

# DIGITAL TRANSFORMATION FOR COMMUNITY BANKS AND CREDIT UNIONS: SOLVING THREE CHALLENGES

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Banking giants and fintechs around the world are changing how they interact with customers and drive profit through digital transformation. Community banks and credit unions are now joining this revolution and embarking on their digital journeys. As smaller institutions, they are facing new and unique challenges. More and more, these banks with \$10 billion or less in assets are running into roadblocks and asking: Why do 70 percent<sup>1</sup> of digital transformations fail? And how should we tailor 'digital' to my community bank or credit union to avoid this?

To tackle this question, Capco's digital community banking lead Aditya Udas joined in conversation with Will Pohl (Account Executive, Backbase) and Jeff Sinnott (President and CEO, Vantage Bank) in a webinar on *Solving Three Challenges: Digital Transformation for Community Banks and Credit Unions*. Here is what we learned – unexpected solutions for smaller institutions to reach success.

## SETTING THE STAGE: WHY GO DIGITAL?

Community banks and credit unions must find a way to achieve organic growth and evolve with their customers, members, and competition.

Digital transformation is essential for community banks and credit unions to stay competitive. **Eight out of the ten millennials** – now the most populous demographic on the planet – **will switch banks for a more positive digital experience**. In contrast, older banking clients typically only moved for a significant life event.<sup>2</sup> The results of our webinar reinforce this shift: **55 percent of participants** from community banks and credit unions agreed that **the biggest challenge they face is customer/member attrition**, as clients and competitors evolve to seek and provide **more modern services and experiences**.

Community banks and credit unions can slow customer/member attrition and pursue organic growth by enhancing their digital capabilities to continue to deliver their core value proposition – close relationships and a personalized client experience – while also providing the frictionless digital services that consumers have come to expect.

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*The challenge for community banks and credit unions is capturing their value proposition – tailored solutions for customers/members and a close connection to the community – while channels become more digital. “It’s no longer about just getting the right people together; it’s also getting the right technology together and delivering the right digital channels” to provide a better consumer experience.*

– Jeff Sinnott

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### PRO TIP:

**Gain executive alignment. Ensure that the C-Suite is bought into the need for change and can clearly articulate the importance of going digital to the board.**

1. Forbes, *Companies That Failed at Digital Transformation and What We Can Learn from Them*

2. Gallup, *4 Ways Banks Can Win and Keep Millennial Customers; The Financial Brand, What Motivates Millennials to Switch Banks?*

# CHALLENGE #1: VENDOR LOCK-IN

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FIs are handcuffed by legacy technology and unable to control the digital experience they provide, preventing them from delivering an ideal user experience in an age when everyone is starting to demand great digital experiences.

Constrained by budget and technology issues, community banks and credit unions historically have outsourced their digital services to third party vendors that provide a prebuilt, one-size-fits-all solution. Every customer/member gets the same experience, regardless of how complicated their banking relationship is. This is directly counterintuitive to the tailored solutions and personal approach that have brought success to these institutions, and it shows. A 2019 study found that community banks and credit unions had the **highest satisfaction gap** out of all financial institutions **in terms of providing frictionless banking** to their clients.<sup>3</sup>

The first step in addressing this gap:

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*Be honest about what your obstacles are, gain alignment, and make sure you truly define what you're trying to accomplish*

– Jeff Sinnott

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Being locked-in to a prebuilt solution also means missing out on valuable upsell and cross-sell opportunities because the platform can't leverage data to target content and personalize by market segment. Community banks and credit unions have a significant amount of data on each customer or member. Still, they find themselves unable to leverage this information properly due to these legacy online banking solutions.



## PRO TIP:

**Quantify missed opportunities to drive a compelling business case for digital transformation.**

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3. FIS, *PACE 2019 US SMB Report*

## CHALLENGE #2: AUTOMATING MANUAL PROCESSES

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Automation provides crucial cost savings for community banks and can improve regulatory compliance.

Process automation for FI's fall into three main categories: deposit account opening, loan origination and providing self-service options like the ability for a customer/member to dispute a transaction or report fraud without having to call into a call center.

When executed strategically, manual process automation can be hugely transformative to the bottom line and drive operational innovation, as well as strengthening regulatory compliance. One bank was able to acquire one million customers in less than six months, at zero marginal cost, thanks to 100 percent process automation.<sup>4</sup>

Manual processes, on the other hand, introduce unnecessary overhead and errors, and waste employee time that could otherwise be spent on high value add activities. However, it's important to remember that **not every manual process warrants automation**. Customers and members use community banks and credit unions for high-touch, personalized relationships; don't sacrifice culture for the sake of speed by eliminating processes, particularly those related to CRM, that provide unique value to users and strengthen your organization's culture.

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*Manual processes cause two main problems: It takes up a lot of valuable employee time that could be spent on strategic activities, and it creates friction and slows down response times for your customers and members. There's a really clear business case for solving this, which is the significant amount of bottom-line savings by automating those processes, and you're also going to have more conversions on new applications because there's less friction and quicker response times*

– Will Pohl

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### PRO TIP:

**Don't merely automate bad processes – use this journey as an opportunity to rethink and redesign the way your teams do business.**

## CHALLENGE #3: SILOED EXPERIENCES

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The biggest challenge facing FIs is a siloed technology landscape causing disjointed experiences for customers and members; solving this by creating a true omnichannel experience is a difficult but worthwhile investment.

Omnichannel banking platforms require investment in a standardized data strategy, something that our experts have found to be fundamentally lacking in small financial institutions.

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*The only true way to provide an omnichannel experience is through a single view of the customer that helps you define from an account holding perspective how that customer should be treated*

– Aditya Udas

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4. Global Data, *Digital Banking*

The goal of every financial institution should be true omnichannel capabilities, delivering seamless experiences to customers/members no matter how they choose to interact with their bank and empowering employees to provide superior service. For example, a client should be able to start an application from a mobile device and transition to a different channel mid-process. If they contact a call center, that representative is already aware that an application is in progress. They should also be able to open new banking products within the authenticated experience without having to re-enter their information into a separate account opening or loan origination solution. The business case is clear: the omni-channel model enables banks to increase sales while reducing cost and improving the quality of customer service.<sup>5</sup>

Community banks must break free of their technology and data siloes and dependency on legacy providers to facilitate omnichannel implementation and pursue organic growth, especially as technology becomes more modular, and there is a heightened need for targeted content and personalized user experiences. **Sixty-one percent** of

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*Without a foundational data strategy and foundational cybersecurity vigilance, it's very hard to embark on these digital transformation journeys*

– Aditya Udas

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bankers say that a customer-centric business model, including **hyper-personalization, is essential, yet only seventeen percent feel prepared** to offer it.<sup>6</sup> Cybersecurity and data privacy are also paramount, particularly as legislation on consumer data protection becomes increasingly common and more stringent.

### PRO TIP:

**Be patient and don't take shortcuts – digital transformations fail when organizations look for quick wins.**

Digital banking is here to stay. The majority of millennials bank through digital channels and 'Gen Z' is on pace to overtake them in both population and mobile banking adoption.<sup>7</sup> To learn more about how your community bank and credit union can embark on a successful digital transformation journey, reach out to [Aditya Udas](#) or [Will Pohl](#).

5. International Banking Institute, *Omnichannel Banking Economy*

6. Oracle, *Beyond Digital: Data-Driven Strategies to Grow, Scale and Profit*

7. Morgan Stanley, *How Millennials and Gen Z Could Reinvent Banking*

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