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Digital Technology Trends in Banking: 2020-2025


Nick Miller

Digital technology—hardware and software—are driving three major banking industry trends: digital transformation, brand specialization and partnerships. Banking executives need to pay close attention to all three if they expect to capitalize on the opportunities these trends will create.

TREND 1: DIGITAL TRANSFORMATION

Digital transformation is huge. It includes a long string of related ripple effects including digital marketing, payments and analytics that will change business models and banks' relationships with their clients. "A lot of companies are looking for ways (to provide financial services and) we're behind (in developing and launching digital offerings)," said Linda Duncombe, a City National Bank executive vice-president. "We have to think bigger and we have to move faster on bigger thinking."

For example: Google Duplex has demonstrated the capabilities of AI-driven software to mimic human voice and social interactions while making restaurant reservations. In May 2019, Google announced plans to expand Duplex for automated completion of forms on the Internet. Such technology could automate customer notification should it detect unusual changes in bank accounts or determine a need for financial services updates.

Capgemini, a global technology consultant, reports nearly 25 percent of retail banking customers prefer a voice assistant over personal banking visits—a figure likely to increase in three years. Bank of America's digital assistant, "Erica," used by more than seven million customers, handled 50 million interactions in its first year. Additional research finds more mid-sized banks and credit unions are either planning to invest in this chatbot technology or discussing the possibility.

TREND 2: BRAND SPECIALIZATION

Brand specialization signifies development of one or more types of expertise or signature specialties to differentiate, attract or retain customers who generate additional revenue. The most important question with this trend is strategic. Given the impact of digital transformation, demographic changes and other factors, what do banks want to be in five years. How will they stand out and what will constitute their customer base?

Predictable responses focusing on people, service and community dedication no longer cut it, according to Chris Meyers, president and CEO of CVB Financial Corporation. "I think the retail consumer game is over… unless you're in a

small rural area," he said.

It's over for two reasons. First, it's nearly impossible to compete with national and super-regional bank brands especially in large urban areas. Citizens Financial attracted $3 billion in new deposits by the end of 2018 with the launch earlier that year of its online Citizens Access while figures from Chase show annual deposit growth of 9.4 percent since 2014, more than twice the 4.6 percent average annual rate for the rest of the industry.

These impacts go beyond major markets thanks to multi-million advertising budgets. "Our customers see their TV ads and they all expect that we should be able to open accounts in five minutes," said a community bank president in Missouri as he explained why his biggest competitor is CapitalOne instead of another local bank.

Second, community bank brands need to stand out if they are to compete successfully with other local banks. One answer here is to develop one or more niches or specialties. For example, in the Northeast, Rockland Trust, listed by Forbes among the "World's Best Banks for 2019," developed a strong condo homeowner association lending program. Sterling National Bank in New York developed specialties in professional practice financing, law firm banking, and non-profit services. Cambridge Savings Bank has a specialized residential home builder program that complements its strengths in commercial real estate and construction lending.

Stearns Bank, a St. Cloud, Minnesota community bank has taken another approach by launching successful national programs, for example, small ticket equipment leasing. According to Kelly Skalicky, CEO, the bank provides small ticket loans, $20,000 up to $48,000, totaling 12,000 to 13,000 per year, electronically all over the country.

TREND 3: PARTNERSHIPS.

To remain competitive, traditional banks need to think and act more like the technology companies that have defined customer experience outside of banking. They face three challenges:

1. **Cost** – the expense of designing and building new products
2. **Talent** – attracting the design and development talent needed for app building and other digital capabilities
3. **Speed** – the rapidity with which bank teams internally design and develop products and the speed with which core systems providers implement those products.

Partnerships with fintechs can address all three challenges. Fintechs are tightly focused and significantly faster than banks in innovating new products. Through partnership models, banks can focus on attracting and nurturing a client base and providing products sourced from an ecosystem of partners. Products can be inserted through a platform or withdrawn as needed, providing customers with quicker access to a broader range of products than what the bank could produce on its own.

Globally, more than 5,000 fintech organizations offer a variety of products; e.g. lending, expense management, account opening and dashboards. The selections will depend on the bank's focus such as its target customers and opportunities to overcome customers' financial challenges.

Partnership success depends on developing bankers' skills and having the expertise to source and negotiate partnerships with fintech providers in the following areas:

- **Aligning strategy.** Agree on focus, e.g. customer experience, new capabilities or new customer segments, and leveraging each party's strengths.
- **Finding common ground.** Agree and align around best market opportunities, appropriate value propositions, expertise and commitment to regulatory compliance. Just as important--the overall fit of the partnership, especially the bank's ability to innovate quickly after the partnership begins.
- **Monetizing partnership investments.** Develop a realistic profit strategy in which clients are attracted to a new offering in sufficient scale and in short-enough time to meet both parties' expectations.
- **Scaling and adjusting the nature of the partnership.** Develop a roadmap that will guide evolution of the partnership as competition, industry conditions, internal bank environments and priorities change.

LOOKING AHEAD

Digital transformation will fundamentally change bank economics and revenue models in the next decade. To sustain long-term success, banks will need to develop one or more dominant specialties enabling them to compete within and beyond their traditional footprints. Partnerships with fintechs will enable banks to provide clients with services and products banks could not otherwise provide in the accelerated digital atmosphere that is today's banking world.

Nick Miller trains bankers to attract and expand relationships with businesses for more profitable partnerships. He is president of Clarity Advantage based in Concord, Mass. For additional information and articles, please visit www.clarityadvantage.com