WHITEPAPER SERIES:

Digital Transformation
Challenges & Opportunities
In Financial Services

WHY HEALTHY GROWTH AND DIGITAL CONSUMER ENGAGEMENT ARE SO CLOSELY LINKED

A DEEPTARGET WHITEPAPER
PUBLISHED MARCH 2023

Introduction

Any organization which has retail or commercial consumers – what are typically classified as B2C businesses are increasingly digital in nature. Financial Services is no different. For more than the past decade, credit unions and banks of varying sizes have been undergoing their own digital transformations to be in a position to attract and retain the modern banking consumer. The modern banker consumer themselves is evolving every day so financial institutions must also adapt.

This whitepaper series will cover various aspects of the digital transformation where digital customer engagement, retention and cross-selling are necessary to sustain and grow those businesses.

Clearly, digital consumer engagement, retention and cross-selling are pillars to sustain and grow financial institutions. This edition of the whitepaper speaks to some of the challenges and opportunities facing financial institutions today with a focus on digital consumer engagement.

Industry Dynamics

The financial services industry is undergoing a significant transformation due to the rapid growth of digital technologies and the increasing importance of digital consumer engagement. Some of the key dynamics in the industry related to digital consumer engagement are:

1. **Shift to Digital Channels:** Consumers are increasingly using digital channels such as mobile apps, websites, and social media platforms to engage with financial service providers. This shift is driven by the convenience and accessibility of digital channels and the increasing use of mobile devices.
2. **Personalization:** Financial service providers are investing in data analytics and machine learning technologies to personalize their services and products based on consumer

behavior and preferences. This includes targeted marketing campaigns, personalized product recommendations, and tailored advice.

3. **Enhanced User Experience:** Digital channels offer financial service providers an opportunity to create a seamless and intuitive user experience that is critical for engaging consumers. Providers are investing in user interface and design, as well as in new technologies such as chatbots and virtual assistants, to improve the customer experience.

4. **Security and Privacy:** With the increasing use of digital channels, financial service providers are facing new challenges related to security and privacy. Providers are investing in new technologies such as biometric authentication and encryption to ensure the security of consumer data and transactions.

5. **Integration and Collaboration:** Financial service providers are partnering with fintech startups and other players in the industry to integrate their services and products into broader ecosystems. This includes collaborations on payment platforms, financial management tools, and investment advice.

Overall, the financial services industry is becoming increasingly digital and customer-centric, with a focus on providing personalized, secure, and seamless digital experiences for consumers.

Challenges

The transformation of financial institutions into digital entities poses several challenges, particularly in the area of digital consumer engagement. Some of the challenges faced by financial institutions in this process are:

1. **Legacy systems and processes:** Many financial institutions have legacy systems and processes that are difficult to modernize or integrate with new digital platforms. This can hinder the ability to offer seamless, real-time digital services to customers.

2. **Data management and privacy:** Financial institutions must be able to manage and protect large amounts of sensitive customer data as they transition to digital platforms. They must comply with strict privacy regulations and ensure that customer data is not vulnerable to cyberattacks or data breaches.

3. **Skills gap:** The transformation to digital requires a range of specialized skills, including data analytics, user experience design, and software development. Financial institutions may struggle to find and retain talent with these skills.

4. **Customer trust:** Digital engagement relies on customer trust. Financial institutions must ensure that customers feel secure and confident in their digital services. This includes

providing transparent information about data management, security measures, and privacy policies.

5. **Compliance and regulation:** Financial institutions must comply with a range of regulations that apply to their digital services. They must also be prepared to adapt to new regulations as they emerge.

6. **Integration with third-party providers:** Financial institutions often rely on third-party providers to offer digital services such as payment processing and data management. Integrating these providers with the institution's own systems can be complex and require ongoing maintenance.

Generally, the transformation to digital can be a challenging process for financial institutions, particularly with respect to digital consumer engagement. Addressing these challenges requires a combination of technical expertise, strategic planning, and a customer-centric approach to digital transformation.

Opportunities, Benefits, Advantages

Financial institutions that invest in digital customer engagement have several opportunities and benefits, including:

1. **Improved customer experience:** Personalized digital communications can provide customers with a more engaging and relevant experience. Financial institutions can use data analytics to understand customer behavior and preferences, and then tailor their communications accordingly. This can lead to increased customer satisfaction, loyalty, and retention.

2. **Increased customer engagement:** Digital channels provide financial institutions with an opportunity to engage with customers more frequently and through multiple touchpoints. This can increase customer engagement and improve the chances of cross-selling and upselling.

3. **Cost savings:** Digital communications can be more cost-effective than traditional marketing channels such as print media and direct mail. Financial institutions can save on marketing and advertising costs while still achieving high levels of engagement and conversion.

4. **Competitive advantage:** Financial institutions that invest in digital customer engagement can differentiate themselves from their competitors. They can offer a more

personalized and convenient customer experience that sets them apart from other institutions.

5. **Improved efficiency:** Digital channels can improve efficiency by automating processes such as account opening, loan applications, and customer support. This can reduce the workload of staff and enable them to focus on higher-value activities.
6. **Data-driven insights:** Digital customer engagement generates a wealth of data that financial institutions can use to gain insights into customer behavior and preferences. This can inform product development, marketing strategy, and customer service.

Overall, digital customer engagement can provide financial institutions with a range of opportunities and benefits that can improve customer satisfaction, loyalty, and retention, while also reducing costs and improving efficiency.

Case Study

HOW EGLIN FCU USES AI/ML PREDICTIVE MODELS TO EFFECTIVELY ENGAGE ITS MEMBERS

This section covers an in-depth case study of a U.S. financial institution's digital consumer engagement strategy.

Eglin Federal Credit Union (EFCU) was founded over six decades ago in 1954 to serve the military and civilian personnel on Eglin Air Force Base, Hurlburt Field, and Duke Field as well as affiliates of Select Employee Groups in Okaloosa, Santa Rosa and Walton counties in western Florida. The credit union has nine physical locations throughout Florida, managing more than $2.7 billion in assets for over 121,000 members. Their mission is to consistently provide their members with five-star service and support solutions that simplify their members' financial lives.

As a growing credit union that takes pride in their member service, the team at EFCU knew their next step in ensuring member connection was through their online marketing. While more financial management is done online, targeted advertisements to members via online banking platforms is extremely impactful. Their first main challenge was where to begin.

Like many credit unions, EFCU struggled to keep up with the times when it came to modern technologies. They knew there were targeted marketing platforms out there; however, a lot of those platforms weren't necessarily catering specifically to credit unions and didn't see eye-to-eye with EFCU's privacy policies for their members. They needed a platform that would be able to manage targeted marketing without risking personal information being sent out to unregulated sources. They also needed their marketing to be integrated into their online banking and mobile app. This made DeepTarget a perfect choice to fulfill EFCU's digital marketing needs.

One of DeepTarget's recent and most appealing innovations to EFCU was their AI/ML-based predictive modeling. An integral part of DeepTarget's Digital Experience Platform (DXP), predictive campaigns allow EFCU to present more relevant offers with virtually no effort. This innovation uses leading-edge machine learning techniques partnered with historical, proprietary data to help community financial institutions complete more transactions, open more accounts and enhance the quality of the customer and member experience. Using predictive modeling enables an FI like EFCU to promote relevant products and services to certain members based on their financial status and situations, with virtually no effort.

Before DeepTarget's predictive modeling, EFCU spent a copious number of resources and time creating data-driven campaigns fueled by rules that used various demographics and user attributes to power multiple campaigns. Multiple campaigns, sometimes as many as ten, would be used to target different groups of individuals for just one financial product, such as an auto loan. DeepTarget's predictive campaigns have significantly reduced their labor and in some cases eliminated it. The times when team members would have to scrub through EFCU's databases and pull reports of members to create lists is quickly becoming an artifact of the past. Not having to spend that time and energy on such backend tasks means the credit union is able to focus instead on providing excellent service to their members.

"We're loving the predictive modeling campaigns," said Adam Stevens, eBranch Manager at Eglin Federal Credit Union. "We really want to see that continue to grow and get to the point where we use increasingly fewer resources to design and develop various campaigns. Instead of having to do a lot of the leg work behind the scenes to figure out how and who we're going to target, we're able to use predictive modeling to automate delivering the right ads to the right members."

With AI-based predictive campaigns credit unions aren't required to have inhouse technical knowledge or a team of data analysts and software builders to create high quality, targeted advertising. EFCU has found DeepTarget to be a highly automated turn-key solution that not only provides them with high quality marketing strategies, but also creates comprehensive performance analytics and reports that can effectively prove that campaigns are working.

Since utilizing personalized and targeted digital marketing, the credit union's results have shown a serious increase in member engagement and online interaction. Click-through rates are now always above average, and often well above average.

EFCU's initial use of predictive modeling has shown phenomenal results. They used predictive modeling for two campaigns focused on credit cards and personal loans. Just shy of 51% of new credit cards added since these campaigns ran were presented to EFCU members through DeepTarget campaign ads, proving members were targeted correctly and thus had a higher propensity to be influenced by these online ads. Nearly 40% of new personal loans were also through such targeted ads. These numbers provide a glimpse into how much more influential accurately targeted marketing can be. With results like this, EFCU hopes to eventually run all of their campaigns using predictive modeling and be able to see similar success. The automated nature of these campaigns combined with more accurate targeting is a clear win-win.

“DeepTarget’s ease of integration and effectiveness have been very beneficial,” emphasizes Stevens. “Their predictive marketing tool is very powerful, and it has been a great success for us. With virtually no effort, we are able to ensure that our members are presented with meaningful offers and messages. That in turn means that we are able to provide excellent service to our members who increasingly bank digitally.”

Conclusion

In conclusion, the growth and success of financial institutions are closely linked to their ability to engage with consumers in the digital age. By investing in digital customer engagement, financial institutions can improve their customer experience, increase customer loyalty and retention, grow assets, and boost revenue and profitability. The benefits of digital customer engagement and the use of and data-driven insights extends beyond just financial gains, as this can help institutions to gain a competitive advantage and improve internal efficiencies.

On the other hand, failing to invest in digital customer engagement can lead to several repercussions for financial institutions. Consumers who are dissatisfied with a lack of digital engagement are likely to switch to competitors who offer a better digital experience. This can lead to a loss of deposits, loans, and revenue. Additionally, traditional financial institutions may fall behind in the fast-evolving digital market, as fintech startups and digital-native institutions continue to grow and capture market share.

In the modern world, digital customer engagement is essential for financial institutions to stay relevant and competitive. As customer expectations evolve, institutions that do not keep up risk being left behind. By embracing digital transformation and adopting customer-centric/member-centric strategies, financial institutions can build a loyal customer base, grow their assets, and remain profitable in the long term.

About DeepTarget

Powering the digital communication revolution for credit unions and banks with Growth as a Service (GRaaS), DeepTarget enables their growth of assets - deposits & loans, revenue, new members/customers, digital users, account holder relationships & loyalty and more. GRaaS is backed by a risk-free money-back guarantee and powered by their patented DXP currently deployed by 100s of FIs. It combines a skilled labor force and best practices to utilize data and AI insights from multiple data sources for a seamless, meaningful communications experience wherever, whenever and however their consumers bank. For additional information visit www.deeptarget.com and follow them on LinkedIn .

DeepTarget®
engage. cross-sell. measure.