

# Banks' digital transformation strategies go deeper than the customer experience

Article

**What our research has uncovered:** Developing a technology strategy isn't simply about providing personalized customer services in banking. It requires balancing business

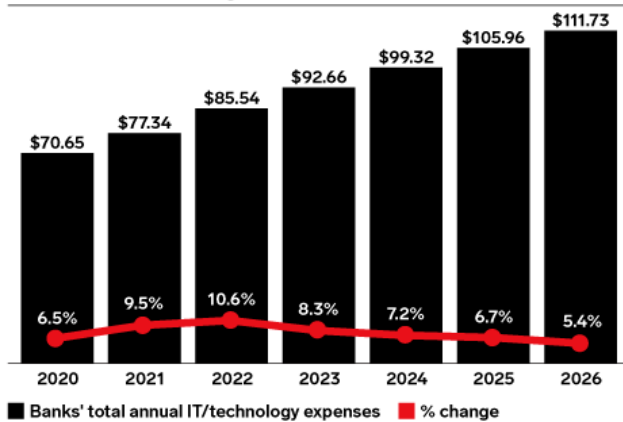
challenges, sourcing the right technical solutions, and attracting skilled talent.

Our report, [The Banking Head of Digital's Five-Year Innovation Strategy](#), offers a playbook for banks to follow to implement an effective plan for their digital transformations.

Though banks' tech spending peaked in 2022, we expect it to remain elevated through 2026. To get a good return on their investment, banks must ensure they address key tech trends and embed digital transformation within their daily operations.

### US Banks' Total Annual IT/Technology Expenses, 2020-2026

billions and % change



Note: includes expenses by banks with FDIC-backed consumer and business expenses and savings accounts; expenses include core systems maintenance, modernization, innovation, transformative technology, data processing, equipment, software, digital initiatives, compliance, and cybersecurity  
Source: Insider Intelligence, March 1, 2022

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Here we highlight concerns that digital banking heads have expressed to us, as well as technologies that are top of mind as they develop their innovation strategies.

### Digital innovation presents big hurdles:

#### Creating competitive customer experiences

- Banks struggle to compete with the experiences, services, and products that Big Tech and fintechs can offer. And they often need to implement digital solutions consistently across multiple channels and multiple business units.
- Banks must balance their fintech partnerships with owning their customer relationships. To maintain their brand exposure, banks should give their customers access to their fintech

partners by building the connection within their own customer experience, such as through mobile apps or online platforms.

## Overcoming limitations

- Legacy infrastructure hinders digital transformation. Banks have access to plenty of customer data, but their capabilities for using it aren't very robust. Now that banks are gaining even more access to data, they must develop ways to effectively organize and analyze it.
- Digital upgrades can cost billions of dollars. And because technology is always evolving, the upgrades never stop.
- While banks have made progress in creating products from a digital-first perspective, some tension remains from old ways of working, when the technology and product departments traditionally functioned separately.

## Attracting talent for key positions

- Banks are switching to a more Agile way of working to attract key talent, but often lack the financial resources to hire and retain in-demand software engineers and data scientists.
- Competition for this talent extends beyond financial services. Candidates receiving multiple offers across different industries can choose the value proposition that best aligns with their beliefs. Banks must make sure their workplace environments reflect their values and provide the same flexibility that other industries offer.
- Banks should consider positions that are dedicated to researching partnerships and vetting services from third-party vendors. This task is often time-consuming, and regulators are on high alert for the risk these partnerships could introduce.

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### Biggest Risks to Their Company Achieving Their Growth Goals According to US Financial Executives, Jan 2022

% of respondents



Note: n=159

Source: PwC, "PwC Pulse Survey: Executive views on business in 2022," Jan 27, 2022

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## Critical technologies to watch:

### Artificial intelligence

- Nearly 25% of banking executives believe that over the next two years, AI will be the most effective technology in the bank's arsenal.
- AI will assist in business process automation, large data set analysis, and improved cyber security. The technology has also been valuable in powering virtual assistants.

### Open banking, banking as a service (BaaS), and embedded finance

- Embedded finance lets banks share their core technology with fintechs through solutions like Apple Pay or Google Pay. But banks worry that focusing on behind-the-scenes infrastructure means they'll lose their exposure to customers. And consumers are concerned about their personal data being passed around between multiple parties.
- But banks realize they can find new ways to profit from their infrastructure services by powering apps through APIs and open banking systems. Some are even making these services part of their business model.

### Blockchain

- Blockchain's potential to lower the cost of high-value, high-volume transactions makes it invaluable to commercial banking.
- 73% of digital transformation leaders in banking and financial services think blockchain will be critical to achieving their digital transformation plans.

### DeFi and the Metaverse

- Banks can act as an intermediary between traditional and decentralized financial systems, but they'll need to work together to develop common standards for operating in the metaverse—or risk being beaten out by fintechs.

***Continue reading*** to learn more about what leading banks have already done and to review [\*\*\*our 2023 checklist for developing an innovation strategy plan.\*\*\*](#)

*This article originally appeared in Insider Intelligence's **Banking Innovation Briefing**—a daily recap of top stories reshaping the banking industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

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