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BRIEFING PAPER

Modernizing Customer Experience in Banking

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The financial services industry has always been about adaptation and innovation. From the abacus to the calculator to the computer, the industry is continuously embracing the newest technologies. It's a story of constant reinvention. Today, the financial services industry is at the forefront of another transformative era: the age of digitalization. This digital revolution isn't just changing how financial systems operate—it's rewriting the financial playbook on a global scale.

Digitalization is one of the most significant waves of change the industry has ever seen. Emerging technologies, from cloud computing to artificial intelligence, are pushing the boundaries of what's possible, while agile new players are challenging the status quo with disruptive solutions. The most disruptive force of all? The modern customer. Today's financially savvy generation of consumers expects a seamless omnichannel experience. This seismic shift in expectations compels even the most forward-thinking of institutions to reevaluate their strategies and rewrite their narratives.

The transformation may seem daunting, but it's an unparalleled opportunity to establish a new paradigm. The foundation for this next chapter of financial services is being built brick by digital brick. And at the core of this foundation? A robust, adaptable IT infrastructure.

By investing in modern networking solutions, financial services organizations can unlock business resilience in the face of rapid change. This transformation is about building networks that can operate productively, scale simply, and adapt to serve customers. Imagine a world where data flows freely across platforms, empowering real-time decision making and tailored experiences for customers. Imagine an infrastructure that can flex and adapt to accommodate the next big financial technologies and the next unforeseen market demand. That infrastructure provides the power of a modern and agile network to turn innovative ideas into meaningful outcomes.

It is with this spirit of innovation that I share with you a thought-provoking report that delves into the transformative power of IT modernization and outlines specific strategies that can help financial services organizations exceed customer expectations. I have unwavering confidence that by embracing these advancements and leveraging technology as a catalyst for progress, we can create a financial services industry that is not only sustainable but also thrives on continuous innovation and exceptional customer experiences. Let's rewrite the narrative—and make it a story worth telling.

Ashley Haynes-Gaspar
Chief Revenue Officer
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Modernizing Customer Experience in Banking

Creating a more modern customer experience (CX) has become imperative for banks in recent years. Simply put, today's consumers have grown accustomed to a level of personalization and convenience in their customer experience in all areas of their lives and expect their banking relationships to provide that level of service, as well.

Specifically, two of the most critical means for banks to create a more modern CX are personalization, where products and services are tailored to individual needs, and omnichannel delivery, whereby those needs can be met through real-time data integration among all digital channels as well as a customer's branch.

"Banks have two important goals for customer experience right now. The first is personalization, which revolves around understanding the financial needs of each customer," says Isio Nelson, managing director of research at the Bank Administration Institute (BAI), a nonprofit organization that provides research, training, and thought leadership events for the financial services industry. The second goal, says Nelson, is not to force customers to depend on any particular digital channel: "Not-one-size digital—so, omnichannel banking."

Given how adept social media platforms and retailers have become at tailoring experiences and services to each individual customer, banks have a considerable distance to travel to match the level of personalization and convenience consumers have come to expect.

"These days, in everything from streaming services to e-commerce, for example, such a level of personalization exists that is almost impossible to mimic in the financial services world, so one of the biggest challenges for banks right now is to really personalize customers' digital experience," says Marc DeCastro, research director for financial insights at International Data Corp. (IDC), a consulting firm based in Needham, Mass.

HIGHLIGHTS

Given how adept social media platforms and retailers have become at tailoring experiences and services to each individual customer, **banks have a considerable distance to travel to match the level of personalization and convenience consumers have come to expect**.

Traditional banks are **under considerable pressure to modernize their customer experience** as a result of skepticism about the industry as well as heightened consumer expectations.

For banks, **winning over today's customers** who have grown accustomed to transacting in an on-demand digital world means delivering **seamlessly designed**, **omnichannel experiences**, built on a strong backbone of CX digitization.

That challenge often stems from legacy infrastructures, data systems, and security technologies that lack the speed and agility necessary for offerings that seamlessly connect physical and digital touchpoints. It also derives from the lack of the capability to process and analyze vast amounts of customer data securely and quickly. However, a technology revamp that harnesses the potential of the cloud and "as a service" models without compromising customer data security can help address these inadequacies. Such a revamp can ultimately allow banks to provide the CX that consumers expect.

Indeed, investing in technology seems to be a key priority for banks in 2024. A survey by Arizent, a New York City-based digital media company, of 314 individuals from banks and finance firms indicated that three-quarters of those surveyed are planning to invest more in technology in 2024. Specifically, about one-third of respondents expect to increase their annual spending on technology by 1% to 9%, another third are planning a 10% to 19% increase, and approximately 9% are looking to increase their tech budgets by more than 20% from 2023.

This report will describe what an effective omnichannel and personalized banking customer experience looks like and explore the ways that digital transformation can help banks undertake the CX modernization journeys that are necessary for them to produce that experience and remain competitive.

"It used to be easier for banks to create personas of different cohorts of customers and how they'll want to do their banking, but the reality is, people's habits are very different right now, and their expectations are different because they're shaping so many of their experiences away from financial services," says Marc DeCastro, research director for financial insights at International Data Corp. (IDC).

Pressure to Modernize

Traditional banks are under considerable pressure to modernize their customer experience as a result of skepticism about the industry as well as heightened consumer expectations. After their reputations with consumers fell precipitously following the 2008 financial crisis, banks regained a significant level of confidence during the Covid-19 pandemic only to see that eroded somewhat by more recent industry turbulence.

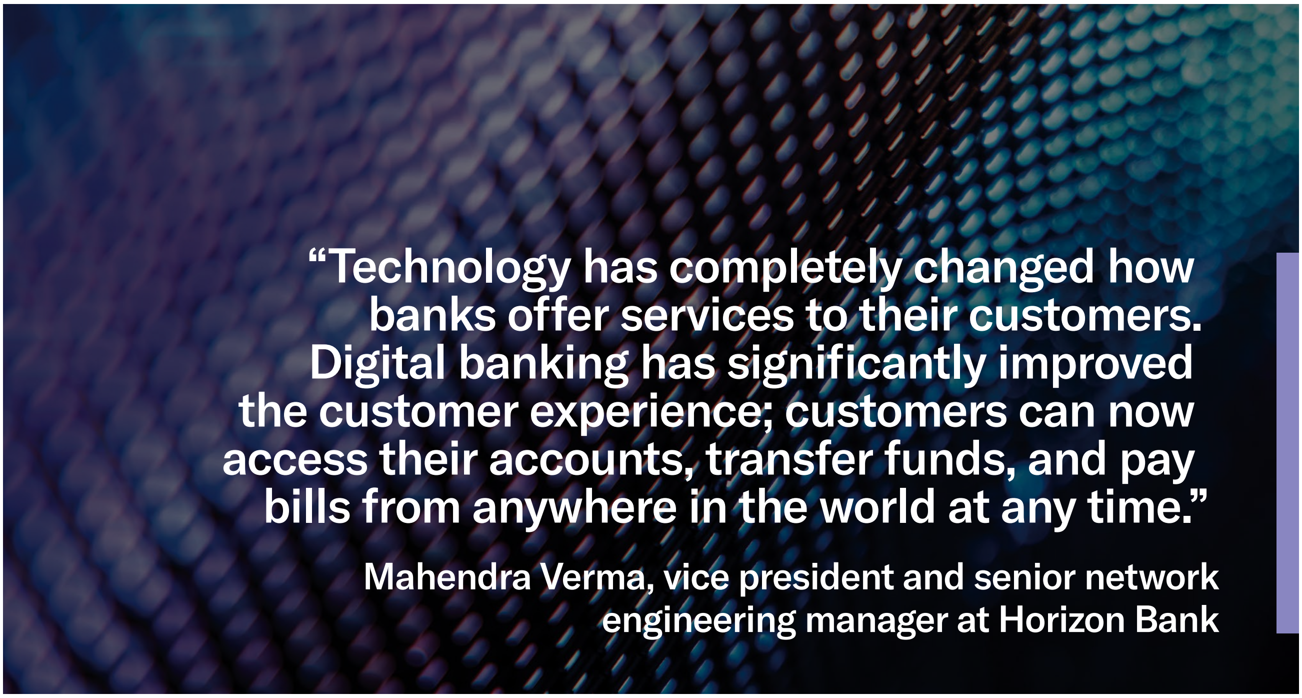
"Net promoter scores rose for the traditional banks during Covid, indicating that they finally went above the very low scores they previously had after the Great Recession, which was driven by the banks in a lot of ways," says BAI's Nelson. "Since then, banks did a lot to improve and, in fact, did quite well during the pandemic. But customer satisfaction has since dipped as the banking industry came back under scrutiny when Silicon Valley Bank failed last year. The industry took a hit as far as its reputation, and consumers then take that back to how the bank is serving them."

Meanwhile, the prevalence of social media and e-commerce as well as accompanying demographic shifts, including growing savings and spending by the digitally native Millennials and Gen Zs whose earning potentials will only increase, have put the preferences of today's customer base into a near-constant state of flux, requiring companies to reinvent their customer engagement strategies at a moment's notice. Banks are no exception.

"Banks recognize that they need to continue to personalize the customer experience, which stems from rapidly changing expectations that customers have of their bank," says IDC's DeCastro, explaining that the once-prevailing approach of providing services based on general types of customers is no longer adequate. "It used to be easier for banks to create personas of different cohorts of customers, and how they'll want to do their banking, but the reality is, people's habits are very different right now, and their expectations are different because they're shaping so many of their experiences away from financial services."

Besides heightened consumer demands for improved customer interactions, traditional banks are facing competition from newer, tech-focused financial services companies, such as fintechs and online-only neobanks. These newer companies differ from traditional banks in terms of offerings and products, which can give them a competitive edge over legacy banks, especially in appealing to younger generations. Features such as early access to paychecks and no fees on overdrafts, for example, may be particularly attractive to younger customers. Furthermore, direct, or virtual, banks have also been expanding their portfolios of checking and savings products to better compete with larger banks in recent years.

For the most part, traditional banks are aware of the threat posed by such competitors. In a 2023 survey by BAI of more than 100 financial services organization leaders, when asked,



"To what extent do you feel competitive pressure from fintechs?", nearly half (48%) of the respondents answered "always" or "often," and only 13% selected "seldom."

However, the presence of these newer players may not solely be a pain point for traditional banks—it can also present opportunities for collaboration and innovation.

"The legacy full-service banks definitely have been feeling pressure from other players in financial services, the fintechs and neobanks," says Nelson. "With that said, though, many banks are also collaborating with fintechs. Banking as a service is something that's become more prevalent over the last five to 10 years. Banks are also utilizing fintech-type services to improve the customer experience, and also tend to let the fintechs lead sometimes and fast follow where they do see market fit."

The findings from the BAI survey mirror these sentiments. Of the banks surveyed, when asked if fintechs can help banks and credit unions, 46% said they have learned lessons from fintechs that they plan to implement in 2024, while the same percentage indicated they plan to collaborate with fintechs in 2024.

Adopting Omnichannel

For banks, winning over today's customers who have grown accustomed to transacting in an on-demand digital world means delivering seamlessly designed, omnichannel experiences, built on a strong backbone of CX digitization.

"Technology has completely changed how banks offer services to their customers," says Mahendra Verma, vice president and senior network engineering manager at Horizon Bank, a commercial bank based in Michigan City, Ind., with 88 branches. "Digital banking has significantly improved the customer experience; customers can now access their accounts, transfer funds, and pay bills from anywhere in the world at any time."

But the most advanced banks make a distinction between omnichannel and multichannel delivery, adding an element of nuance that makes their CX more personalized. As the name suggests, in multichannel banking, customers access the bank through a variety of channels, such as mobile apps, websites, call centers, or the physical branch. However, these channels typically operate in silos and have independent databases, resulting in an inconsistent customer experience. With multichannel banking, for example, a customer who uses one channel to initiate a transaction and then switches to another to continue it may need to repeat previously stated information. Not so with omnichannel, where such information is updated on a real-time basis across channels.

So although omnichannel, like multichannel banking, utilizes multiple channels for customer interaction, customers enjoy a consistent experience across channels in omnichannel, and are seamlessly transferred from one channel to another. "Think about the overall banking experience for the typical consumer. You probably use your phone or computer for checking balances, getting alerts, and

“One of the biggest goals of banks for customer interactions right now is blending the digital with the physical experience. That means continuation of a journey, whether it’s on a mobile device, on a digital online device, in a branch with a contact center or an advisor, whatever form it might take, and ensuring it’s seamless for the customer,” says IDC’s DeCastro.

making payments. While handling more complex questions, though, when you have a question about buying a new car or making investments, for example, you’d probably go into the branch or at least call and interact with a live person,” says Nelson. “This notion of being able to do some things on your own and then still have access to somebody who doesn’t just treat you like an account number—that’s central to a quality customer experience.”

An omnichannel approach leverages one source of data truth even while customers move between channels. For example, if a customer begins an interaction online and chooses to finish the transaction at a branch location, support agents have all the information the customer initially shared at the start of the transaction online. Ultimately, the key differentiation between multichannel and omnichannel lies in omnichannel’s focus on the customer journey, as the omnichannel experience is characterized by a contextual understanding of each customer at every touchpoint, resulting in a greater level of personalization.

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What blending the digital with the physical looks like differs depending on the strategy of an organization, but DeCastro points to a concierge-type service at bank branches as one of the more immediate examples. “In this scenario, employees aren’t tethered behind a teller line but are instead greeting customers with a tablet, finding out the reason for their visit, and then directing them to either another staff member to help or a digital self-service tool, or simply helping them there on the spot,” he explains.

At Horizon Bank, interactive teller machines (ITMs) constitute another notable example of melding the physical and the digital. As Horizon’s Verma puts it, ITMs are essentially the equivalent of an ATM, but with an added element—customers can talk directly with a live agent via video call, effectively meshing the personalized service of an advisor with the convenience of an ATM. This video banking system has been rolled out at 44 Horizon branch locations across Indiana and Michigan.

The Importance of Technology

However, delivering quality omnichannel customer experiences is predicated on having highly flexible and advanced technology systems. Many banks are facing the reality that there is a limit to the amount of retrofitting and redesigning that can be done with their legacy technologies—in many cases, a fundamental overhaul is not only necessary to achieve their goal of customer centricity but increasingly urgent.

“I think we’ve done a really good job at squeezing out as much as we can with these legacy environments, but there absolutely is going to be a tipping point,” says DeCastro. “That’s where these ‘as a service’ ecosystems are really helping, where you can take pieces of what’s on your legacy tech and turn them into a modern experience using those ‘as a service’ components.”

Nelson points to slow data processing capabilities as a major inadequacy of banks’ legacy technologies. Batching, which is short for batch processing, refers to the processing of transactions, and oftentimes, the cadence of batching results in latency, or delays in data updates, and ultimately a suboptimal customer experience.

“A good bank would have a nightly batching, but others batch weekly, for example, instead of in real time, so there’s a latency that happens there,” he explains. “This makes it challenging for the bank to have a good consumer experience, because not everything is synchronized at the same time or in real time.”

The negative effects of siloed platforms are also important to consider, according to Nelson. He underscores breaking down silos between the various sectors within the business as a key step for banks’ CX modernization.

“What banks have done is either transformed all the groups together onto one core platform, or they’ve added an intermediary in between that allows them to not have to re-authenticate customers on the mortgage platform or the deposit platform, for example,” Nelson says. “They can pull it all together in one, so they can see your overall

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Isio Nelson, managing director of research at the Bank Administration Institute (BAI) relationship, even if it's pulling from different internal platforms. Externally, to the customer, you see it on your mobile app or when you call in or go to the branch. You get to have that one relationship with your bank, but internally, they've had to do a lot to stitch that together."

Networking represents a promising avenue for implementing the "as a service" model that DeCastro suggests, where organizations purchase networking services from a network provider and pay as they go instead of setting up their own network infrastructure. Networking as a service (NaaS) allows customers to operate their networks without the added costs of maintaining their own network infrastructure. More generally, cloud computing services such as NaaS offer greater flexibility compared to on-premises software, because changes are made to software rather than hardware, as well as offer more scalability and reduced costs, since customers can simply purchase more capacity from the vendor and only pay for what they need. Cloud services effectively allow banks to rent data storage and processing power from cloud providers, enabling improved data processing and storage capabilities, which can help address the batching problem that Nelson points to.

However, in addition to being flexible and able to effectively process large volumes of customer data, banks' technology systems cannot compromise data security. "Technologies such as the cloud or networking as a service give banks more flexibility, more agility, the ability to do things more in real time, because they're not constrained as much by the limitations of an internal network. With that said, consumers still want to make sure that their data is not out there for anybody to get a hold of," says Nelson. "The bank's challenge is to use those modernized services to be more flexible and nimbler, but also have guardrails in place to reassure consumers that their data isn't at risk."

For Verma, minimizing downtime in the event of distributed-denial-of-service (DDoS) attacks is a huge priority. A DDoS attack is an attempt to crash an online service by flooding it with synthetically generated traffic. Having a strong network is instrumental to the customer-facing tools offered by Horizon, such as the ITMs. "You can have all the tools in the world, but if these tools aren't accessible, they're useless," says Verma. "If the tools you offer customers aren't reliable, it creates a somewhat fuzzy picture of your company, of your organization."

Verma sought a new solution to replace Horizon's previous DDoS mitigation service. Horizon's old DDoS mitigation tool was separate from the organization's internet service, but with the new solution, the two are combined in an all-in-one system, allowing for tighter integration between the network and network security. With the older service, Verma says, the bank experienced a maximum outage of five minutes due to a DDoS attack, but after the bank implemented the newer tool, the longest outage was cut down to 21 seconds. Ultimately, the bolstered security system allows for more secure customer interactions, even in the context of services that demand greater bandwidth.

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The Build-or-Buy Question

Of course, banks face the basic decision to develop the technologies in-house or purchase them from a vendor. Both approaches have advantages and drawbacks.

Although building the technologies in-house essentially allows for complete control, the main disadvantage of this method is keeping the tech up to date. "If they're developing technologies themselves, banks can control more, but keeping up the technology requires ongoing investment to stay current, especially as technologies are evolving faster than ever," says Nelson. "In many cases, as soon as they do finally roll the technology out, it's become obsolete or needs to be updated."

Going the vendor route has its own set of challenges, however. Banks may find vendors' solutions are not sufficiently tailored to their marketing or risk-management requirements. "The challenge with using a vendor is that sometimes they don't have all the feature functionality that you want. You also need to do third-party risk management,"

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says Nelson. "Ultimately, the build-or-buy debate is a difficult choice for banks to make in order to modernize and have the appropriate type of technology to move forward."

However, a notable advantage of using a vendor is their expertise and investment in the technology itself. "The technology changes so rapidly; you're foolish to think you can do security better than, say, a large cloud provider," says DeCastro. "Let people who can focus on the aspects of the edge or aspects of the network handle that. To me, it's better to do it as a service."

In the case of Horizon, Verma chose to use a vendor for the new DDoS mitigation solution, and highlights fostering a strong collaborative partnership as key to Horizon's positive experience using the vendor. "As you move forward with newer technology, the challenge is always there," says Verma. "But I do believe if you can find a focused and dedicated team where they view you as a partner, not so much as a customer, everything can be solved."

Conclusion

Consumers clearly are expecting more from their banks, given how accurately retailers and social media platforms can pinpoint their preferences and anticipate their needs. And a superior customer experience is proving to be a critical differentiator between financial services providers, providing a key competitive edge.

Failing to execute on the omnichannel approach, with its focus on contextualized, seamless, and individualized customer journeys, may put banks at risk of being ousted from the market entirely. Taking advantage of various technologies, such as "as a service" models, cloud services, and enhanced security tools, can aid banks in delivering excellent CX.

"We're always looking to take our customer experience to the next level. The technology is constantly evolving, which will come with new challenges," says Verma. "But we're always striving to improve and looking for new ideas to offer better service to our customers."

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