

Digital Banking: Time to Move by Charles Wendel

Last week I spoke at and attended Source Media's Digital Banking Conference, one of the largest and most significant conferences focused on this topic. The conference makes apparent that an increasing gap exists between those banks and non-bank companies that have embraced digital and others that are moving slowly to "become digital", if they are moving at all. The digital gap will likely result in a growth and bottom line performance gap as the best digital players lever technology to reduce costs and build revenue.

Most banks seem open to using digital capabilities to reduce costs. Multiple exhibitors offered solutions aimed at reducing fraud, improving operating efficiencies, addressing compliance requirements, and similar areas. Ultimately, however, greater impact will occur in how bankers manage and build customer relationships.

Speakers from three types of banks captured the issues facing the industry and the varied approaches being pursued. While no path is easy, some strategies seem clear. One type of bank, however, faces significant challenges.

Commitment to Digital. Umpqua Bank represents the small but growing group of banks that know they need to go beyond the traditional face-to-face approach that has worked so well for them and transition to a new way of meeting customer needs. Umpqua's President and CEO, Cort O'Haver, titled his talk, "The Future of Digital Banking is Human." He and others at the conference directly discussed how becoming digital demands they alter their approach to customer management and sales. Cort talked about digitalizing the "store experience" and transitioning from "face-to-face banking" to mobile/digitalized devices. He also featured the bank's new motto: "Personalized Banking for all. Anytime, Anywhere" and said the bank needed to be "Human Digital."

Umpqua has long been known for the unique community-like feel and high touch of its branches, a concept he said Umpqua adapted from Starbucks and that Capital One has adapted from them. One challenge Umpqua faces is to determine how to use digital capabilities to grow with new customers while leveraging digital to further personalize current and new customer relationships. Importantly, top management appears to "get it" and demonstrates commitment to managing through this change while maintaining the bank's distinctive culture.

Commitment to Disruption. Jay Sidhu, Chairman and CEO of Customers Bank, spoke forcefully about the impact of digital on banking's future profitability and growth. One of his slides stated that branches average one net new checking account per week while BankMobile, his digital only bank, opens 5,000 net new accounts per week. He went on to describe BankMobile's partnership with T-Mobile that launched in April. One of the major hooks for the tens of millions of T-Mobile customers is an account that pays 4% interest on the first \$3,000 deposited. Sidhu seems to believe that banks need to blow up their traditional approaches to survive. His final slide summarized his view: "You must disrupt yourself, or someone else will."

Digital/Traditional Tension. So far, I have described the banker that “gets it” and a banker that is happy to be disruptive. A third group of banks and bankers was also in attendance at the conference, and, in my view they represent the majority of banks today. It being a digital banking conference, these speakers had a bias towards digital. In some of their comments they betrayed a bit of condescension toward the traditional banker who has succeeded by relying on high touch and relationship management. These speakers seem to view traditional bankers (namely, those who have been making money for their banks) as not being able to keep up with the latest trends.

This group of internal digital leaders can provide tremendous benefits to a bank, but they better begin by understanding why their banks have succeeded and they would be wise to show some humility as well. In the best banks credit personnel work collegially with the line officers, emphasizing mutual respect and avoiding an antagonistic relationship. The same type of relationship needs to exist between a bank’s digital staff and the line. Line bankers tell me that is often the case today.

More fundamentally, banks often lack organizational clarity around who is in charge of digital, with digital “leaders” existing in multiple functional and the occasional line group. Organizational clarity would likely result if the bank knew the direction of its digital path. Many banks continue to focus on being able to meet one off needs rather than building a true digital approach, as with Umpqua.

Digital capabilities can transform the cost and revenue bases of many banks and addressing this area should be given the greatest urgency. Similarly, a one-bank approach needs to be developed to ensure an integrated customer offer. That is what many customers want and what others will provide.