Digital Banking Survey

Examining the Divide Between Criticality and Confidence

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Introduction

The popularity of online shopping, media, and communications skyrocketed during the height of the COVID-19 pandemic, as Americans attempted to maintain a sense of normalcy and connection during the mandated lockdown periods. Providers of these services quickly adapted, feeding up relevant and timely offers to users, based on their attributes and actions.

The financial industry, too, saw a dramatic increase in people banking via digital channels and a significant decrease in in-branch transactions. The shift to digital banking was also accelerated by the pandemic and consumer expectations and compounded by emerging non-traditional financial services competitors.

It didn’t take long—post lockdown—to realize we weren’t going back to solely in-person interactions. Nor did it take long for consumers to grow accustomed to receiving very personalized online experiences. And now, these burgeoning consumer expectations are finding their way into every digital relationship they have, including those with their financial institutions (FIs).

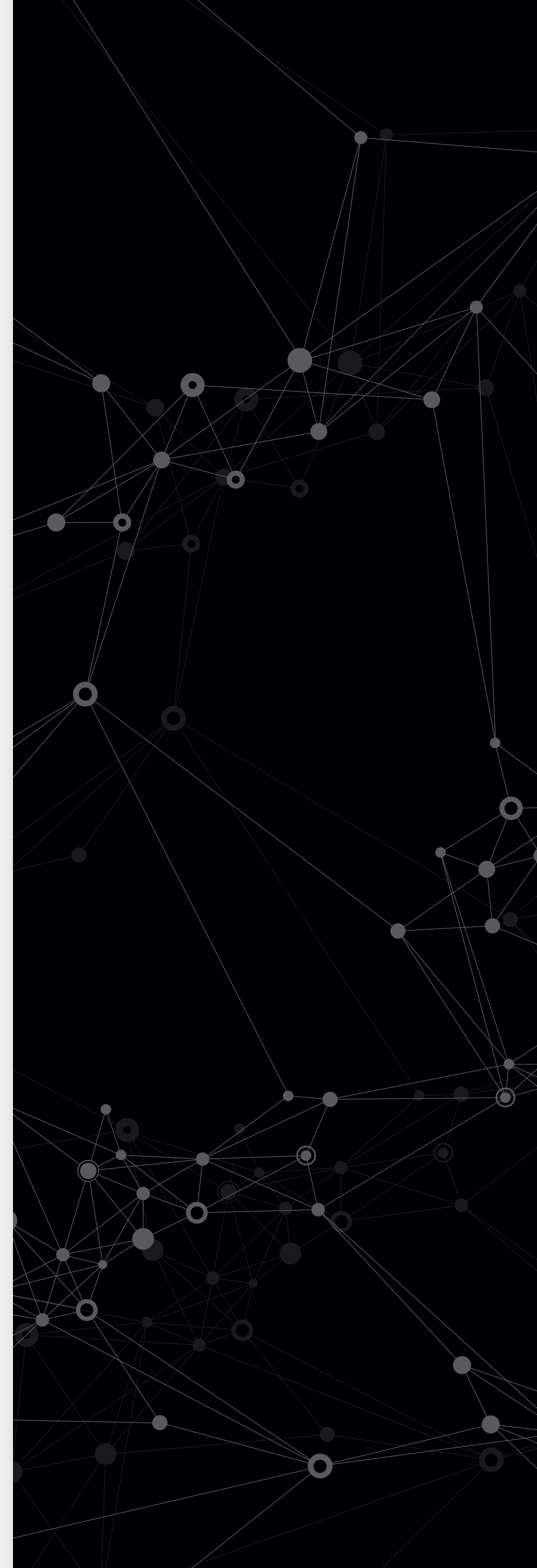
Consequently, if banks and credit unions are going to compete and thrive today and tomorrow, they must take a chapter from the likes of Amazon and Netflix, illustrating to their account holders they know and understand them by providing tailored engagements along their financial journeys.

The good news is technology can provide FIs with the opportunity to rethink the future of banking and the future of their organizations.

Most FI leaders acknowledge the significant power that embracing, adopting, and enabling their brands with technology will have, and are even focusing on digital innovation as part of their growth strategy. But if the findings of this research are any indication, that’s where it stops. The respondents of this study tell us they know using data, offering fintech solutions, and personalizing digital experiences are extremely important, but they have little confidence their organizations are actually doing any of this effectively.

This research report examines the great divide between criticality and confidence by analyzing the key focus areas for leading bankers’ digital strategies and comparing how critical they are with how effectively each institution is addressing them.

We then offer our perspective on why gaps between criticality and confidence exist in each of these focus areas, and how bankers can address them—informed by interviews with hundreds of progressive financial institution customers and industry leaders across the globe.



SECTION 1

Using data to enhance or augment the digital banking experience

Survey participants were asked, "How important is using data to enhance or augment the digital banking experience to your institution?" Nearly 50% of respondents say it's "very important" and almost 40% said, "extremely important."

However, when asked to gauge their confidence level that their institution is adequately using data to enhance or augment the digital banking experience, almost half (48%) say they're only "moderately confident." A total of 36% report being "slightly confident" or "not at all confident." Most surprisingly, just 3.75% say they're "extremely confident" their institution is using data effectively.

Why aren't FIs using data?

FIs are often restricted by multiple, disparate, outdated systems. So, integrating data across these systems, then creating and telling meaningful stories with it and taking valuable action on it are chronic problems in financial services.

Add to that the challenges shared by nearly every banker—talent acquisition and retention, resistance to technology changes, and cultural barriers to new forms of collaboration and innovation—and it's understandable financial leaders are in a tough spot.

However, unlocking the insights from data and applying them—to stop fraudulent transactions, share advice and timely offers, unlock new personalized experiences for account holders and bank operators, and so much more—is the new expectation for the digital relationship.

What can FIs do to lessen the gap between criticality and confidence?

First and foremost, FIs need to realize they're not going to own the whole data piece—they must align with technology partners that have the talent, experience, and infrastructure to take it on.

Every banker will tell you that hiring and retaining quality talent today is their number one challenge. The pool is small, to begin with, but people who are talented in data and modern mathematics are not likely to gravitate toward financial institutions for employment. Consequently, FIs need to find partners who make it a priority to attract and retain top talent in this hyper-competitive environment.

In addition, a good tech partner won't just dump data, it will have the experience and infrastructure to analyze it and turn it into actionable insights that enable FIs to build stronger relationships, keep account holders safe, and grow their business. They should have the ability to focus on an individual account holder's identity and his or her specific behaviors, then use this information to tell stories to either predict the next meaningful user experience or offer real-time account holder support.

Lastly, bankers need to ask themselves what kind of culture they're building. Is failure allowed? What about risk-taking, trying new things, and giving everyone at the table a voice? Rigidity and inflexibility are no longer options. Bankers can only lessen this data gap by collaborating with new people, forming new partnerships, hiring top talent, and building strong and diverse cultures.

What are the benefits of effectively using data?

When FIs effectively use the volumes of data at their disposal, the biggest benefit they glean is truly knowing their account holders—which is a prerequisite to providing personalized service in a digital world.

And this data-powered personalization spans the entire banking relationship, helping FIs protect their brand by mitigating risk and fraud and enabling personalized conversations and offers. These personalized experiences, like Netflix and Amazon, are what consumers are expecting and demanding from their financial institutions. Lastly, using data effectively enables operational efficiencies for the business, for example the ability to process more loan applications with automation and configuration capabilities. This, in turn, saves critical time and money.

SECTION 2

Offering fintech solutions to customers through digital banking

Nearly three-quarters of respondents say it's "very important" or "extremely important" that their institution offers fintech solutions to account holders through digital banking.

However, 80% say they're "moderately confident," "slightly confident," or "not at all confident" that their institution is adequately offering fintech solutions to account holders through digital banking. Only 3.75% report they're "extremely confident."

Why aren't FIs offering more fintech solutions to account holders?

There's no denying, FIs struggle with integrating fintech solutions and innovating fast enough. At the heart of this challenge is outdated technology from vendors who wanted to sell everything they had to FIs and be their sole vendor, making any outside integrations tough, expensive, and time-consuming. Many FIs simply can't overcome this integration quagmire, which in turn is causing a tremendous industry backlog. Few bankers are confident they can partner quickly and effectively because they're sitting on a pile of defunct projects and legacy technology that wasn't designed for easy integration.

How can FIs overcome these hurdles?

Rather than working with vendors whose business model relies on being an FI's sole or primary technology provider, FIs should seek partners who are integration-first.

In doing so, bankers stand to gain an open platform on which to share and accelerate innovations. A platform that harnesses innovation from across the market—including the FIs themselves, their direct vendors, development partners, and the broad range of best-of-breed fintech solutions continuing to flood the market. Only then is this paradigm flipped on its head: The barriers of complexity and time are removed, making it easy, simple, and fast to implement, use, and access fintech solutions.

What are the benefits of offering fintech solutions?

There are three main benefits to offering fintech solutions. First, they provide a means for FIs to quickly solve account holder problems and differentiate their brand. By taking advantage of the innovations they have to offer, along with a flexible SDK (software development kit), FIs are unencumbered from relying on the ideas of just one partner—giving them an exponential lift in the marketplace.

Second, by working with fintechs, FIs get a much faster time-to-market with new ideas and innovations. It's clear that a single FI and its handful of vendors can't deliver sufficient innovation fast enough to keep pace with consumer demand. So harnessing innovation from across the market in a simple, supportable, repeatable way is key.

Third, it allows bankers to constantly demonstrate they're innovative, continually delivering new capabilities and enhanced user experiences. FIs that demonstrate they care about their account holders, brand, and digital strategy will be the ones to thrive now and in the coming years.

SECTION 3

Providing personalized digital experiences to consumer and business customers

When asked how important it is that their institution provides personalized digital experiences to consumers and business customers, nearly 70% say it's "very important" or "extremely important."

But once again, there's a divide between what respondents know to be important and their confidence level in delivering it. More than 80% report being anywhere from "not at all confident" to "moderately confident" that their FI is providing personalized digital experiences.

What are the barriers to providing personalized digital experiences?

The main barrier for most FIs is not having the capability in-house to draw insights from their data that can be used to shape user experiences. For example, if an account holder sets up a goal on his or her digital banking app to purchase an automobile, that behavior can be parlayed into a loan offer when the person is ready to buy a car. These kinds of delivery opportunities are far more possible with the use of technology than they ever were in the branch.

Creating meaning from data is the only way banks and credit unions are ever going to be able to personalize their offerings in this new digital era.

How can FIs eliminate these barriers?

Roadblocks can be cleared when FIs partner with people who are thinking about how to use data in these ways every day. Merely getting access to the mountains of an FI's raw data isn't enough. Rather than focusing on creating a data lake, data-driven FIs and partners are seeing and understanding the data and building predictive models to personalize offerings.

Bankers also need to examine whether their culture is a barrier. Many still believe personalized service can only happen in the branch. However, it's more likely their account holders are logging into their digital banking platform 30 times a month but stepping foot in a branch maybe five times a year. So, the way we create meaning and connection with people is by shifting our minds and our actions to digital. We need to acknowledge this fact and invest in it. It's the future.

What are the benefits?

Account holders benefit because they're receiving personalized offers and having meaningful engagements, which demonstrates their FI truly understands and cares about them.

For FIs, this translates into trust in their brand and deeper loyalty, which pays off in the long run because it positions the business to increase the number of products per household, ultimately driving growth.

Demonstrating understanding through digital experiences should be a central component of the overall brand strategy. And the beauty of data is that each engagement informs the next, enriching the digital experience with each interaction. In short, data is the way FIs can transform their account holder relationships from merely transactional to value- and service-driven in an age where personal relationships aren't built in the branch.

SECTION 4

Using technology to enhance or create new revenue generation opportunities

When asked, "How important to your institution is using technology to enhance or create new revenue generation opportunities," more than three-quarters of respondents say it's "very important" or "extremely important."

Just 7.14%, however, report being "extremely confident," while a majority of respondents (nearly 73%) weigh in between "not at all confident" and "moderately confident."

What reasons are FIs giving for not using technology to feed their revenue generation?

Using technology to feed their revenue stream would require bankers to unwind a lot of legacy processes and procedures, then they will need to go to regulators and tell them why they want to make these changes. However, banks and credit unions have historically been resistant to changing internal processes and pushing back on regulators.

Most often, they simply try to digitize their manual processes, so the technology is merely going through a checklist of workflows that already existed manually. They're not using tools to accelerate or enable faster use of technology and build better relationships.

How can they go about using technology?

Instead of just digitizing manual processes, bankers need to effectively work with their regulators to determine which processes are insignificant, what's outdated, and what needs to be updated. And then begin to use technology to improve the user experience for account holders and streamline processes for back-office personnel.

What benefits do they glean by doing so?

Most importantly, FIs have an opportunity to radically improve their customer experience. Convenience is now the new loyalty. When a bank unpacks all its processes and makes it easy for account holders to interact with them digitally, their account holders will be much more loyal.

When FIs meet people where they are, these people—whether they're consumer or commercial customers—will be digitally reliant on their FI. And when banks get it right, they create loyalty, long-term value, and incremental sales.

SECTION 5

Gauging the importance of digital innovation to growth strategy

Some 83% of respondents say digital innovation is either "very important" or "extremely important" to the growth strategy of their institution.

This is about the only section in which criticality aligns fairly closely with confidence, with nearly 72% saying they're either "moderately," "very," or "extremely" confident their organization is adequately addressing digital innovation as part of their growth strategy.

What do these responses mean?

The key takeaway from these statistics is most FIs have a digital strategy, there is a plan, but when they dissect the plan, it's problematic to implement. Bottom line, bankers are having difficulty executing on strategy.

How can FIs move from strategizing to action?

There are six imperatives for digital excellence. If bankers focus on these areas, pay attention, and take tangible steps, they'll move from strategy to action:

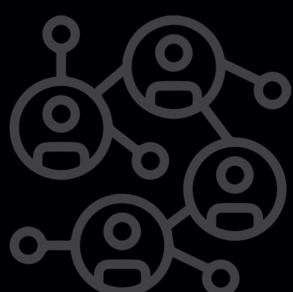
- **Collaboration**—Build new teams, bring new partnerships together, work with new people, and look for new ideas in unlikely places.
- **Platform**—Having the right platform is the difference between delivering what account holders want or not, no matter what comes next.
- **Openness**—Open platforms can accelerate innovation by harnessing the value of leveraging partnerships, integrations, and innovative ideas.
- **Data**—Create new and improved account holder experiences through a deeper understanding of account holders' behaviors and needs throughout their financial journey.
- **Growth**—Win more customers, expand markets, deliver innovation faster, cross-sell more, and re-envision the possibilities.
- **Culture**—Establish a clear mission and culture. Use core values as key guiding principle in all facets of the business and watch it fuel success.

SECTION 6

Connecting the digital user experience across the customer lifecycle

When asked, "How important is connecting the digital user experience across the customer lifecycle?" a majority (80.54%) say it's either "very important" or "extremely important."

However, only 3.36% report being "extremely confident" their institution is adequately connecting digital user experiences across the entire lifecycle, for example from account opening, to digital banking, to lending, etc.



Why aren't FIs connecting the digital user experience across the customer lifecycle?

FIs tend to buy one product at a time instead of thinking of the entire digital client engagement journey. What they end up with is a bunch of fractured technology and a bad digital banking experience.

However, FIs have a tremendous opportunity to pull all these disparate offerings together and provide an amazing, frictionless experience across the account holder's lifecycle. For example, embedding virtual chat inside the digital banking application helps those who have questions while in the app and provides context from a digital banking session to a conversation with a customer service representative.

How can they go about doing this?

FIs need to start establishing a culture where they demonstrate empathy for the account holder and think about the world from the account holder's perspective, instead of just their own. This will involve changing processes to better connect with people digitally. For example, when a customer opens an account online, FIs should not require that person to visit a branch to complete a signature card.

By investing in their digital banking initiatives as much as they have in their physical branches, banks and credit unions will be able to provide a seamless and enhanced account holder experience.

What are the benefits?

When FIs pay attention to the entire customer engagement journey, they're doing what a bank is supposed to do—better the financial lives of their account holders. It's the reason most bankers become bankers: They want to help people and their communities. When bankers help account holders get where they want to go—whether that's buying a car so they can go to work and provide for their family or getting financing to send a child to college and change the family trajectory—they're pursuing their purpose. FIs still need to connect with people, but that connection must also happen digitally today.

What's Next

The next frontier where the digital bank or credit union thrives requires leaders to connect new consumer and employee expectations for what technology can and will do to their strategy—then begin executing quickly to deliver results.

This starts with four things: leveraging data, delivering personalized experiences, forging fintech partnerships, and creating a culture that's open to innovation. FIs that move beyond merely providing traditional banking products and services and instead offer a broader set of financial solutions that align with account holders' needs will deepen relationships and increase market share.

Q2 is a financial experience company dedicated to providing digital banking and lending solutions to banks, credit unions, alternative finance, and fintech companies in the U.S. and internationally. With comprehensive end-to-end solution sets, Q2 enables its partners to provide cohesive, secure, data-driven experiences to every account holder – from consumer to small business and corporate. Headquartered in Austin, Texas, Q2 has offices throughout the world and is publicly traded on the NYSE under the stock symbol QTWO.

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