Who Leads a Digital Strategy in an Analog Bank?
by Charles Wendel

Banks, large and small, now accept that they need to incorporate "digital" into their business approaches. To this day, however, many banks have yet to determine what "digital" means or who should be involved internally in leading the effort. Fully meeting emerging customer expectations requires an "all in " approach that most banks either cannot or do not want to pursue.

The reality is that most banks are much more comfortable with an incremental approach. Understandably, managements must protect their current revenue stream and retain their current client set. Some hope "this too shall pass" or at least take long enough to develop so that it is someone else's problem.

While more clients of all ages want a 24/7 "digital experience" the leakage of these customers out of banks is largely imperceptible. Bankers may hear the tick-tick-tick sound of lost wallet share, but it is still a faint sound at most banks despite "the sky is falling" mantra of big name consultants and IT firms that hope fear sells. To a significant extent many direct "alternative" lenders focus on segments that banks continue to avoid, for example, subprime consumers and auto loans. Those lenders have expanded the total loan market, yet it remains unclear how that approach will play out for them over the credit cycle.

Banks still have the luxury of some time (months not decades) to figure out what makes sense for them in establishing a process to assess and select from the smorgasbord of the digitally-based options available to them now and in the future. As always (but too often in reality rarely), the starting point should be the customer and the customer experience. One fundamental problem: Many banks fail to define who their customer is. I recently met with a banker from a community bank that operated in multiple business lines serving companies of various size and consumers of various potential. I suggested the possibility of exiting some businesses, most of which provided a small percentage of the revenue stream while consuming management time. As I expected, the banker defended each business line, although at the same meeting he also expressed concerns about limited resources and personnel capabilities.

Contrast that bank with another I know well that can succinctly define its customer base within the classic 15-second elevator ride. That bank knows what it stands for and the customer segments it stands with. While not easy by any stretch, that bank faces a simpler task as it transitions to a digital world.

In many cases we find that individual business lines are leading the headquarters in providing a digital focus and proactively addressing emerging client expectations and needs. The business line manager "gets it" but may need to operate within a larger culture of parochialism and silos. That's a tough road to navigate. That manager needs to show that his proposed solution (for example, a mortgage or small business digital platform) can "guarantee" lower costs while maintaining or even improving customer service. Cost reduction can often be demonstrated more convincingly to a questioning senior management versus other areas like revenue growth or "enhanced" customer experience. At many banks cost reduction provides the initial motivation for an expanded digital focus.

Let me end up where I probably should have started. Just what is a digital focus? What does it mean to be "digital"? McKinsey and BCG, among others, seem to generate weekly treatises on this topic, urging quick action and the demolition of current approaches (which they are willing to lead). These projects, lead by consultants with little practical experience, often manage to hypnotize senior management while leaving line management both confused and frustrated. Cynics might think these consultants are exploiting digital in much the same way as they exploited reengineering, total quality management. Six Sigma, CRM, and untold other "secret sauce" solutions.

These "one-stop solutions" and digital are fundamentally different in a critical way. The customer and customer oriented companies outside of banking continue to lead the digital revolution, and the risk to banks is that their customers will get so far in front of them that they become irrelevant or simply utilities with utility-like returns.

Banks need to determine what digital means from the customer perspective, not what they want the customer to want. We think a digital checklist includes:

- Convenience (easier account opening, mortgage applications, etc.)
- Speed
- Transparency
- 24/7 access
- Multiple ways to access payments, loan, wealth management needs
- Increased self-service
- Ready access to technology, robo advisors, and whatever else is coming down the pike
- All this and more with lower costs
- Bankers who know their larger customer accounts and leverage their knowledge and technology to provide insights/alternative solutions. Digital analytics and AI should make the banker smarter and more valuable to key clients

Becoming digital requires a new culture and a willingness to move away from established approaches even though in some cases these approaches have been successful for decades. That is one reason why a business-line lead digital revolution may work better than an initial focus on an enterprise-wide approach. Adopting an enterprise-wide approach may need to be proceeded by one or two business line leaders who will lead the bank from analog to the promised digital land. At many banks two business areas that are natural for this lead role (due to process and customer experience issues) are small business and retail mortgage.