Digital Banking: 1999 All Over Again!
by Charles Wendel

FIC is currently writing a report on digital lending. Our background research includes reviewing the digitally-focused reports published on IT and consulting firm websites, interviewing a cross-section of banks, non-bank lenders, and vendors in this space, and speaking with borrowers. What we are finding reminds us of another focus of a few years ago.

At the end of the last century consultants and IT firms fueled enormous concern and some fear about what would happen if they did not prepare for the calendar change that would occur after 11:59PM on December 31, 1999. Basically, Armageddon was about to strike along with the bells at midnight. The Y2K or Millenium (not Millennial) Bug planned to eat your company. The hype was intense and urgent, much of it geared to the immediate purchase of software and consulting services.

Welcome to the digital banking landscaped of 2019. Before this column appears to support being a Luddite, let's be clear that digital capabilities offer banks significant opportunities to improve their customer's experience and also reduce operating expenses. Increasingly, a customer wants access to his bank "any time, any where, on any device", as one technology vendor stated. We spoke with one lender who took applications from business customers in about eight different ways, ranging from smart phone to paper fax.

Related to customer interaction, digital is an additional and critical access point for many customers, a cost of admission to be considered as a potential or bank. While, ultimately, originating costs for banks should decrease, the number of origination channels may not unless a bank makes a conscious decision to end some of them.

Internally, areas like credit, risk management, and servicing are ripe for digital change. One lender with a strong customer service reputation said their goal was to allow their customers to get problems or issues addressed online, if (and only if) they wanted to. Alternatively, they could call the company for personal assistance; the option was the customer's. Again, as with origination, customers involve a very diverse group with wide levels of technology access, capabilities, and interest.

Here's a great story about that same company mentioned in the prior paragraph. I was calling in for a scheduled phone interview with an executive when another person answered the call. I assumed I had misdialed and apologized. But, I had not. The speaker said, "No, you called the right number, but we don't have voice mail here, so the called rolled over to me." When I mentioned it to the interviewee, the response was, "Was the call picked up before two rings?" Imagine the customer service culture that permeates that company, a big, growing, and industry leading lender.

Digital capabilities provide a bank with an important tool, but Ron Shevlin's current column in *Forbes* hits on much of the hype related to digital initiatives. The tone of its title, "Enough with the 'AI-First' Hype", suggests his viewpoint. He writes that in recent years technology vendors have moved from emphasizing "mobile first" to "mobile only" platforms to "voice first" and now "AI first". Big vendors and consulting firms move from one new thing to another. He goes on, "They represent a channel-, technology-, or device-centric view that is at the root of banks' strategic problems."

His major point, one that our research, interviews, and client experience underscores, is that banks today do need not an AI-first and may not need a digital strategy, but they definitely need business, vendor and data strategies.

Business strategy. Our experience is that many banks don't want to make the hard strategic choices, choices that would likely lead to organizational and personnel changes. Shevlin's point is an AI or digital strategy is useless the company has "a clearly defined vision of where the company should and needs to be" as well as how it wants to get there.

Vendor strategy. Banks simply cannot implement initiatives like AI because their foundation systems are inadequate. Like AI, agile is another overused phrase, but banks require both internal IT agility and agile relationships with vendors that provide a platform allowing the adoption of innovative rechnology.

Data strategy. Some banks have inadequate data, others lack a data management system to use what they have; few have rigorous data analysis processes. As Shevlin writes, "If you don't have good data and analytics capabilities, what good will an AI-first strategy do?"

These three strategies are fundamental to success and have been important for a decade or more; they are also hard to do well. Contrast the difficulty of strategy with evaluating the latest "gee whiz" technology. As one company exec commented, "New technology is fun, cool, and exciting, but a discipline is required." Banks need to ensure that their discipline around technology begins with an assessment of current capabilities, priority internal and customer needs, and, then, the role digital technology can play to meet them.