the time for banks and credit unions to leverage the advances in processing, memory, database design and analytic methods to improve performance and reduce costs.

While the Celent analyst noted that some institutions were already on the path of using advanced analytics for decisioning and optimization, other organizations had only limited experience. I reemphasize this since the topic is as true today as was when the Celent report was first published.

In the report, it is noted that financial organizations need to extract more value from internal and external data sources, guiding product development, customer communication, innovation and growth. According to Celent, the use of advanced

"Fintech disruptors and big tech continue making inroads with digital native consumers through fundamentally better experiences, innovative products and inverted business models."

analytics in banking is correlated to the size of organization even though the cost of processing data is no longer as much of a barrier as even five years ago.

The concern is that we are not using data, analytics and external data to drive the decisions we make around growth, product development or even distribution strategies. In fact, in many cases, we lean back on legacy thinking to continue to think and do as we have done in the past.

Flawed Growth Strategies Restricting the Industry

As the banking industry enters 2024, most institutions face slowing growth and shrinking market share despite a favorable economic environment. Fintech disruptors and big tech continue making inroads with digital native consumers through fundamentally better experiences, innovative products and inverted business models. For traditional banks, sustainable growth now requires both transforming legacy practices and pivoting strategies to unlock new drivers.

The foremost growth priority cited by bankers recently remains acquiring new customers. While expanding the customer base appears intuitively attractive, three inherent flaws restrict its impact:

1. **Digital Onboarding Remains Subpar –** Nearly half of banks admit deficiencies signing up digitally native prospects through poorly designed account opening and onboarding journeys riddled with friction points. Abandonment rates consequently run high. Solving this with more seamless entry experiences should take priority.

2. **Engagement and Retention is Weak –** Financial institutions optimize far less to continually engage customers for viral growth or promote loyalty that retains relationships longer term. Ultimately converting sign-ups requires relationships. Otherwise, banks risk building leaky buckets through the front door but silent attrition out the back.

3. **Economics Depend on Share of Wallet –** Ultimately for unit economics to work, banks need meaningful share of wallet built on primary transactional relationships, not just account openings. This hinges on superior digital money management utility securing engagement beyond early-stage transactional experiences.

CHART 18:
KEY GROWTH STRATEGIES FOR 2024

Please rank your growth initiatives for 2024.

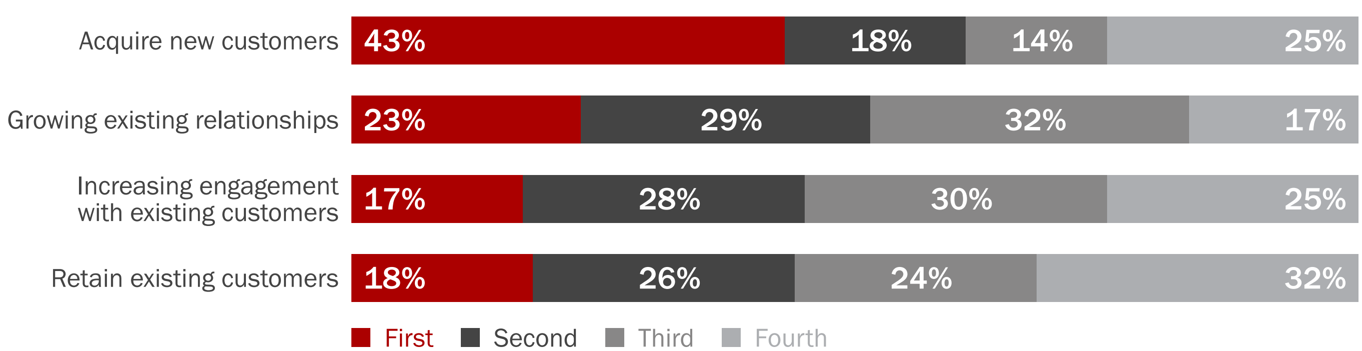


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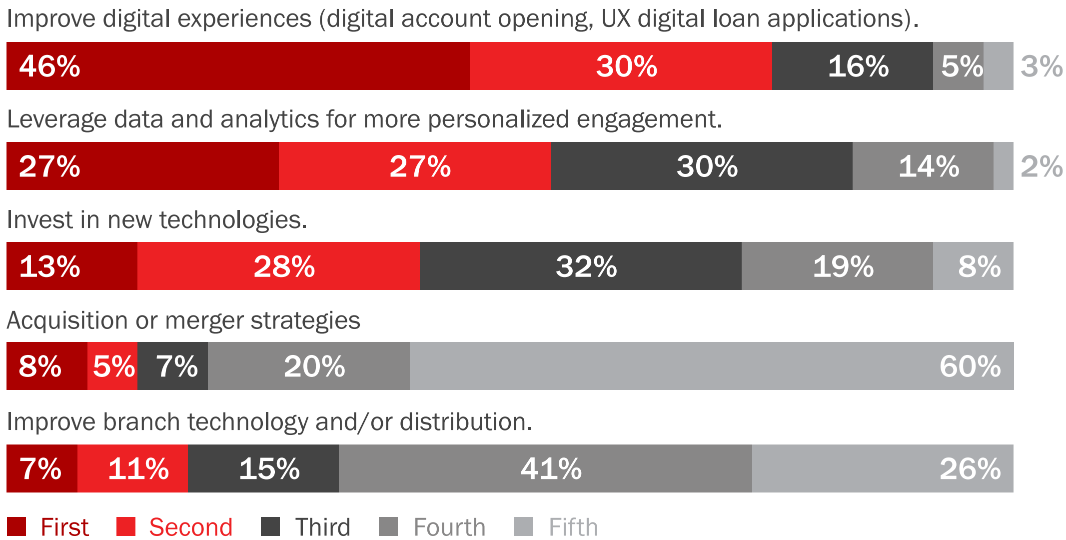
CHART 19: KEY STRATEGIES FOR CUSTOMER GROWTH IN 2024

Please rank your strategies for customer growth in 2024.



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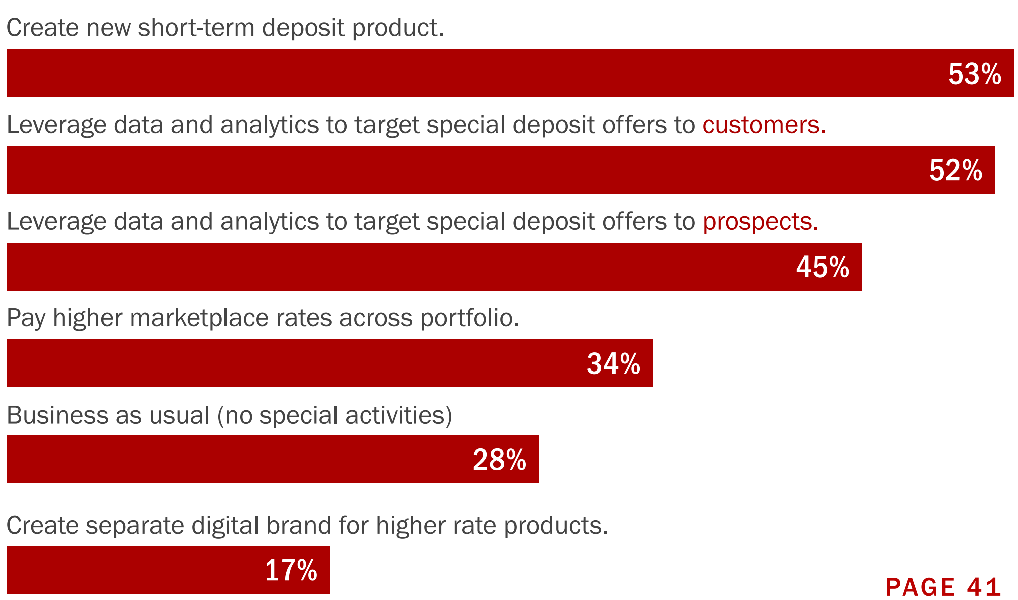
2023 saw a shift in interest rates that required asset/liability thinking that had not been required for the past decade. Competition for deposits heightened, and many organizations were unprepared for digital deposit competition from fintech firms, tech organizations, digitally astute legacy banks and even retailers.

Unfortunately, most institutions still compete fiercely on deposit pricing for liquidity through campaigns emphasizing premium rates. This approach fosters further commoditization without addressing underlying engagement problems.

Building durable growth engines centered on highly personalized pricing, digital experiences, engagement utility and relationship economics is mandatory to escape stagnation dynamics.

CHART 20: DEPOSIT ACQUISITION STRATEGIES

Which strategies are being used by your organization to generate deposits? (Mark all that apply.)



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Delivering Instant Payment Experiences

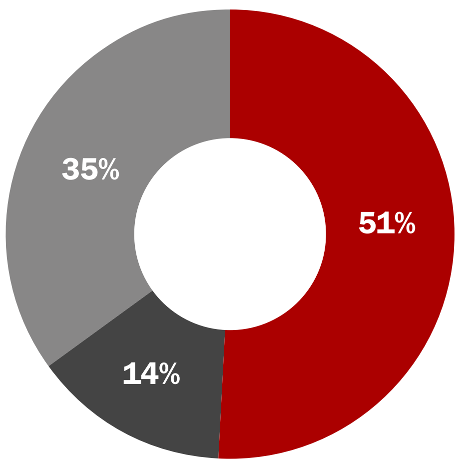
One area exhibiting genuine progress is delivering instant payment capabilities, with close to half of banks offering real-time payout, settlement and reconciliation functionality. This removes friction around key financial activities today's digital consumers consider basics.

However, banks merely matching baseline expectations still cedes advantage to disruptors continually upping the ante on speed and convenience. The latest examples include Apple introducing instant transfers between debit and credit cards and PayPal enabling businesses to instantly access sales proceeds. Customers now take such advances as givens.

The opportunity for banks is leveraging faster payments to differentiate specific vertical solutions. Use cases like instant receipt of insurance claim proceeds, immediate access to home equity, accelerated payroll funds or real-time small supplier payments better showcase this infrastructure's power. Winning combinations of programmability and speed drive utility.

CHART 21: STATUS OF OFFERING REAL-TIME PAYMENTS

What is your current status of offering real-time payments?



- We do not currently support real-time payments.
- We currently only send real-time payments.
- We both send and receive real-time payments.

Source: Digital Banking Report Research © January 2024 Digital Banking Report

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Specialized Small Business Banking

Similarly, banks maintain sizable market share around small business banking products through longstanding incumbent advantages. Most see enhancing those services through better digital account opening, more mobile features, expanded offerings and data-driven personalization as key priorities for 2024. However, the playbook still lacks imagination.

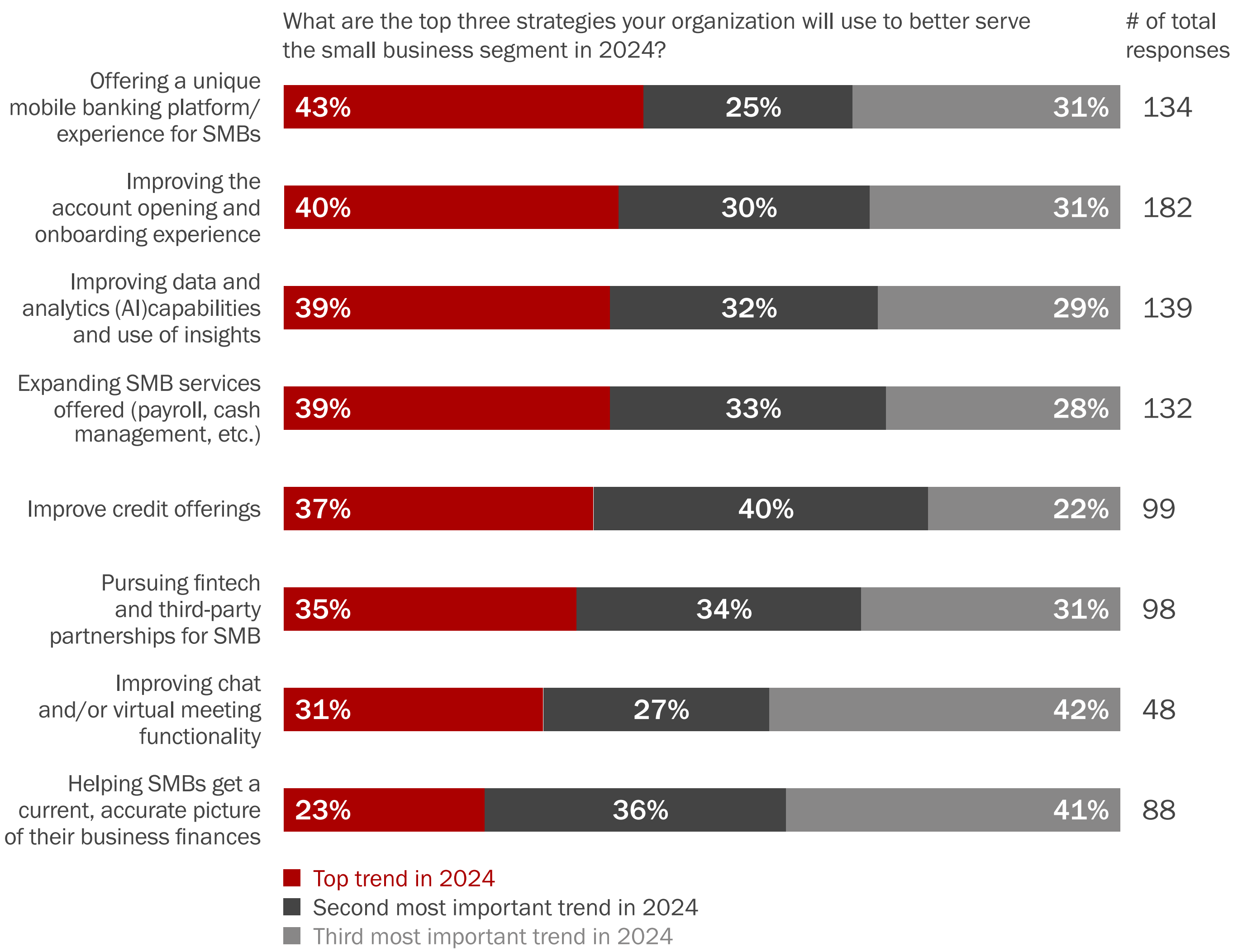
Where banks should excel is providing sophisticated vertical solutions matching niche small business needs. For example, customized cash flow solutions for contractors managing project payments and expenses. International payment services for import/exporters requiring multicurrency transfers. Receivables factoring modules for online sellers to accelerate access to inventory capital. The integration opportunities abound across financial tasks and industry use cases.

Amazon has massively succeeded servicing small businesses through APIs, connecting books, commerce, fulfillment, payments and more into an integrated experience. Banks possessing ultimate oversight of deposit, credit, investment and payments activity can construct similar money management nuclei if powered by modular architecture. The customer ownership premium accrues to those best alleviating financial complexity for small businesses.

CHART 22:

TOP THREE STRATEGIES FIs INTEND TO USE TO SERVE SMALL BUSINESSES

What are the top three strategies your organization will use to better serve the small business segment in 2024?



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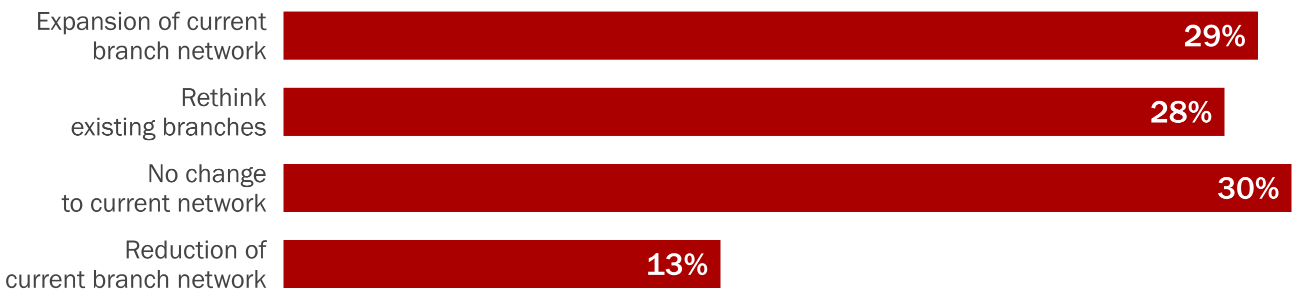
Rethinking the Role of Physical Networks

Potentially no area exemplifies the perseverance of legacy banking models like the continued expansion of physical branch networks. Over 60% of institutions still plan to grow their retail footprint in the years ahead despite debatable rationale given profound digital shifts underway.

Foot traffic drained steadily over the last decade as mobile apps removed in-person needs. COVID then necessitated temporary branch closures with negligible customer impact. Further closure waves will likely occur given massive operating leverage and stranded real estate values. Most importantly, no evidence exists that branches meaningfully impact acquisition, share of wallet, engagement or retention in a digital first world.

CHART 23: CHANGES TO BRANCH DELIVERY NETWORK IN 2024

What is your organization's plan for branch development in 2024?



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Their singular unique capability — facilitating complex financial conversations — hardly balances the excessive occupancy costs of large retail networks.

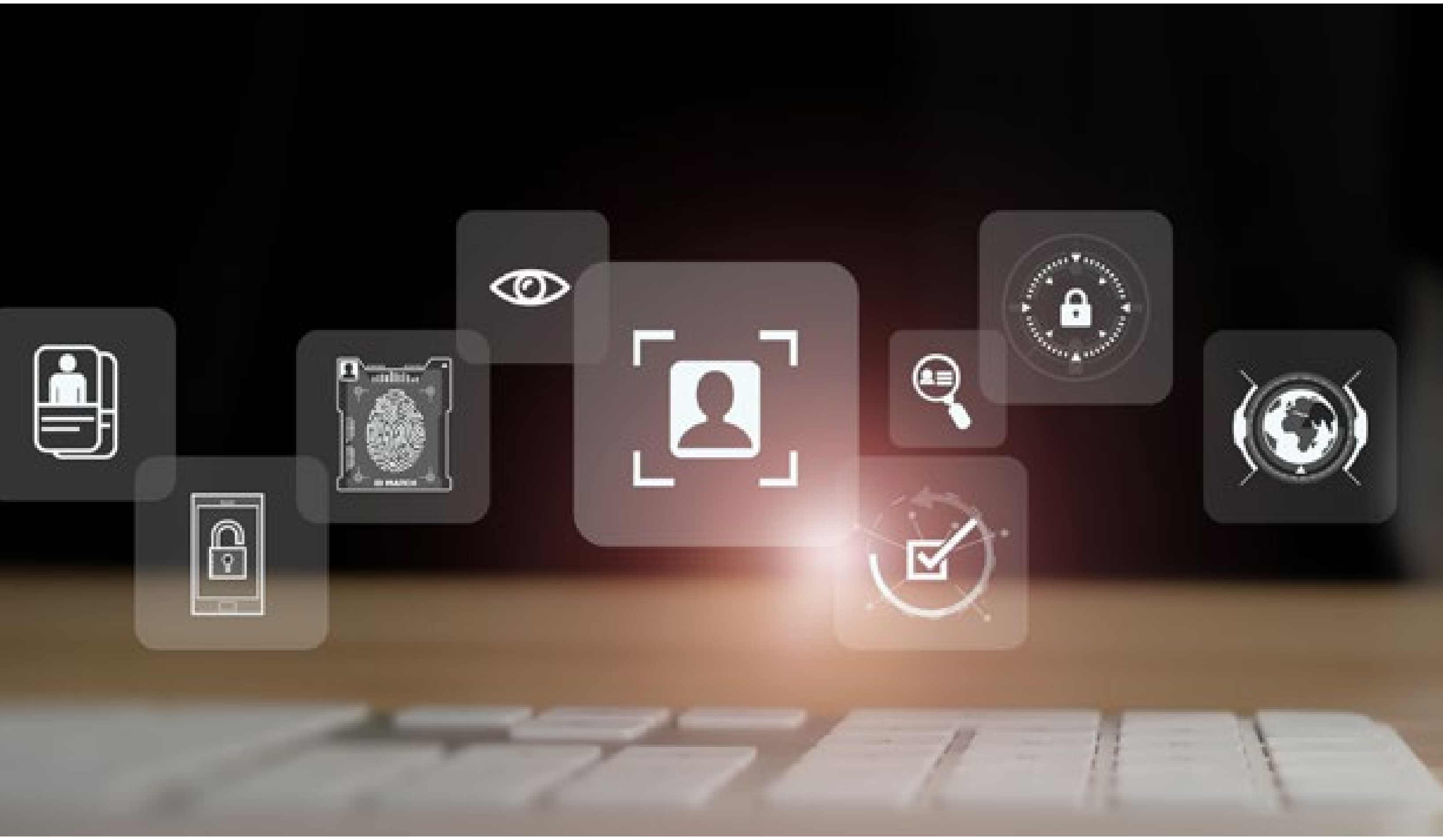
Ultimately the resolution lies in reimagining branches from standardized outlets to specialized experience centers. Various global pioneers point to models with smaller community-based locations, integrated self-service kiosks, in-store digital concierges via video, remote experts providing advice virtually and centralized financial guidance hubs. Optimally, matching format to localized needs and rewiring staff to enable technology promises better network leverage. The value remains less around transacting than advising.

Imperatives for Future Growth Acceleration

Across strategies from customer acquisition to small business services, instant payments to physical networks, traditional banks are largely playing catch up by digitizing longstanding practices. But sustainable growth in the coming decade requires overtaking fintech and big tech innovators ... reshaping consumer expectations. This demands both foundational change and bolder thinking from incumbents.

The key imperatives include accelerating core modernization programs to cloud-based composable architectures that exponentially increase change velocity. Building API ecosystems with value chain partners expands capabilities faster through collaboration. Leveraging data and AI introduces more tailored personalization as well as higher automation. Clean digital customer journeys end onboarding abandonment while superior money management utility captures engagement through financial life events.

Above all, banks must raise both strategic ambition and execution intensity to build primary digital relationships — not just products — serving customers daily across devices. Doing so firmly establishes the competitive moats protecting profitability over the next generation. With an understanding of the impact of the Fifth Industrial Revolution, banks' growth future can improve, with digital priorities realigning around customer engagement and platforms instead of sales metrics, transactions and channels.



Conclusion: The Future of Banking During the 5th Industrial Revolution

The Future of Banking During the Fifth Industrial Revolution

From steam engines spurring manufacturing to digital connectivity remaking commerce, previous economic revolutions shared technological catalysts and societal impacts. As retail banking stands at the doorway of the Fifth Industrial Revolution, it is poised to profoundly reshape markets and experiences.

Defined by extreme personalization, mass customization and precision augmentation, the exact disruptions of the Fifth Industrial Revolution on banking remain indistinct. Yet, advancements in generative artificial intelligence, ambient interfaces and hyper-connectivity already hint at a heightened consumer-in-command days ahead.

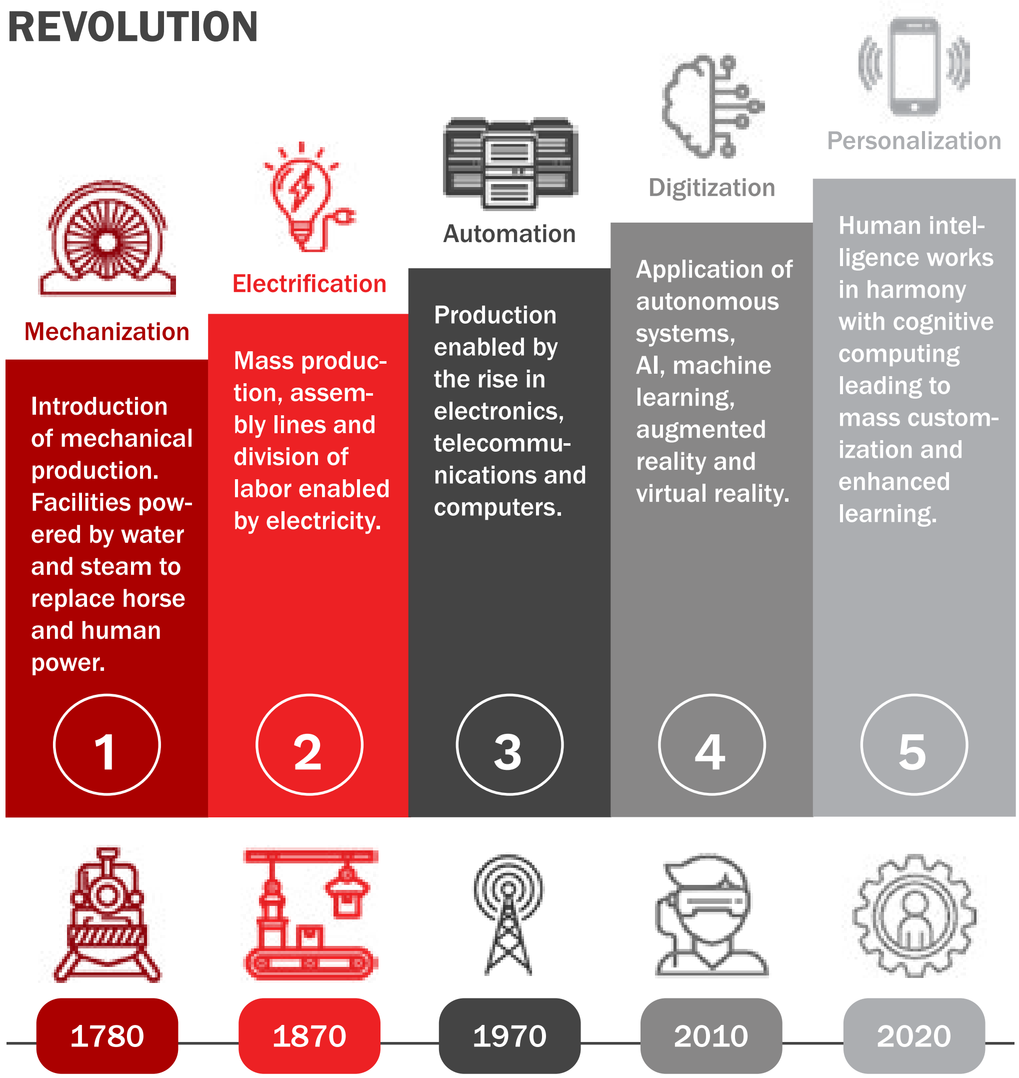
5th

Industrial Revolution

Incumbent banks and credit unions are anchored by vast infrastructures of bygone eras built for broad physical accessibility — not tailored individualism. Before personal preferences wholly displace legacy financial products, those moving first to participatory engagement combining human insight with synthesized AI will gain first mover advantage.

CHART 24:

EMERGENCE OF THE FIFTH INDUSTRIAL REVOLUTION



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With non-traditional providers vying more creatively for customer share of wallet using consumer emotion and expression to gain engagement, expect your fiercest competition to emerge from outside the players today. The winners will come from organizations built on digital and listening for needs across platforms.

As the convergence of new engagement devices reach mobile's ubiquity over the next decade, continuous lifestyle augmentation will become integral. Banking as a component experience serving episodic financial needs will fade against the rise of ambient money management and value exchange. Daily balances, cash flows and market dynamics will define instant opportunities that are both contextual and personalized. Independent and accessible DIY consumer financial guidance will become the norm.

Progressive institutions will recognize these revolutionary threats and reframe these as opportunities through collaboration with outside providers and enhancers of value. By partnering with tech firms, retailers, communication platforms and AI professionals, the best banks and credit unions will be able to reinvent value exchange for an intensely personalized landscape.

Here are the foremost considerations for leaders readying to guide their organizations across the consumer singularity horizon toward an abundantly transformed banking future.

The Years Ahead: Customers Control Their Own Connectivity

The future of banking in the Fifth Industrial Revolution will see organizations solidify around embedded environmental interfaces, bio-metrically secure identity and anticipatory AI recommendations. **Gartner** states that composable solutions will increasingly allow us to deliver the resilience and agility that these interesting times demand.

> *"The more these composable business ideas are integrated within your business model, the more flexibility and agility your organization will have. That means faster response time and more consistency in execution for this new type of business setup." — Gartner*

The most advanced financial applications seem unimaginable today. Imagine walking past high-end products, visiting auto dealerships or viewing billboards advertising exotic vacations instantly triggering tailored lending offers based on visual persona identification and real-time credit approval. Now imagine embedded value exchanges seamlessly negotiating personalized deals or pre-approved financing integrated at the point-of-thought across settings. Augmented and mixed reality interfaces will be able to bridge physical and virtual worlds that will move money experiences from transactions to embedded experiences.

Connected wearables and spatial devices will be able to lift financial literacy from occasional monitoring to immersive education. Market dynamics and portfolio slightest fluctuations keeping running financial recommendation digests that are always accessible. Voice-based personal advisors will contextualize alerts, explain concepts simply upon request, and recommend helpful budget actions confidentially.

Whether such scenarios arrive in 5 or 15 years, all roads are heading toward consumers authoring their own interfaces through AI digital twins sooner than institutions can dictate terms. Democratizing co-creation based on individual needs and terms demands engagement redefinition delivered as part of a composable collaboration.

Four Forces Converging on Customization

Underpinning the personal platforms future of the Fifth Industrial Revolution are four interconnected technological and behavioral shifts gaining momentum in parallel:

1. **Generative AI —** Language-focused models like ChatGPT are quickly evolving to more advanced releases engaging users conversationally to not just respond, but architect experiences aligned with articulated preferences, contexts and modes. While still dependent on human oversight addressing ethical concerns presently, their independence and articulation abilities will grow steadily more indistinguishable from our own.

2. **Ambient Computing —** Internet connectivity now extends nearly everywhere except isolated regions, but persistent environmental interfaces still require

smartphones as proxies. As augmented devices and haptic wearables evolve offering subtler information exchange closer to various human senses, digital overlays onto the physical world will become commonplace through devices anticipating needs proactively.

3. **Quantum Infrastructure —** Connecting embedded business capabilities at global scale — and doing so with flexibility for unique requirements and security — will demand computing architectures leveraging quantum's exponential power for customized processing. These emerging stacks with built-in entanglement integrate market-ready innovations today while allowing AI and distributed interfaces to interoperate adaptively.

4. **Decentralized Identity —** Establishing trusted identifiers not dependent on government documentation that dynamic individuals can carry securely across contexts under their sole authority shifts agency firmly to people. We are seeing the beginning of these capabilities with encrypted biometrics.

Allowing individuals to self-define experiences around their values and expression through AI co-creation, decentralized governance and boundary-less infrastructure necessitates ceding institutional control while still creating mutual value.

Personalization and Customization in Banking

Transitioning from reactive assistance upon customer requests to preventive guidance aligned with personal behavior relies first on apprehending each individual's distinct money patterns and perspectives. This mandates coalescing once siloed datasets — from spending categories, savings rates and credit actions to declared priorities from surveys, browsing digital footprints and even social conversations.

Advanced analytics combines this qualitative and quantitative data to uncover attitudinal psychographics, behavioral lifecycle stages and emotional stressors so guidance resonates trustfully. Client profiles dynamically update while machine learning models continuously tune weighted data interpretations to avoid static or stale assumptions.

"Legacy systems compound barriers between data sets, functions and channel experiences cultivated individually over decades without centralized orchestration."

Hyper-customized guidance subsequently reaches customers everywhere through omnichannel orchestration integrating personalized insights. This spans customized video explainers on financial concepts upon next login, tailored nudges toward prudent savings or investment diversifications as market conditions fluctuate and location-based mortgage offers anticipated around major adult milestones like marriage or new children.

Opportunities for Retail Banking

Hyper-personalization powered by data-driven insights offers retail banking leaders three primary openings:

1. **Improved Engagement —** Preventing customer attrition hinges on continuously relevant offerings anticipating needs in-channel. Predictive analytics, lifecycle triggers and customized content keep institutions valuable.

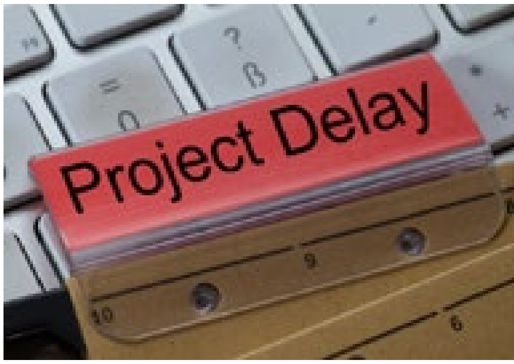
2. **Enhanced Decision-Making —** Unifying siloed legacy information under singular data models gives comprehensive market and competitive perspectives. Advanced analytics and simulation better inform trade-offs.

3. **Innovative Offerings —** Embedding banking features where customers manage lifestyle needs positions institutions as digital money confidants through daily moments beyond transactions. Fintech co-creation can pilot new models iteratively.

Challenges and Threats

While the promise of the Fifth Industrial Revolution in banking excites, realizing such all encompassing personalization also spawns understandable skepticism. Many financial institutions question still-nascent capabilities while consumer adoption and loyalty gains require demonstration first.

Legacy systems compound barriers between data sets, functions and channel experiences cultivated individually over decades without centralized orchestration. Siloed channel applications, decisioning systems and data warehouses create immense integration challenges. Unified views of relationships transcending products also remains hugely complex.



More than ever, technical staff shortages, cultural aversion toward external partnerships in heavily regulated sectors, cybersecurity vulnerabilities from growing tech complexity and the lack of big data governance further delay modernization initiatives for most mid-size institutions.

Finally, compliance risks around AI recommendations emerge as guidance evolves from general to personalized. And stirrings of generational consumer data ownership concepts could require adjustments to analytics collection, querying and reporting protocols long standardized internally for continuity.

Preparing for the Future of Financial Services

Preparing for the personalization imperative that is part of the Fifth Industrial Revolution, banking and credit union leaders must focus investment on modern integrations, analytics teams and technical up-skilling, while reviewing existing business models and processes for automation opportunities. As needs emerge, specialized third-party partnerships can help bridge capability gaps faster and better than wholesale modernization with broad-based providers.

With customer centricity now an expectation and not a differentiator, the institutions that build a platform for embedding uniquely tailored financial empowerment into every environment where individuals express themselves both digitally and physically will earn relationships through relevance and value enhancement.

About the Report

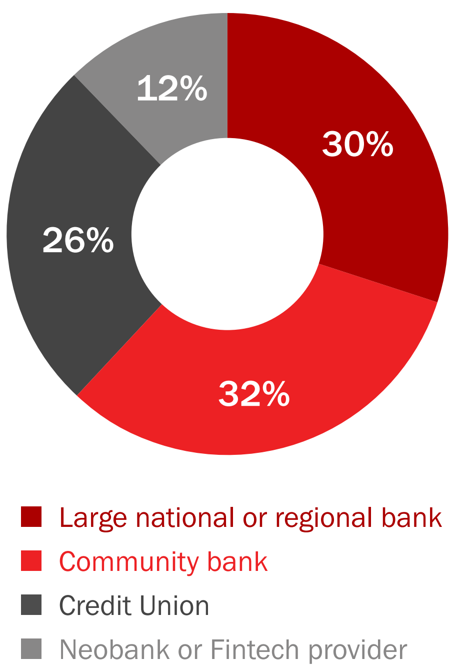
About the Report

The analysis in this report is based on a December 2023 Digital Banking Report survey of global banks and credit unions. The survey used the subscriber lists of **The Financial Brand** and Digital Banking Report, which includes organizations of all sizes worldwide.

No responses from non-financial organizations were included in the results, and only completed surveys were included. The responders were self-selected after receiving a nominal incentive of raw survey results. Among overall survey respondents, 30% are from large national or regional banks, 26% are from credit unions, and 32% are from community banks. This distribution is distributed similar to previous reports on trends and priorities.

CHART 25:
RESPONDENTS BY TYPE OF FINANCIAL INSTITUTION

What type of company do you work for?



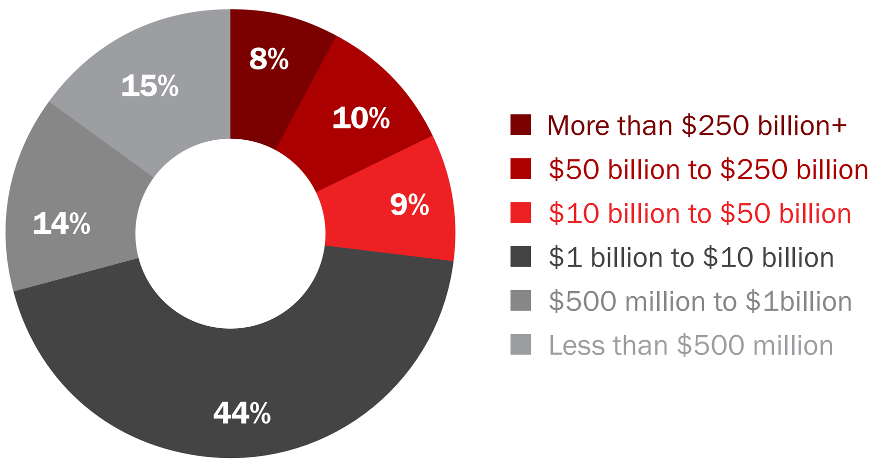
Source: Digital Banking Report Research © January 2024 Digital Banking Report

For this research, 8% of respondents are from FIs with more than US$250 billion in assets, with 10% having US$50 billion – US$250 billion in assets, 9% representing firms with US$10 billion – US$50 billion in assets, and 44% of the respondents having $1 billion to $10 billion in assets. 29% of the firms were under $1B in assets. The distribution by size of organization is comparable to previous research done by the Digital Banking Report.

CHART 26: RESPONDENTS BY ASSET SIZE OF FINANCIAL INSTITUTION

What is the asset size of your institution? (Only financial institutions)

Source:
Digital Banking Report
Research © January 2024
Digital Banking Report

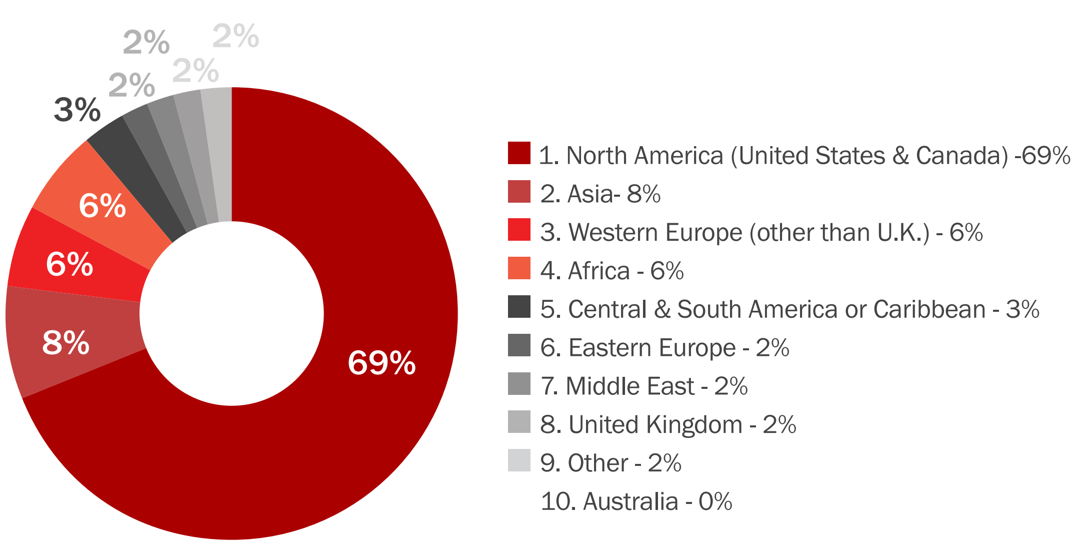


Finally, the respondents who participated in our research were globally headquartered. While there was an over sampling from North America (69%), 10% were from Europe, 8% were from Asia and 6% were from Africa.

CHART 27: LOCATION OF COMPANY HEADQUARTERS

Where is your company head-quartered?

Source:
Digital Banking Report
Research © January 2024
Digital Banking Report



About the Author

Jim Marous

Named as one of the most influential people in banking and a 'Top 5 Fintech Influencer to Follow', Jim Marous is an internationally recognized financial industry strategist, co-publisher of **The Financial Brand** and owner and publisher of the **Digital Banking Report**.

As a sought-after keynote speaker, author and recognized authority on disruption in the financial services industry, Jim has spoken to audiences worldwide. He has been featured by CNBC, CNN, Cheddar, the Wall Street Journal, the New York Times, the Financial Times, the Economist and the American Banker.

Through his podcast, **Banking Transformed**, Marous provides listeners with an opportunity to hear about the organizational impact of digital transformation. With new shows each Tuesday, Jim interviews his guests with the objective of digging deeper into the opportunities and challenges facing banking and other industries. You can download Banking Transformed on The Financial Brand podcast page or on your favorite podcast platform.

You can also follow Jim Marous on **Twitter** and **LinkedIn** or visit his professional website.

