The Digital Distraction?

by Charles Wendel

The list of secret sauces, those often-IT based initiatives which promise to solve the problems that bank management faces and lead them to the jeweled land of sustainable profitability, is long and ever increasing. Over 20 years ago, I co-wrote a now out-of-print book titled, *Business Buzzwords*. That book tried to collect the dozens of buzzwords in circulation then and provided definitions and examples of how those phrases were being used.

Since then, the dozens of buzzwords then in circulation have become hundreds, but, today, one word stands out as central to virtually all bank initiatives: *digital.*

IT and large accounting firms promote the value of new concepts, whether, in recent years, reengineering, CRM, blockchain, artificial intelligence, or , now all things digital. Each new "discovery" brings with it the opportunity to help management while selling often open-ended IT or consulting projects. Digital and the concept of digitalization may be one more "sauce" in a long list of sauces. And, the "digitalization" of some functions is not new, having been around for over a decade in areas such as credit scoring. In that case automating a repeatable decision process drove its adoption.

Of course digitalization provides management with a new set of tools, some of which bring surprising results. For example, one bank I recently spoke with said that they introduced eSignatures to meet the demands of some of the customer segments they served. While in a sense they were pushed into using this tool by customers, the bank soon realized significant cost efficiencies that the bank quickly embraced more broadly.

Banks need to view digitalization within a larger strategic context; relying on a digital solution as some sort of savior is a mistake. Recently, I have seen two examples of potential overreliance on digital, as if it provides a magic wand:

Deposits. Yes, an online digital bank can serve to generate increased deposits. However, those deposits will need to be bought at a competitive rate; by their nature these depositors will largely be transactional with little franchise value.

Digital deposit efforts should only supplement other more traditional approaches. Some banks are looking to digital without first ensuring that their line bankers are doing all they can to generate deposits:

- Is there a senior person in charge of the deposit effort?
- Have bankers profiled their major customers and quantified additional deposits held at other financial institutions?
- Are bankers focusing on deposit-rich segments for prospecting?

- Has management introduced a compensation plan that incents deposit capture and further incents capturing low cost deposits? This is often an area in which management thinks it has addressed an issue, but in fact has not done so effectively. We even know one bank that introduced a temporary program that, after a few months, began to show some positive results. Management's response was to drop the incentives, with the expected negative impact on deposit activity.

Establishing a digital bank seems more exciting than executing on the basics summarized above, but these "analog" actions will likely result in more reliable and lower cost deposits. These steps can build not just deposits but franchise value.

Millennials. The race for Millennials has been on for a while. Several banks and nonbanks have already established strong beachheads with this group. While this segment certainly requires 24/7 digital access, a digital only emphasis will attract just a slice of this segment. In fact, too much emphasis on digital may limit relationship building.

A number of highly focused or single-purpose Fintechs are aiming at this segment, including SoFi in student lending, Betterment for investment, Aspiration for "Green Banking", Digit for savings, among many others. All these companies have ready audiences, although some of them may not operate with sustainable business models and are likely to disappear.

As they have proven, banks do have sustainable business models. And, those banks that are succeeding with Millennials appear to be doing so with an approach that has succeeded with other segments:

- Strong lead offer, often tied to student loan refis and, in some cases, loan reduction
- Product set geared to Millennial needs with website links to relevant articles
- Multi-channel access, emphasizing digital
- Access to personal advice targeted to the segment

The same elements that have resulted in a bank's success in other areas carry over to Millennials: a segmented focus, appropriate product set based upon an understanding of the client's needs, and decision speed and transparency. Digitalization should streamline and speed up internal processes and, thereby, enhance the customer experience. But note that "traditional" strategic issues need to be resolved if digitalization is to have impact.

The title of this article highlights a concern. Digitalization can provide tremendous economic, risk management, and customer value. However, if banks focus on digitalization without viewing it within the context of the bank's current business strategy and success, it will provide limited value.