

Five trends to watch when considering a digital banking strategy

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The news: Digital transformation is a major component of banks' and credit unions' near-term strategies. A new [report](#) from the cloud-based digital banking provider Alkami Technology highlights **five trends banks and credit unions should be aware of during their digital evolution.**

The Trends Driving the Digital Banking Landscape report is based on a survey of executives at 152 banks and credit unions.

Key stats: The COVID-19 pandemic accelerated banks' and credit unions' focus on digital transformation strategies. But the report shows that many financial institutions (FIs) still have a long way to go before their digital upgrades are complete.

- On a scale of 0 to 100, the average respondent **ranked their digital transformation journey progress at 58.**
- When asked which digital features their **customers requested the most, 73% said digital account opening, 63% said loan applications, and 59% said peer-to-peer payments.**
- When asked what the **biggest challenges were to digital transformation, participants cited legacy systems (68%), organizational resistance to change (51%), and lack of digital literacy (41%),** as the main factors.

Five trends: Participants' responses uncovered a series of themes in digital banking that can inform FIs' short- and long-term plans for digital transformation.

1. Contactless and cashless payments and transactions are becoming the default: The shift has been underway for quite some time, but the pandemic sped up the move.

- **60% of those surveyed said cashless transactions have increased at their institution by 20% or more over the past two years.**

2. Major financial institutions are adopting cryptocurrency, albeit slowly: Banks are recognizing that digital currencies will continue to grow in popularity, and they are taking actions to become the bridge between the traditional banking world and the digital currency space.

- **Just 21% of respondents said their customers are asking for Bitcoin and crypto products.**
- But 35% of banks believe offering such products will give them a competitive advantage.

3. Banks are competing with fintechs. Some are partnering: FIs are recognizing the impact that fintech companies are having on customers, and some feel that partnering with the companies will help keep them relevant.

- 73% of the overall population trusts financial institutions with their personal information, **according** to The Financial Brand. But fintechs are not far behind, with 63% saying they trust

the companies with their information.

- **50% of banks and 40% of credit unions have partnered with a fintech company within the past three years due to competitive pressure.**

Leading Providers US Digital Banking Users Would Trust Most to Provide Them with Banking Services, 2021 & 2022

% of respondents

	2022	2021
PayPal	42.2%	40.7%
Current primary bank** or credit union	41.9%	48.0%
Visa	32.8%	31.7%
Mastercard	20.3%	20.6%
Apple	19.2%	13.0%
Amazon	19.1%	23.3%
American Express	12.9%	16.0%
Venmo*	12.3%	-
Discover	12.0%	11.8%
Another traditional bank or credit union	9.9%	9.9%
Walmart*	7.0%	-
Microsoft	5.1%	6.0%
Another "digital-only" bank	3.1%	5.1%
Alphabet (Google)	2.9%	13.5%
Meta (Facebook)	2.2%	3.3%
TikTok*	1.5%	-
Klarna*	1.3%	-
Other	0.7%	0.8%
Uber	-	0.7%
Lyft	-	0.6%

Note: *newly added in 2022; **primary bank could include either a traditional bank or a digital-only bank

Source: Insider Intelligence, "US Banking Digital Trust Benchmark 2022," Aug 2022

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InsiderIntelligence.com

4. Many opportunities lie in hyper-personalization: Customers are craving an emotional attachment to their FI and are demanding their banks get to know them on a personal level.

- **66% of participants said they are not taking advantage of hyper-personalization to gain a competitive advantage, compared to 24% who are.**
- Banks can extend their personalization capabilities from fraud detection to other areas like personal finance recommendations through the use of artificial intelligence (AI).

5. Data analysis can enhance customer experience: Consumer data protection is top of mind for FIs. But those that can balance security and analysis can tap into new ways to serve customers.

- **Participants said they are using data analysis to enhance things like customer experience (86%), business decision making (72%), and reduction in development time and cost (23%).**

Types of Information That US Digital Banking Users Do Not Want Their Bank to Use vs. Believe Their Bank Uses for Personalization Purposes, June 2022

% of respondents

	Information they do not want bank to use for personalization purposes	Information they believe their bank uses for personalization purposes
GPS location when not using mobile banking	48.8%	12.3%
GPS location when using mobile banking	35.8%	32.7%
IP address location when using online or mobile banking	31.6%	32.6%
Family size	23.6%	11.4%
Wealth (savings, investments, etc.)	22.0%	28.5%
Borrowing history	19.9%	32.9%
My bank(s) can use any of these types of personal data	19.9%	-
Payment data	19.6%	51.8%
Credit score	17.5%	43.8%
Bank chat logs	17.1%	17.6%
Call center interactions	15.5%	21.4%
Products used at the bank	11.9%	38.1%
Other	0.3%	0.5%
None	-	9.9%

Source: Insider Intelligence, "US Banking Digital Trust Benchmark 2022," Aug 2022

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The big takeaway: The trends identified in the report are valuable to FIs looking to sharpen their digital strategies, but banks should keep these caveats in mind when addressing them.

- Many citizens and communities still rely on cash for most of their day-to-day transactions. A focus on cashless banking might alienate a large number of customers.
- Banks in the US are being shut out of crypto, and anticipated legislation could further halt banks' plans to get involved.
- Partnerships with fintech companies may be the easiest and cheapest way to complete the digital journey for some FIs. But due diligence is vital when partnering with fintechs, as their services impact the reputation of the FI.
- Defining personalization is tough, and use of AI is risky and expensive. Banks must ensure their customization is meaningful and unbiased.
- FIs have extraordinary access to consumer data, but banks are coming under fire for their customer service practices. Connecting consumer data across all access channels could lead

to a better customer experience.