



# 2021 Financial Services Digital Transformation Survey

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## Digital Transformation Accelerates Across Financial Services

At the start of the COVID-19 pandemic, financial institutions and specialty finance organizations were hoping to withstand the impacts of the crisis and eventually return to pre-pandemic operations. But following a year of persistent challenges, the impacts of COVID-19 are shifting customer behavior and redefining business for the long term. 2020 ushered in a new era of accelerated digital initiatives. Companies in many industries, including financial services, have responded by reexamining their business models and leveraging technology to increase revenues, improve operational efficiencies and mitigate risk.

According to BDO's *2021 Financial Services Digital Transformation Survey*—which polled 100 C-suite executives at middle market banks, credit unions and other lending institutions—most organizations have developed their digital transformation strategy, and nearly half are accelerating existing plans. Amid an increasingly competitive industry landscape, financial institutions recognize that executing on their digital strategy swiftly and effectively can deliver an impactful advantage.

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*2020 prompted much wider and more rapid consumer adoption of digital banking, and this represents a valuable opportunity for middle market financial institutions. Implementing a digital strategy can help them get closer to their customers and tap new revenue and business models that will yield lasting benefits.*

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**BILL TOPEL**

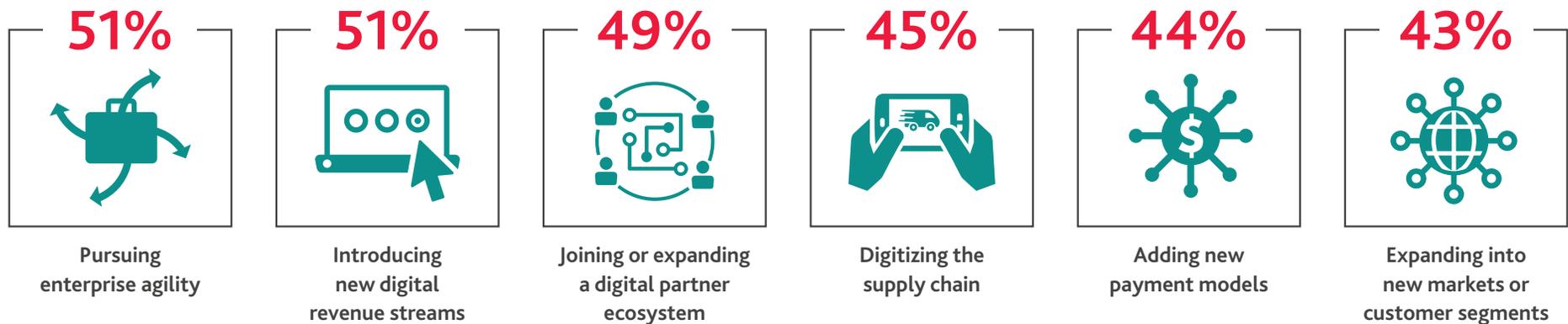
Director, BDO Digital Financial Services Leader

# Financial Institutions Prioritize Digital Strategy for Long-term Success

While the financial services industry hasn't been immune to disruption, COVID-19 challenged the status quo in unprecedented ways. From economic instability to new regulatory pressures to increased cyber threats, 2020 upended operations and amplified uncertainty. Using technology solutions to increase agility and resilience has become more important than ever before, and financial institutions aren't taking a wait-and-see approach—61% are adding new digital projects, and 51% are revising their long-term strategic vision.

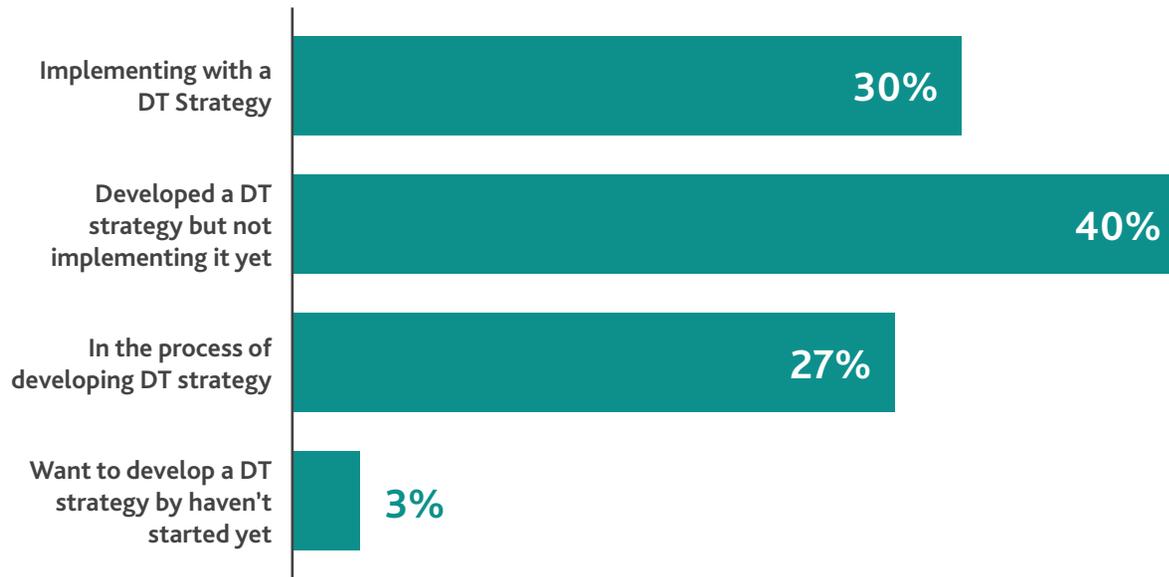
While most executives describe their business's current performance as thriving and profitable (53%), they also recognize that the evolving industry landscape calls for new capabilities, improved services and a digitally enabled customer experience. Legacy systems that may have sufficed in the past won't propel financial institutions on the road ahead—and keeping those outdated systems in place only makes the eventual transition costlier.

In the next 12 months, financial institutions are planning to implement the following changes to their operating models:



As the rate of transformation accelerates, there's a growing gap in digital maturity levels between organizations that have already centered operations around digital models and those that are still pivoting. Although 97% of middle market financial institutions already have a digital strategy in place or in development, just 30% are currently implementing that strategy. That signals a frenzy of transformation ahead, and 77% plan to increase their digital investments in the next year.

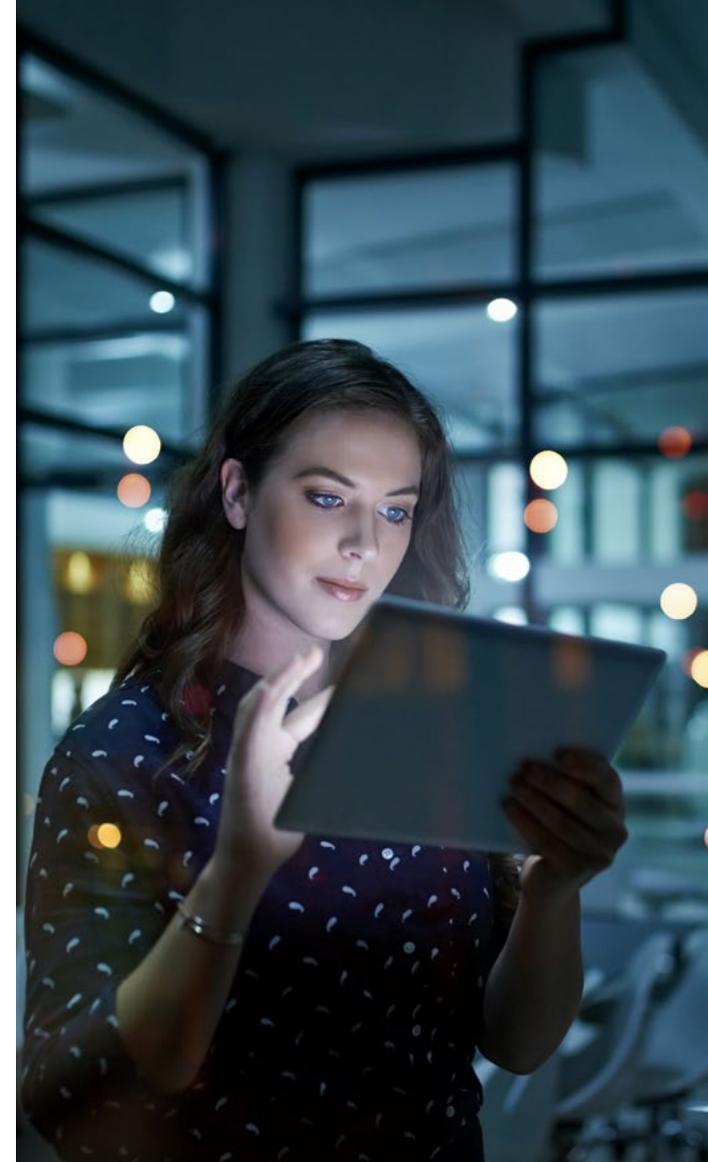
## DIGITAL TRANSFORMATION STRATEGY STATUS



More importantly, the vast majority (87%) report that their existing digital initiatives have been successful, so those that are implementing their strategy have largely seen positive outcomes. For organizations that have yet to implement a digital strategy or are still reexamining business models, that success rate can serve as a benchmark and help drive the implementation of new initiatives.

### BDO INSIGHT

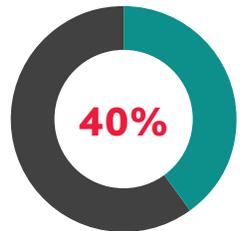
As the industry moves rapidly to expand digital capabilities, it's vital for financial institutions to keep pace with competition and seize opportunity. They have to act quickly and deliberately to execute their strategies, address shifting customer needs and stave off disruption. Innovation is redefining business norms for the industry, making 2021 a pivotal year for companies to embrace change and respond to evolving trends. But transformation can't occur all at once. It's critical to assess the current state of the business and prioritize the most impactful digital initiatives. Those that do so, and do it well, will be better prepared to capitalize on new opportunities and improve efficiencies, laying the groundwork for long-term success and growth.



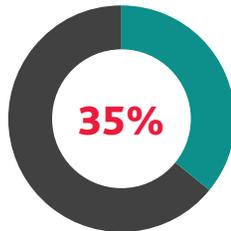
# Digital Sets a New Standard for Customer Experience

Even before the pandemic, financial services companies had prioritized improving the customer experience to offer a simpler, more convenient interface, create customer loyalty and build a competitive advantage. And even though many financial institutions were deemed essential businesses during COVID-19-related closures, they have still faced disruptive impacts on how customers receive products and services. With more customers using digital banking as a result of the pandemic, improving customer experience has taken on even greater importance.

Operational changes—such as increasing remote work arrangements or evaluating whether to use outsourced IT—also affect how companies deliver on customer experience. After a year of upheaval, financial institutions expect the following trends to have a significant impact on their business in the next year:



Digitization of customer service/customer experience



Remote work arrangements



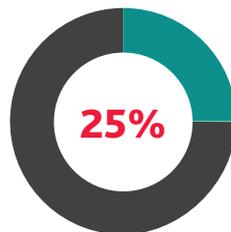
Customer demand for e-commerce



Greater use of self service



Contactless delivery options



Outsourced IT



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*Financial institutions can enable their people to grow along with them by making workforce transformation a key component of the digital strategy. Increasing digital literacy at all levels will help maximize opportunities and capture operational efficiencies.*

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**MARK HOUSTON**

Financial Institutions & Specialty Finance  
National Practice Leader, BDO USA

Any change in operations can have a downstream effect on customer experience and, by extension, customer acquisition and retention. For this reason, improving the customer experience is the second-highest digital priority for financial institutions—slightly behind optimizing processes to create operational efficiencies—which shows in the capabilities and customer offerings they have already implemented or plan to implement:

Customer/client experience capabilities	Already implemented	Planning to implement
Cloud-based collaboration platform	72%	26%
Customer/client analytics real-time intelligence	62%	36%
Data-driven personalization	58%	41%
Marketing automation	57%	35%
Conversational AI/chatbots	56%	38%
Ability to capture user information online	52%	46%
Automated cost estimates	52%	40%

Customer offerings	Already implemented	Planning to implement
Mobile banking	84%	14%
Digital account opening	73%	26%
Real-time financial management dashboards	61%	37%
Personalized loan options	57%	35%
Peer-to-peer payment	56%	38%
Digital wallet	52%	44%
Open banking	52%	30%
Location-based offers	46%	48%
Robo-advising services	28%	45%

As these digital offerings and customer experience initiatives gain momentum across the industry, banking-as-a-service (BaaS) platforms—a key part of the “open banking” strategy—can also help enable fintech and third-party applications to connect to banking systems, thereby enhancing technology capabilities through better collaboration, cooperation and partnerships.

## BDO INSIGHT

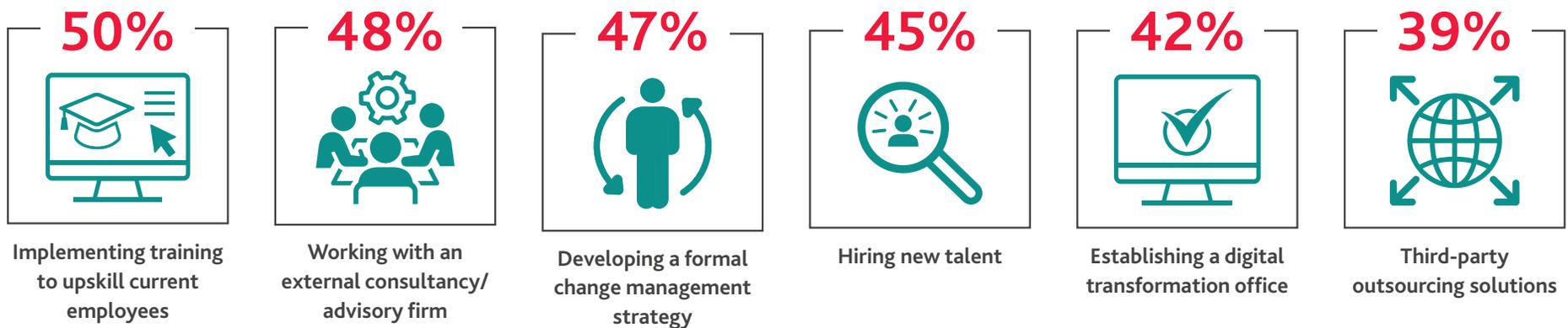
Nimble competitors have introduced features such as 24/7 customer service, expanded mobile app capabilities, financial forecasting and spend alerts, paperless banking and more—all at the push of a button. To maintain and expand market share, financial institutions can focus on improving customer experience and introducing features that address shifts in customer behavior. As more customers have adopted digital banking, they will also have higher expectations. Investing in customer experience can yield clear ROI by delivering a seamless, omnichannel experience, which helps improve customer acquisition and retention while reducing churn. Digital offerings can also help capture more data on customer behavior to better identify emerging needs and highlight opportunities to cross-sell and upsell products and services.

# Workforce Strategy and Change Management are Central to Successful Digital Transformation

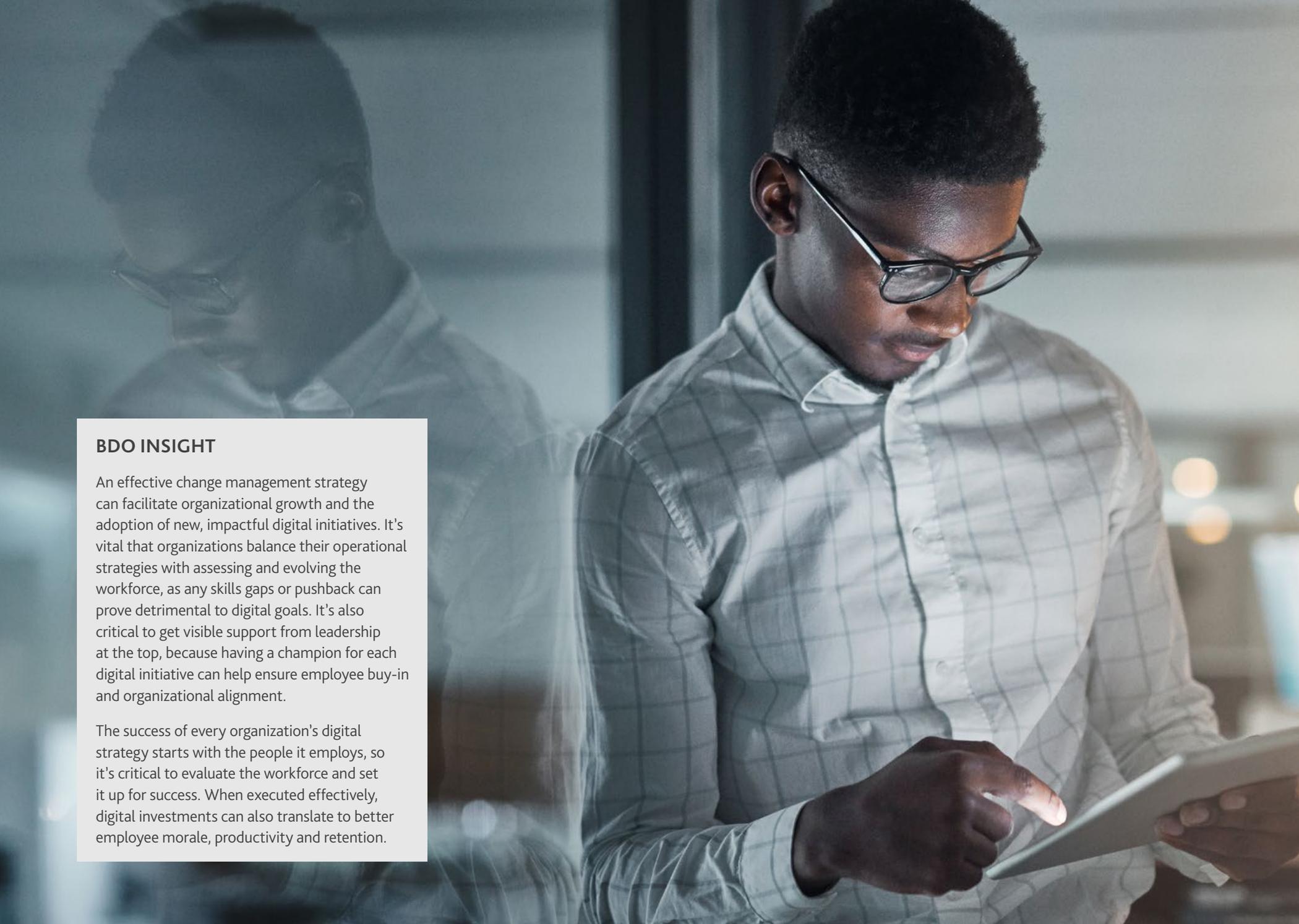
Workforce strategy is a critical component of the digital strategy. Lack of skills or insufficient training (50%) and employee pushback (46%) are cited as the top two reasons that digital initiatives underperform. These challenges have only increased with the expansion of remote working and the increased need for a high level of digital literacy across the workforce.

As financial institutions develop and execute their digital strategies, they have to make corresponding plans for change management to ensure their workforce has the training and skills needed to support the success of digital initiatives. This requires a company culture that fosters agility and a responsive approach to change. Where necessary, organizations can also leverage outsourced solutions to address gaps and maximize resources.

To enable and encourage employee adoption of digital initiatives, financial institutions plan to take multiple steps:



Many financial institutions are also using automation to reduce repetitive manual processes and increase workforce resources for more complex, high-value tasks. In fact, automation has impacted workforce strategy in several ways, with organizations reorienting their employees toward strategic initiatives (52%), comprehensively re-evaluating roles (45%) and developing a strategy for an AI-enabled workforce (40%). Far from replacing jobs, automation can create new tasks and roles for existing staff, driving the development of new skill sets and potentially increasing employee satisfaction and engagement.



## BDO INSIGHT

An effective change management strategy can facilitate organizational growth and the adoption of new, impactful digital initiatives. It's vital that organizations balance their operational strategies with assessing and evolving the workforce, as any skills gaps or pushback can prove detrimental to digital goals. It's also critical to get visible support from leadership at the top, because having a champion for each digital initiative can help ensure employee buy-in and organizational alignment.

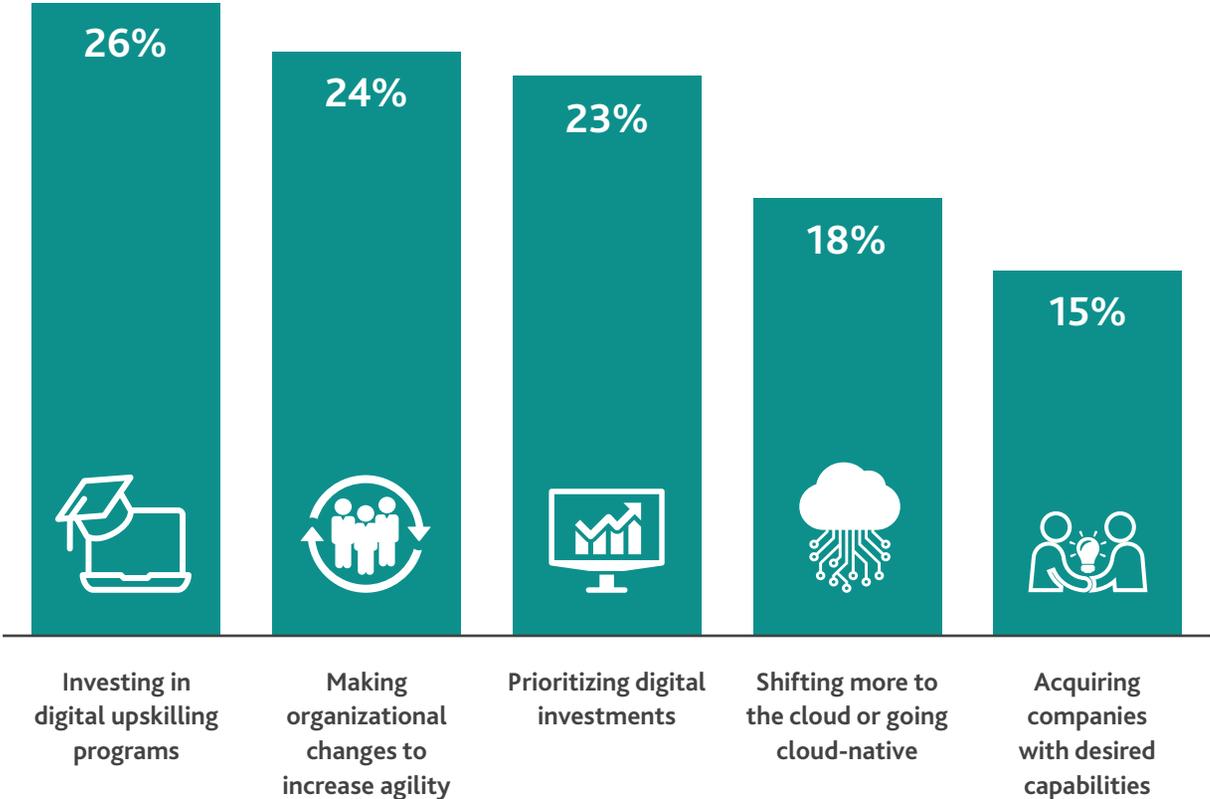
The success of every organization's digital strategy starts with the people it employs, so it's critical to evaluate the workforce and set it up for success. When executed effectively, digital investments can also translate to better employee morale, productivity and retention.



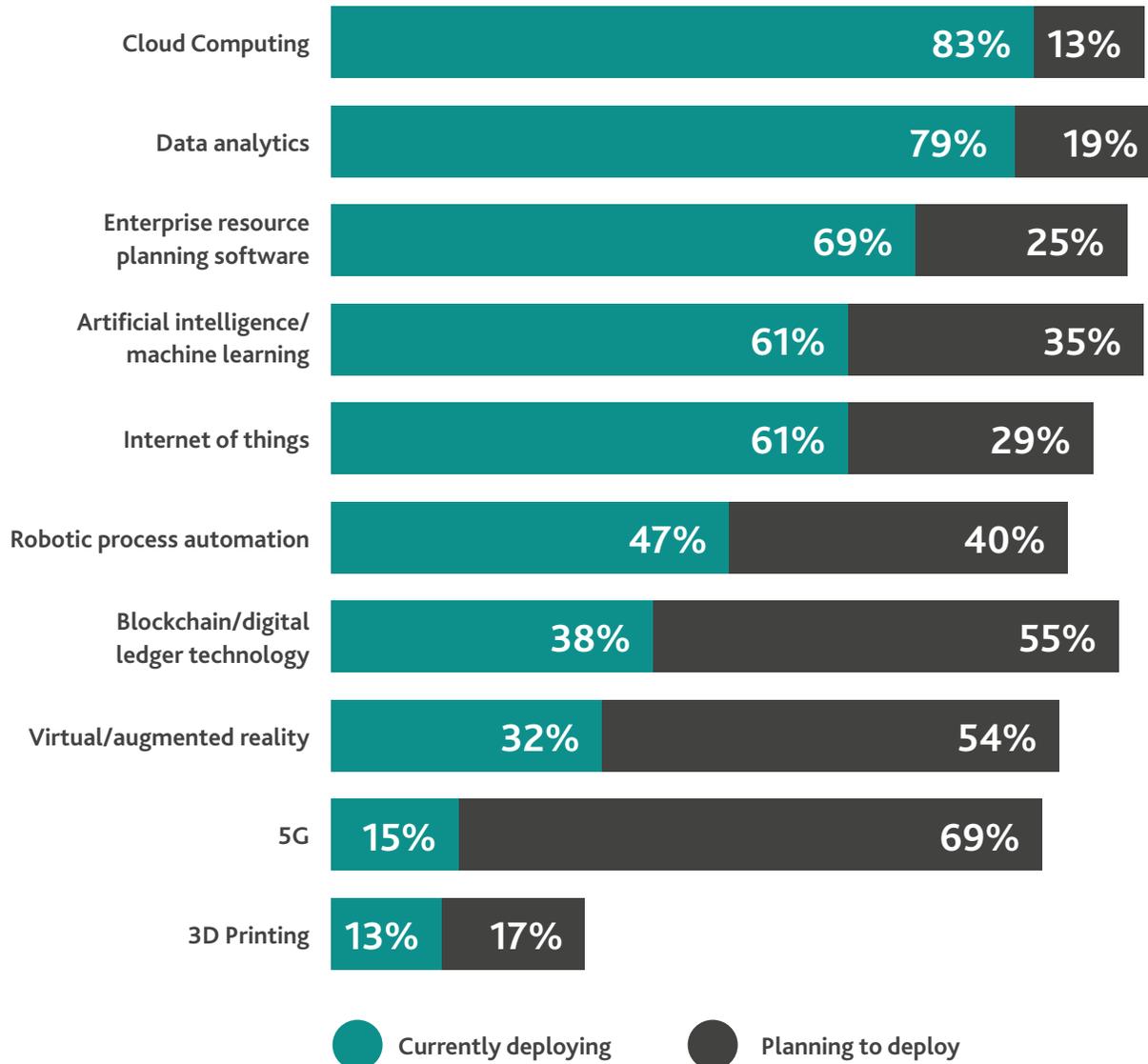
# Financial Institutions Expand Digital Enablers to Stave Off Competitive Disruption

In the face of increased competition—including from industry outsiders such as fintech players, online mortgage lenders and other tech-focused companies—financial institutions can no longer ignore that digital disruption has arrived at their doors. Competitors have raised the bar for digital capabilities and services, ranging from mobile and online banking services to digital payments and integration with e-commerce platforms to smarter insights around customer spending and beyond.

In response, financial institutions are taking several paths to accelerate digital transformation and address disruption:



Investing in technology is the top-cited business priority for financial institutions, and they are using key digital enablers to help realize their goals. In some cases, this can include pursuing targeted acquisitions to buy capabilities rather than build them. Many organizations have already implemented tools including cloud computing, data analytics and enterprise resource planning (ERP) software. However, the heightened need for improved capabilities and efficiencies means that new digital tools are on the rise, including 5G and digital ledger technology.



Leveraging technology to improve regulatory compliance is another growing trend. Since the 2008 financial crisis, legislation such as the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act has increased the regulatory burden on financial institutions. The expanded activities around reporting, audits and compliance—as well as the introduction of analytics for fraud, unfair practices, thresholds and transaction monitoring—are all ripe for the addition of AI and machine learning to improve and streamline those processes, while also increasing accuracy and using fewer workforce resources.

#### BDO INSIGHT

Most financial institutions now rely on cloud computing and data analytics in some form to deliver efficiencies and improve business intelligence. But as demand grows for greater speed, reliability and security, organizations are seeking new digital enablers. More than most industries, financial services faces unique challenges for digital transformation, due to operating in a highly regulated environment. The industry has also been targeted by increasingly sophisticated cyber threats, so any new digital solution comes with security concerns. Financial institutions are navigating these challenges strategically and facing them head on, using digital solutions to enable revenue generation, cost optimization and risk reduction.

# Conclusion

COVID-19 has disrupted operations for financial institutions and highlighted gaps in service offerings and capabilities. As multiple generations consider where they want to have their accounts, it's imperative that financial institutions act promptly to enhance their digital services offerings and meet the varying needs of all customers. Failure to do so can negatively impact customer retention and acquisition, so the rate of change must accelerate across the industry.

Deliberately executing on digital strategies now will allow organizations to avoid potential setbacks, as customer experience improvements, workforce transformation and key digital enablers pave the way to continued success for the long term. The path forward will reflect the ability of companies to capitalize on the opportunities in disruption and pursue agility and resilience alongside digital expansion.

To benchmark your digital maturity and transformation readiness against your peers, explore our [2021 Financial Services Digital Transformation Survey Benchmarking Report](#) ▶

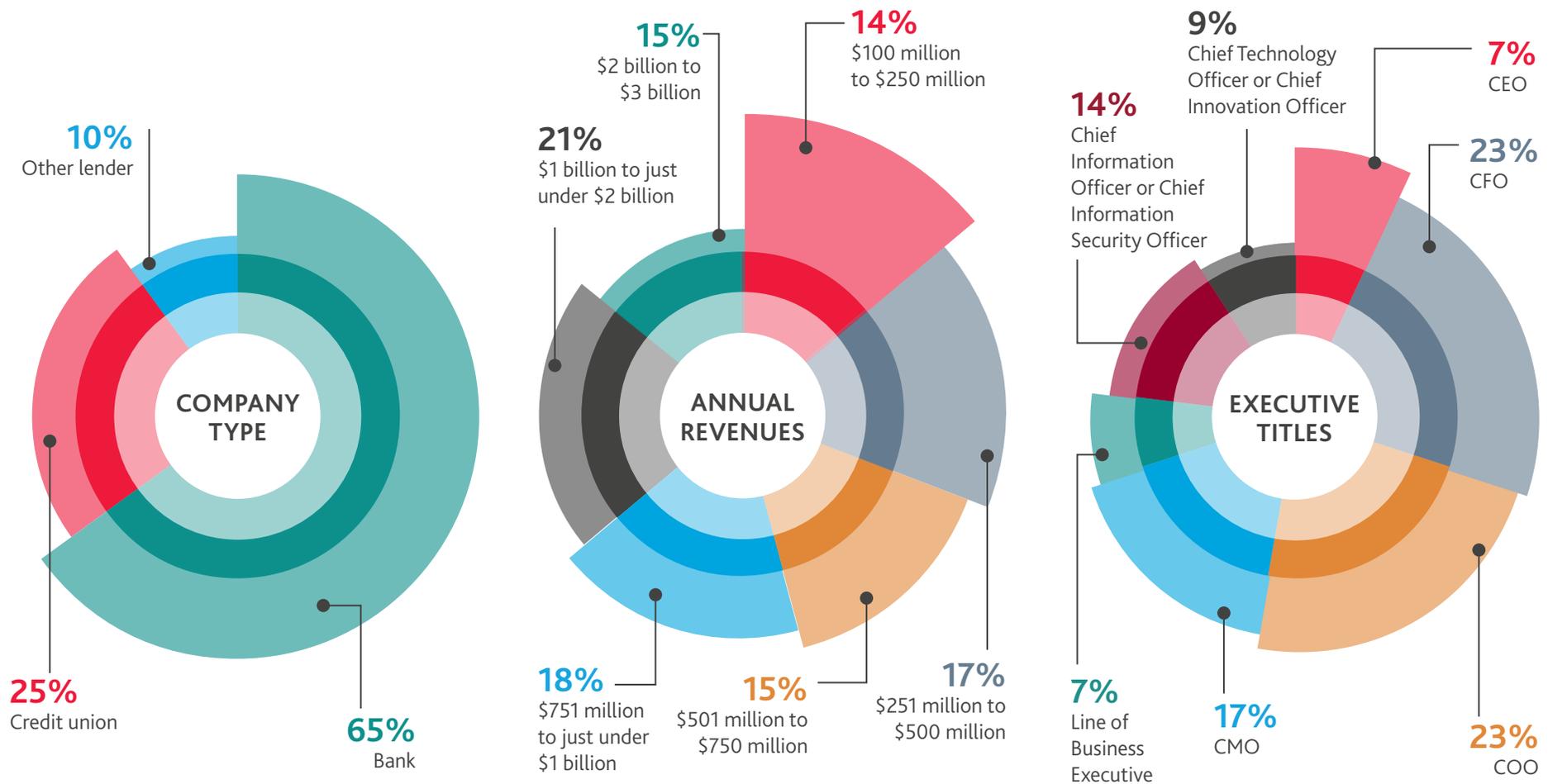
For a personalized evaluation of your organization's maturity level and opportunities, sign up to receive our Digital Performance Indicator.

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# About the 2021 Financial Services Digital Transformation Survey

The *2021 Financial Services Digital Transformation Survey* was conducted by Rabin Research Company, an independent marketing research firm, in January 2021. The survey included 100 C-suite executives of middle market banks, credit unions and other lenders with annual revenues between \$100 million and \$3 billion.

## WHO WE SURVEYED



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