The Digital Path: Not a Straight Line

by Charles Wendel

Here is a true statement: Banks need to leverage digital to increase efficiencies and improve the customer experience wherever possible. That's obvious. But, their need for change and the best approach for them to bring change to their bank varies widely.

One consulting firm that brands itself as "deep technologists", recently presented a survey that includes the following finding:

> "67% of financial services executives strongly agreed that 'My organization's digital vision is clear and comprehensive , widely understood, and used to guide strategic decisions.' "

Financial services ranked itself high than any the industry survey. This is yet another example of a survey providing specious results, as President Hillary Clinton can attest. Of the financial services firms I know, maybe one would agree with the above statement, and it would do so with humility.

Instead, most banks are struggling to determine how to move forward digitally while maintaining client levels of service and growing profits on a quarterly basis. FIC is in the middle of writing a report of digital lending, and we have been conducting detailed one-on-one interviews, rather than a self-assessment survey, of equipment finance and leading leaders. Here is some of what we are learning:

Top management thinks the digital initiative is further along than it in reality. No surprise, as senior management is often shielded from the ugly truth and often encourages that shielding. It also goes a long way in explaining he 67% number above. Those in the trenches continue to find not only resistance and concerns over the impact of digital on job security but also sincere consternation about the optimal path forward.

A digital vision may by its nature be murky, not clear. Digital "transformation" requires companies to agree to a continuous, never ending process. The end point cannot be determined because there is none. While that delights some consulting firms (neverending!!), it can create frustration and hesitancy to move forward.

Start from the inside out. Several companies we know that are digital leaders began their change process by streamlining and digitalizing internal processes rather than immediately providing a digital customer link to the bank. They stated their concern that providing, for example, a digital application that fed into a cumbersome analog process would create customer frustration and increase the total time and investment required. In contrast, some banks provide digital applications but have yet to deal with infrastructure issues.

Digital is an enterprise wide solution. Effectively moving to digital requires the various lines of business to work together and individual units to work within the corporate umbrella whenever possible.

Not all companies need digital today. That's too extreme a statement on its face, yes, but the point is that the pace of required change differs significantly from one company go another. If you serve consumers or small business, you should likely be moving at warp speed to try to eliminate high cost analog processes and meet the customers' demands for 24/7 access. Other banks, serving the middle market or larger, may have more time and can pursue digital changes more selectively.

Digital advocates need to respect analog people. In a few recent instances we have sensed that some of those leading the digital charge look at more traditional bankers with condescension, as if they know the path to the future and those who have built the bank do not. That attitude will only result in internal resistance and, in some cases, the digital upstarts will lose out, at least in the near term. The best credit cultures demonstrate respect between line bankers and underwriters, so too must the working relationship between digital leaders and traditional bankers.

The customer doesn't care about digital. One of the bank executives I spoke with expressed this well: "The customer wants good service and transparency. They don't care whether that occurs digitally or some other way." At least in the near-term that justifies some banks not pursing a transformation process.

An incremental process does not work…except when it does. One company we interviewed recently has taken a "white board" approach to digital, basically determining how to transform their company from A to Z. They were able to do so because of their acquisition by a large and forward-thinking buyer, a parent that encouraged them to "think different". Most banks have neither the staff, capital, nor perceived urgency to follow a similar path.

Top management needs to be committed or don't bother. Lip service is insufficient for this effort to succeed. One highly successful and well respected company we spoke with said the CEO would not buy into any type of enterprise effort both because of cost and a view that the client base did not require a digital investment. Whether he is right or wrong, his stance eliminates any major digitally-focused changes.

The importance of digital capabilities and providing a full digital customer experience should not be underestimated. Appropriately, however, the pace of change will differ based upon customer segment, the competitive environment, and other factors. Over past decades as a consultant the secret sauce proposed by various vendors has included: TQM, Reengineering, Six Sigma, CRM, Fintechs, Blockchain, and most recently, Digital and AI. All of these tools bring value, but none of them provides a secret sauce. And, in the next year or two, vendors will push create or repackage some other solution. Banks are moving to digital; some of those that fail to do so will disappear in the face of high operating expenses and an eroding customer base. But digital is also just another innovation, a tool, like those others listed above.

The bank winners will be those that apply digital capabilities (and other tools) to the specialized segments, solutions orientation, credit discipline, and customer focus that has built and sustained them for many years.