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Sherry Fairchok

Survey finds incumbent banks at a crossroads, losing customers to agile fintechs

Article

The news: Bankers are worried about their ability to offer high-quality omnichannel and personalized experiences to their clients, according to a report from Capgemini and Efma.

For their latest World Retail Banking Report, the two firms surveyed 8,051 consumers and 142 banking executives based in 29 countries.

What's the problem? Consumers' responses regarding fintechs and incumbent banks contrast sharply—and are worrisome for banks, now that customers can switch banks with a tap of their screens:

- Three quarters of customers surveyed are attracted to the fast, low-cost, easy-to-use products and experiences that fintechs make readily available
- **Half of respondents say their current banking relationships aren't rewarding** and they don't feel emotionally connected with the bank, with **52% saying banking is not "fun."**

The gap between what customers expect and what banks can deliver poses a significant threat to long-term relevance and growth. Nevertheless, the report concludes: **"This is a competition that banks could lose, but don't have to."**

What are the obstacles? Banking executives identified their **aging IT infrastructure** as the biggest hindrance.

- **95% said legacy systems and outdated core banking modules** inhibit efforts to optimize data- and customer-centric growth strategies.
- **80% agreed that underdeveloped data capabilities** hinder customer lifecycle process improvements.
- 82% had difficulties identifying new customer segments.
- 55% struggled to provide seamless onboarding experiences.

Another issue was **handling plentiful customer data** they already possess.

- 70% of banking executives felt they **lacked sufficient data analysis capabilities** to glean useful insights.
- 80% were concerned about **data reliability**.
- 70% said they lacked resources to process and analyze data.
- 43% said siloed data was a concern.

How banks can compete: They've earned customer trust, gathered data, and created multiple delivery channels—and they need those strengths to compete in this hyperpersonalized environment.

But to prevail and avoid losing customer value to more agile fintechs and neobanks, they'll need to **rework their business models and drive greater customer engagement.**

- The report offered the example of **CIBC, which has increased customer acquisition rates by 65%** within three primary lines of business—largely through personalization efforts.

Banks also need to address what Nilesh Vaidya, global industry head, retail banking and wealth management at Capgemini Financial Services, called "the disparity and striking **inconsistency between a customer's digital and physical banking experiences.**"

- About 80% of customers and executives agreed that websites were an important channel.
- 77% of consumers cited mobile apps, compared with 91% of executives.
- In the widest variation, **75% of consumers valued branches, compared with 58% of executives.**

Ecosystem platforms are emerging as a promising way to add capabilities or increase revenues, but the report found banks are "still learning the ins and outs of platform innovation."

- 78% worry about cannibalizing products through ecosystem partners.
- 72% are concerned about preventing brand dilution.
- 53% worry about maintaining ecosystem exclusivity for partners.

What this means: **"Banking is at a crossroads,"** the report concluded, meaning that incumbent banks now are trying to catch up and to interpret their data. Insights from that data will help them create experiences that can attract and retain customers, deepen relationships, and power growth.

Banks still have advantages, including customer trust, regulatory imprimaturs, and product expertise. But the report urges incumbents to look at successful fintechs for lessons on how to capture value, and offers these examples:

- **Start a value loop by creating an attractive free or low-cost product.** From there, activate and grow those relationships, leveraging data, cloud infrastructures, modern core banking systems, and webs of APIs to create personalized experiences and accompany customers on their ecosystem journeys. For example, **Nubank's** first product was a no-fee, easy-to-manage credit card with unlimited free transfers and payments.

- **Promote engagement by curating targeted content** built on a data-driven understanding of the customer's lifestyle and lifetime value—for example, blog links on retirement planning for those thinking about life after work.
- **Constantly upgrade the experience with agile process improvements** to keep it fresh and relevant to customers. For example, **Chime** employs a predictive personalization system that delivers content to customers tailored to their individual financial interests.

US Banks' Technology Priorities, Dec 2021
% of respondents

	2020	2021	2022
Improve customer experience/service delivery	67%	67%	61%
Get more value from tech and vendor relationships	53%	53%	43%
Improve efficiency	36%	41%	41%
Invest in new systems	29%	30%	28%
Better address fraud and risk management	15%	13%	23%
Increase revenue generation opportunities	17%	25%	23%
Invest in infrastructure upgrades	21%	17%	19%
Pursue partnerships with fintech startups	-	5%	15%
Evaluate and possibly replace critical systems	12%	17%	14%
Internal system development and integration	12%	14%	14%
Migrate applications and systems to the cloud	10%	7%	12%

Note: 2020 n=300; 2021 n=260; 2022 n=300
Source: Cornerstone Advisors, "What's Going On in Banking 2022," Jan 25, 2022

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