Digital Transformation 2.0: Advanced Strategies for Tangible Outcomes

THE FINANCIAL BRAND

FORUM

Digital Transformation 2.0

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Speakers

Jim Burson
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Jim Burson brings to his role as managing director of Cornerstone Advisors' Digital Transformation and Delivery Channel practice a deep knowledge of the financial services industry as well as a wide range of executive management and business planning experience.

Prior to Cornerstone, Jim served as executive vice president and chief revenue officer of a large, regional bank. Earlier in his career, he was principal and co-leader of the banking practice at a management and technology consulting firm. He also helped lead a consulting firm focused on channel strategy, sales management and customer analytics. Jim started his career as a commercial banker in Chicago.
Jim is an experienced professional speaker and frequently presents for the firm's webinars. He writes for *GonzoBanker*, Cornerstone's blog, and has been published or quoted in numerous industry publications, including *Banking New York, Credit Union Journal* and *CU Management*.

Jim is a graduate of Northwestern's Kellogg School of Management and Eastern Illinois University.

Amanda Swanson
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As a director in the Digital Transformation and **Delivery Channels** practice at Cornerstone Advisors, Amanda Swanson is focused on delivery channel strategy and planning, marketing strategy and planning, customer experience improvement, and digital systems selections and implementations.

Prior to Cornerstone, Amanda managed a regional bank's digital channel, payment (digital wallet, ACH, technology and debit card) and virtual products strategy. She also spent six years with Wells Fargo, where she worked on brand and marketing initiatives across the retail, mortgage, commercial and corporate trust departments.

Amanda has served as a creative manager for global consumer brands and financial institutions where her energies were focused on product development, marketing strategy, marketing communications campaigns, budgeting, marketing research and vendor management.

Amanda has a master's degree in integrated marketing communications from West Virginia University, Morgantown, W.Va.; a bachelor's degree in marketing management from the University of Saint Thomas, St. Paul, Minn.; and an associate degree in Graphic Design from Brown College, Mendota Heights, Minn.

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Digital Transformation 2.0

"To create something from nothing is one of the greatest feelings, and I would—I don't know, I wish it upon everybody. It's heaven.

-Prince

"Reality leaves a lot to the imagination."

— John Lennon

Trends & Realities

Digital transformation goes well beyond delivering standalone digital services and technology solutions: it involves driving explicit value-creation through an integrated business, process and technology effort.

Confirm Strategic Focus

- Research and monitor disruption threats and opportunities

Validate High-Value Opportunities

- Validate Strategy and Business Model
  - Benchmark performative and competitive gaps
  - Define value-creating outcomes and target operating model
  - Identify transformation funding via legacy expense reductions

Plan for Success

- De-risk execution via a disciplined road map

Sustainable Value Creation

- Strong Organic Revenue Growth
- Operating Leverage Improvements
- Market-Leading CX (Customer Experience)
- Deepened Customer Relationships
- Technology Modernization
- Agile Culture Built for Speed

Most CFOs are looking at a 2023 budget that is even more difficult than 2022.

Net Interest Margin: →

Noninterest Income Drivers: ↓

Competitive Pressures: ↑

Regulatory Burden: ↑

Competition for Top Talent: ↑

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Industry trends and potential outcomes must inform your strategy and transformation vision

Consumer Business Model Needs

- Mobile first delivery
- Streamlined workflows
- Integrated views of customer relationships
- Advisory centric
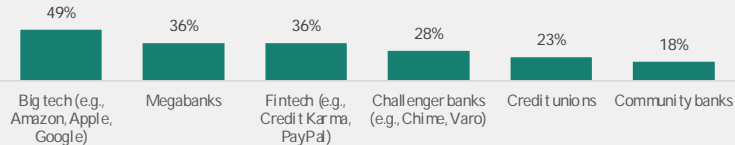
Misaligned Channel Investments

- Investment in Branches – **66%**
- Investment in Call Centers – **14%**
- Investment in Digital – **12%**
- Investment in ATMs – **8%**

Relevant Industry Trends

- Mega Bank & Tech Firm "Banking" threat is decreasing
- Fintechs (e.g.: PayPal) / Challenger Banks (e.g.: Chime) are increasing

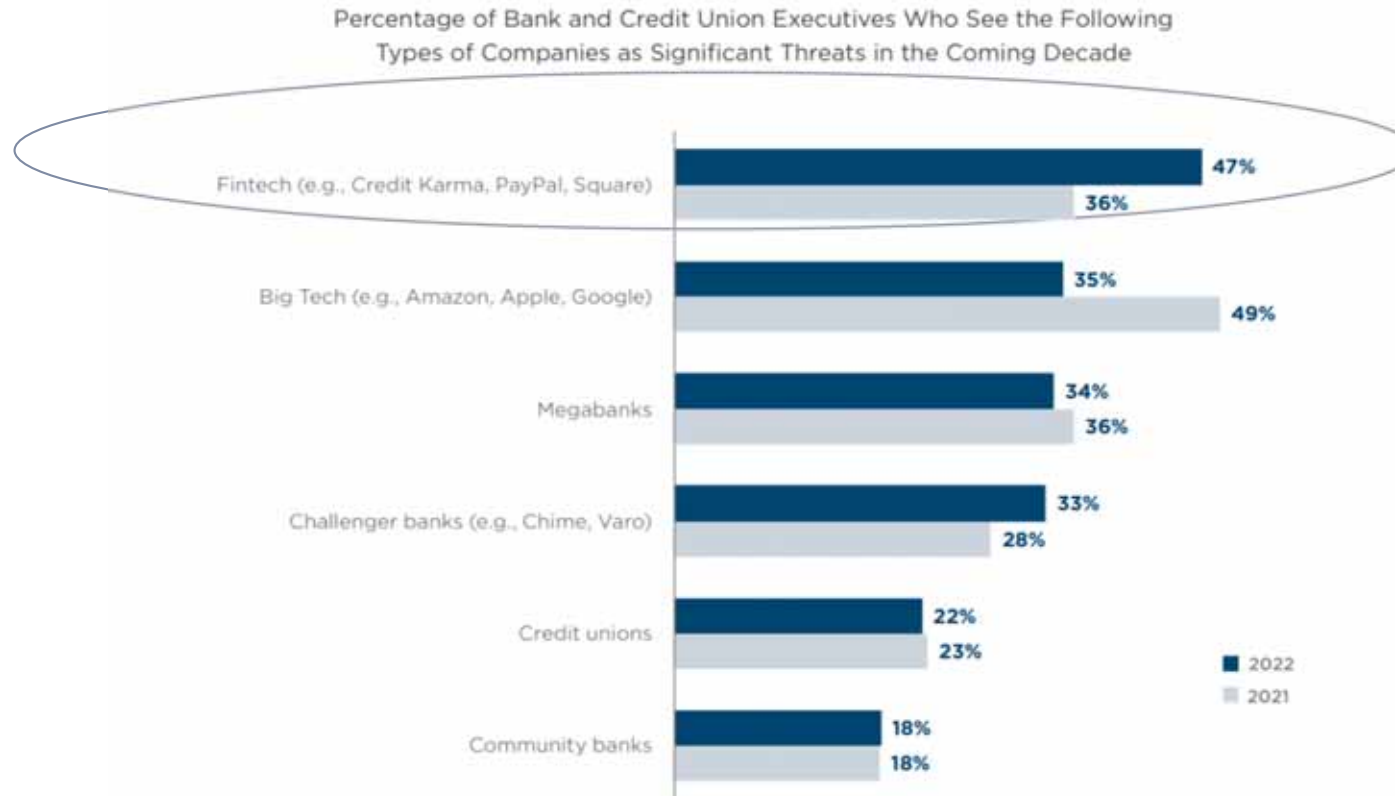| 49%	36%	36%	28%	23%	18%
Big tech (e.g., Amazon, Apple, Google)	Megabanks	Fintech (e.g., Credit Karma, PayPal)	Challenger banks (e.g., Chime, Varo)	Credit unions	Community banks

Driving Growth via Digital Capabilities

- Sales value of digital and contact centers are under utilized
- Digital should be leveraged for engagement and retention
- Branch costs are limiting needed digital investments

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Competitive landscape now driven by tech...

Percentage of Bank and Credit Union Executives Who See the Following Types of Companies as Significant Threats in the Coming Decade

Company Type	2022	2021
Fintech (e.g., Credit Karma, PayPal, Square)	47%	36%
Big Tech (e.g., Amazon, Apple, Google)	35%	49%
Megabanks	34%	36%
Challenger banks (e.g., Chime, Varo)	33%	28%
Credit unions	22%	23%
Community banks	18%	18%

Source: Cornerstone Advisors surveys of U.S.-based community financial institution executives, 2020-2021

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...Creating pressure to accelerate buiness model change

When did your institution launch its digital transformation strategy?
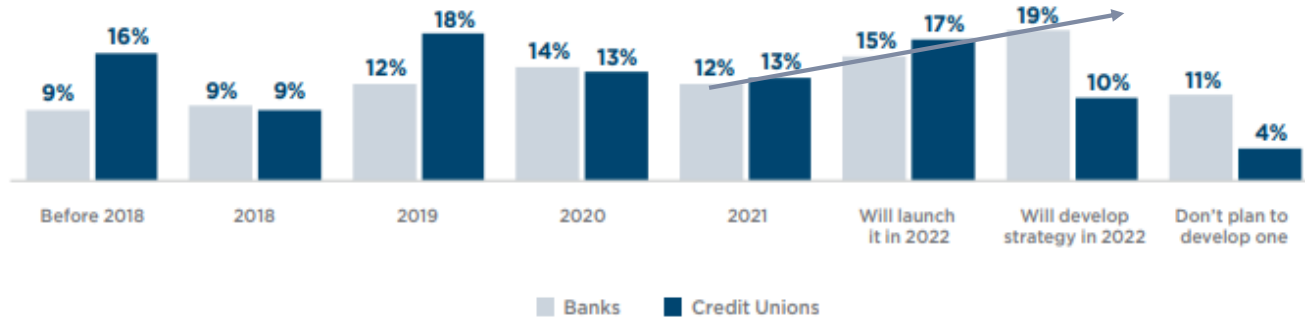
	Before 2018	2018	2019	2020	2021	Will launch it in 2022	Will develop strategy in 2022	Don't plan to develop one
Banks	9%	9%	12%	14%	12%	15%	19%	11%
Credit Unions	16%	9%	18%	13%	13%	17%	10%	4%

Banks Credit Unions

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Digital experiences will be the key customer experience differentiator going forward...

Customers behavior is evolving, and they have come to expect enhanced digital service and experience.

Influenced by both financial and non-financial interactions

Speed, ease of use and visibility/ transparency are the new competitive antes
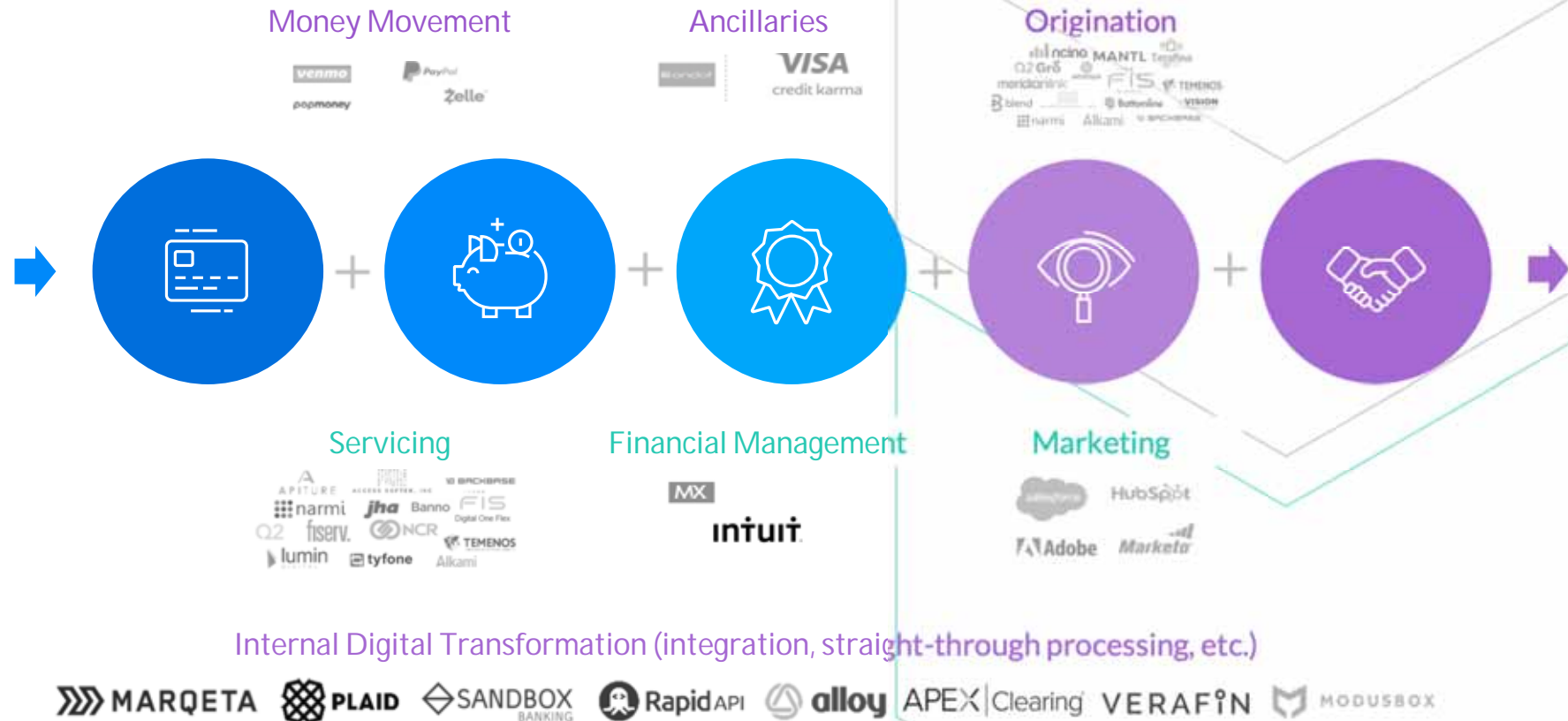
Future revenue will be dependent on digital transformation

Digital is more efficient and has significant impact on customer NPS

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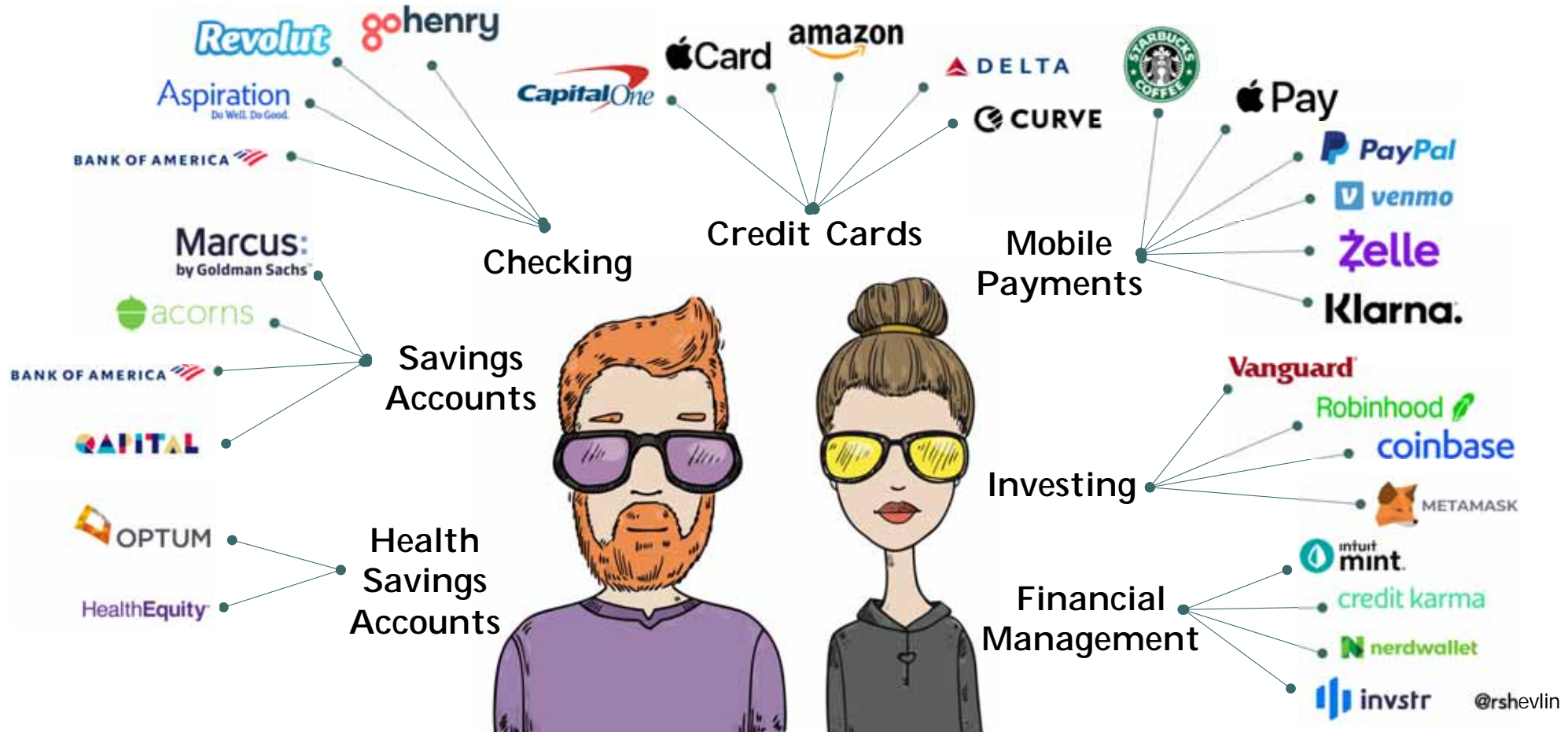# ...with customers expecting fully integrated solutions

Money Movement

Ancillaries

Origination

Servicing

Financial Management

Marketing

Internal Digital Transformation (integration, straight-through processing, etc.)

COMMUNITY FINTECHS SERVE NARROW SEGMENTS

ASIAN-AMERICANS — Cheese
AFRICAN-AMERICANS — First Boulevard
TEENS — GreenLight
ENVIRONMENTALLY-CONSCIOUS — Aspiration Do Well. Do Good.
LGBTQ+ — Daylight
NEW PHYSICIANS — panacea FINANCIAL
CREATORS — karat^
IMMIGRANTS — simba
GIG WORKERS — JOUST
COUPLES — zeta
DISABLED — purple
MUSICIANS — nerve
NEW PARENTS — storkcard
TRUCKERS — TAB bank
ENTREPRENEURS — Oxygen
EX-INCARCERATED — Stretch

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CONSUMERS' FINANCIAL LIVES: REALITY

EMBEDDED FINANCE

The integration of financial services into non-financial firms' websites, apps, and business processes

EMBEDDED BANKING
The Opportunity and the Providers Best Placed to Help Companies Capitalize on It

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Banks' Deployment of Emerging Technologies, 2018-2022

Percentage of Banks That Had Deployed Technology Going Into 2018 to 2022

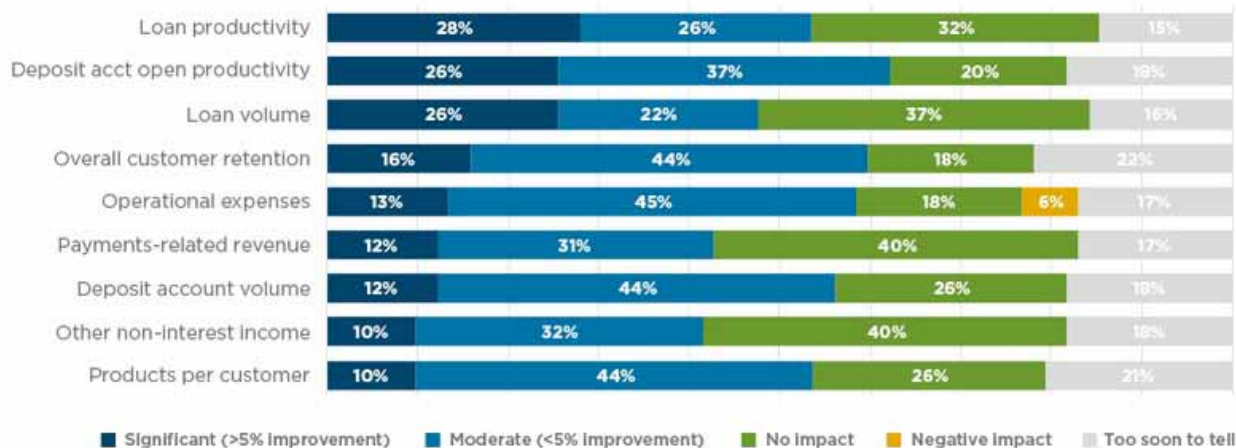|	Cloud computing	APIs	RPA	Chatbots	Machine learning
2018			4%	3%	
2019			6%	2%	2%
2020	32%	21%	6%	3%	7%
2021	40%	30%	14%	8%	7%
2022	47%	36%	24%	15%	11%

Legend: ■ 2018 ■ 2019 ■ 2020 ■ 2021 ■ 2022

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Digital reality check – results vary widely

Impact of Banks' Digital Transformation Strategies

What impact has your digital transformation strategy had on the following business metrics?

	Significant (>5% improvement)	Moderate (<5% improvement)	No impact	Negative impact	Too soon to tell
Loan productivity	28%	26%	32%		15%
Deposit acct open productivity	26%	37%	20%		18%
Loan volume	26%	22%	37%		16%
Overall customer retention	16%	44%	18%		22%
Operational expenses	13%	45%	18%	6%	17%
Payments-related revenue	12%	31%	40%		17%
Deposit account volume	12%	44%	26%		18%
Other non-interest income	10%	32%	40%		18%
Products per customer	10%	44%	26%		21%

■ Significant (>5% improvement) ■ Moderate (<5% improvement) ■ No impact ■ Negative impact ▨ Too soon to tell

Source: Cornerstone Advisors survey of 300 U.S.-based community financial institution executives, Q4 2021

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"Knowledge speaks,
but wisdom listens."

— Jimi Hendrix

Lessons Learned

Best Of Breed Technology is not transformation

SO WHAT

While having the best intentions of purchasing and deploying the best of breed technologies, not embracing a digital culture change internally can impede your digital transformation within the organization. Break down the silos, remove manual process – re-imagine how the FI should work and put the technology to use.

"Over the last few years, we have purchased and deployed the best of technologies for our business lines, but we are still under performing and we can't understand why"

Exec from a $9B FI

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Multiple Systems doing the same thing create inefficiencies and Employee pain points

SO **WHAT**

Many FI's have multiple systems, offering the same functionality for different business lines. FI's have an opportunity to consolidate or integrate systems in a way that provides an enterprise approach to digital transformation. Ability to provide operational efficiencies, streamline process, but provide a better employee and customer experience into one platform.

Exec from a $20B FI

"We have multiple systems internally that each business line is using, and employees are using for the same tasks. We need to streamline our processes and offer an enterprise-wide solution."

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Data is essential

SO **WHAT**

A business intelligence strategy is a critical component for digital transformation. Data governance structure and strategy allows an FI to make strategic decisions, develop customer journeys, provide segmented marketing, analyze product profitability, clearly understand delivery usage of clients and much more.

"We thought we had a robust data strategy but come to find out we are doing a lot of manual reports, we don't know what the single source of truth is, and we don't know what to do with the data once we get it."

Exec from a $4B FI

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Payments are not optional

SO WHAT

For the last few years payments have solely focused in on traditional rails, but now with the emerging payments of Crypto, Real Time Payments, Faster Payments, and Payment Hubs – we need to be strategic on how we implement from a customer experience, risk and fraud mitigation with the mindset of digital transformation for the organization.

"We know that debit and credit payments are important to us, but we didn't realize how many other payments are involved and for us to develop an overall Payment Strategy will be critical for digital transformation."

Exec from a $3.5B FI

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"Once you replace negative thoughts with positive ones, you'll start having positive results.

-Willie Nelson

Digital KPIs

Digital KPIs Definitions

	Now	Next	Future
Definition	Today or within the next 6-9 months	Next 12 months	18-24 months
Top of House	Immediate available and can measure	Data is available and can be considered next for monitoring to drive Digital KPIs	Future products to monitor on digital evolution
Straight Through Process	Available to obtain easy with minimal data manipulation	Data is available, but very hard to obtain and monitor	Very manual process today – or not available at all for monitoring – and will take heavy lifting to obtain the data

SAMPLE - Target Outcomes

Metric	2021	2024
Mortgage Loan App Growth by Channel & Mortgage Gain on Sale	0% through Digital 1.0%	24% through Digital (Peer Median) 2.70% (Peer Median)
Deposit App Growth by Channel Loan App Growth by Channel	Deposits - 15% through Digital Loan – 30% through Digital	Deposit - 30% through Digital Loan - 45% through Digital
Debit Card Activation with in the last 30 days Debit Card interchange income per active card per month	65% $8	72% (Peer Median) $10.50 (75th percentile)
Digital Metrics: Active Internet banking uses as a % of members Active Mobile banking users as a % of members App Ratings	70% (Online) 55% (Mobile) App rating 3.2	80% (Online) 75% (Mobile) App rating 4.8
Client Satisfaction – NPS, VOC	N/A	69 (should be higher – close to 75)
Product per Household	N/A	4.06 (Peer Median)
Client Open/Close Ratio – Combined	1.30	1.80 (75th percentile)

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Top of House Performance – Business Line

	Digital	Commercial	Mortgage	Branch	Contact Center	Treasury
Now	• Active online • Active mobile • Bill Pay Active Users • Bill Pay Transactions & $$" • P2P users • P2P dollars and Transactions • eStatements (checking vs. savings – business vs.consumer) • Mobile RDC deposits (trans and dollars) • ATM deposits • Mobile App Ratings	• Automated workflow by business type – portfolio/volume	• Referrals (Origin) • Channels (MLO, Self, Online) • Esign for initial disclosures (% of not working in good order – NIGO) • SLAs for all documents • Backlog of loans • Pull through of loans	• Branch transactions by branch and ATM by location • Esign for initial disclosures • CRM Service Requests • New and existing deposit accounts by small business/consumer • Maintenance updates (manual vs. automated) • Branch and Online Applications – Funded & Approved – abandoned apps	• Inbound calls (queue based routing) • Outbound calls • Live Chat Opportunities (driven by website) • Live Chat Engagements • Emails (type of emails) • VRU • Average speed of answers • Abandoned phone calls	• Number of businesses in online today (business entities) • Treasury products (ACH, Wires, RDC, mRDC) • Merchant Services customers • Mobile vs. Online customers • Esign – Treasury Services documents (measure NIGO and TAT) • Quickbooks customers • Mobile App Ratings
Next (next 12 months)	• Additional ancillary services (PFM, Credit Score, Card Controls, etc) • Time from new account opening to opening OLB/Mobile • Lending (application, approved and funded) %	• CRM tracking for prospects • CRM tracking by channel and opportunity • eSign disclosures • Track SLA's • % of exception/exclusions that go manual vs. automated	• eSign – Turn around time (TAT) – productivity and booking to core vs. traditional	• Average weight time in branch • Fee income • Online Applications – % completed by net new vs. online & mobile • Online Apps funding (external transfers, debit/credit card vs. Plaid)	• Deposit account opening over phone (existing vs. new) • Outbound sales	• EDI • Sweeps • Lockbox • Same Day ACH • Referrals - Automation • Incentives – Automation • Additional account software (Autobooks, Freshbooks,Xero, etc..) • Fee Income vs. waivers
Future (next 2 years)	• Chat BOT monitoring – or conversational AI monitoring*	• Automation of Credit Policy review with Treasury Mgmt	• E-notary for disclosures	• Consumer vs. small business apps online (net new vs. existing) • % with automated credit decisioning matrices • Lending (application, approved and funded) %	• Uniformed communication KPIs (online, chat, Text, Video, etc..) • Chat BOT monitoring – or conversational AI monitoring	• Real time payments • ACH Direct Transmission • Integrated payables and receivables • Electronic invoicing • Forecasting tools

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"I was gambling in Havana
I took a little risk
Send lawyers, guns and money
Get me out of this."

— Warren Zevon

Funding & De-Risking

Risk of not transforming
Delaying transformation will add Strategic Risk

Reputational Risk

Client Retention based on digital experience among the competition

Client Acquisition from poor payment experience

Client Expectations of digital-first experience and digital integrations

Operational Risk

Difficult to Scale for Organizational Growth

Human error caused by manual processes

Technology Risk

Poor System Integration Across Solutions

Required Customizations of Current Technology to Meet Strategic Needs

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Risk of transforming

If we transform, what is the potential risk?

Reputational Risk

Client impact caused by poor implementation and conversion

Operational Risk

Learning curve of new technology and processes

Technology Risk

Additional technology support required to execute the transformation

Unknown integration impacts

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How to fund the digital transformation

Contracts

Consolidation of systems

Growth Options

Develop robust segmented marketing strategies to deepen portfolio

Use of data for new market entries

Look for enterprise solutions – to streamline process and improve efficiencies

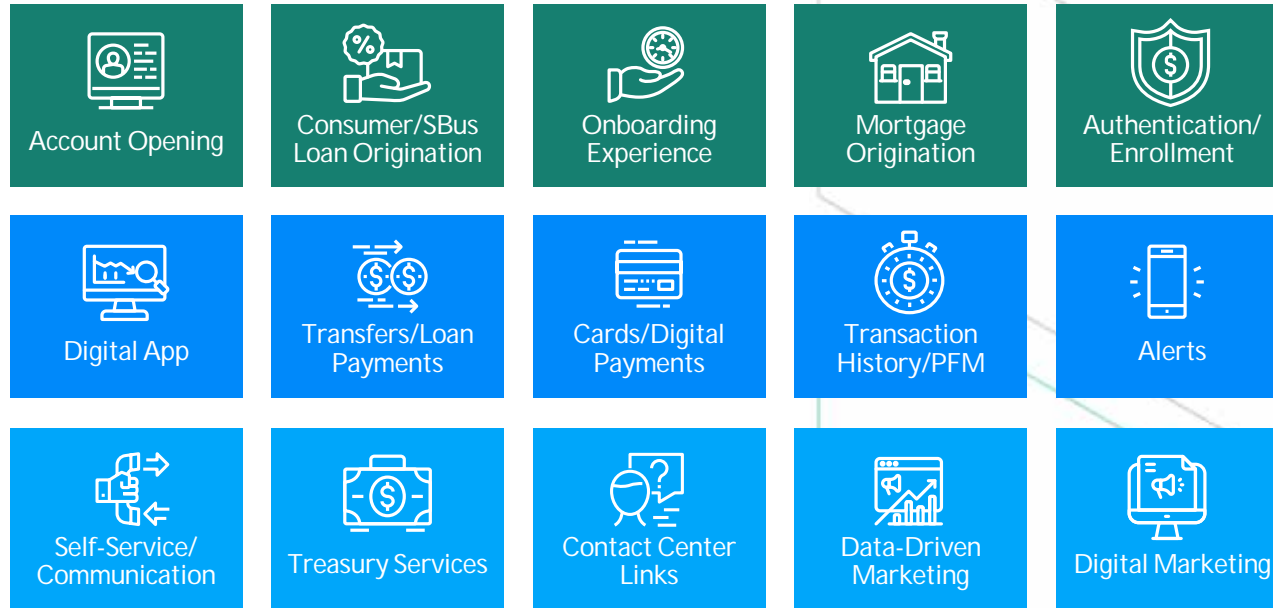(e.g. - Enterprise wide electronic signature solutions)

Payment Growth options with additional business lines.

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"I'd rather regret doing something than not doing something.

-James Hetfield

Essential Workstreams

Transformation is not a project…it's a journey

Account Opening	Consumer/SBus Loan Origination	Onboarding Experience	Mortgage Origination	Authentication/ Enrollment
Digital App	Transfers/Loan Payments	Cards/Digital Payments	Transaction History/PFM	Alerts
Self-Service/ Communication	Treasury Services	Contact Center Links	Data-Driven Marketing	Digital Marketing

Core, Card, Bill Pay, Fraud, IDV/KYC, Funding, Loan Origination, mRDC, Statements, ACH, Wires, P2P, CRM, MarTech, Chat, etc.

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The industry is responding with different degrees of transformational change ranging from "keeping up" to truly innovating and it will be important to align on what the bank hopes to achieve

Scope of Transformation

Larger

Smaller

Lower   Higher

Table stakes (Business & Operational Optimization)

Leading Practices (Strategic Transformation)

Innovator (Category Killer)

Higher

Lower

Impact

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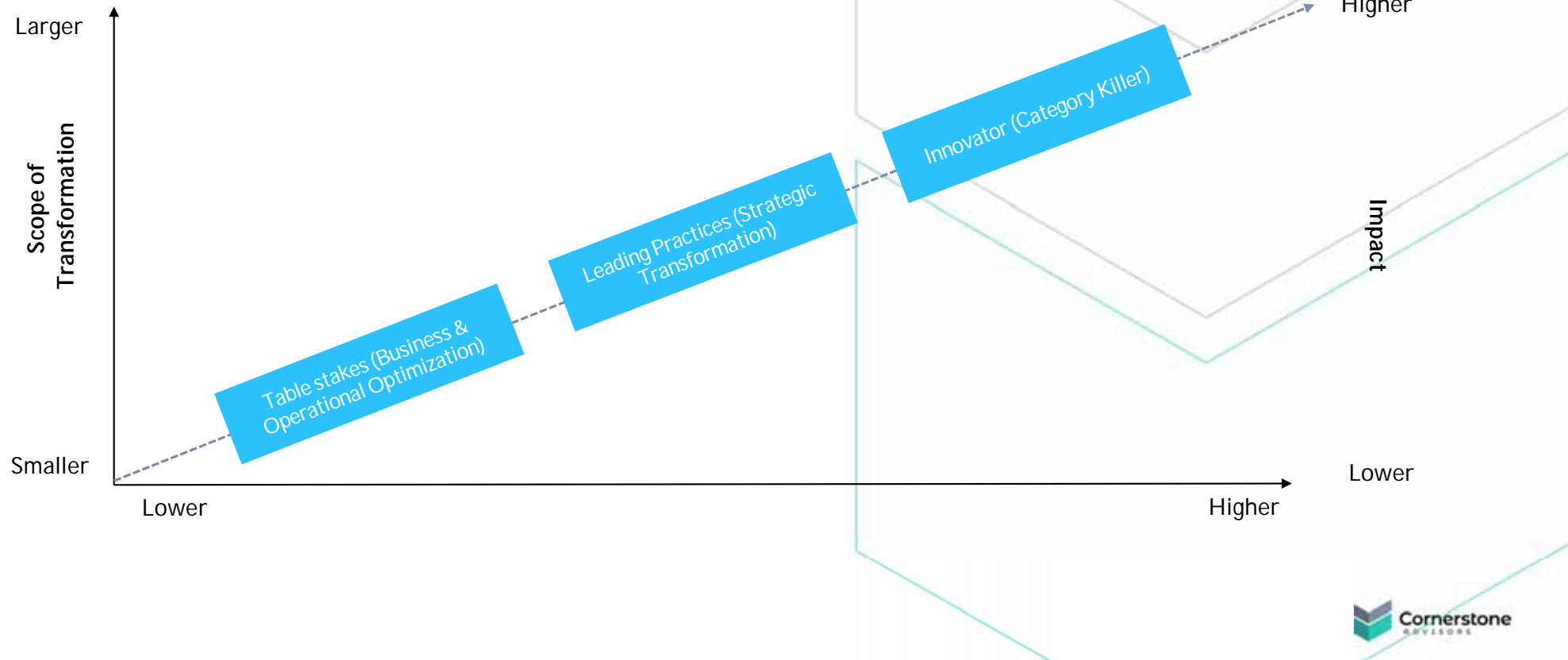
Roadmap Ideas: Retail/Payments/Lending

NOW

- Streamline digital account opening
- Attract new clients
- Improve ID and fraud detection tools in the digital channel
- Create a branded and integrated onboarding experience
- Parity between all mobile and traditional web functionality.
- Competitive P2P offerings
- Integrated voice, chat, web, email integration through contact center
- Multi-lingual needs/strategy
- Optimize self serve maintenance

NEXT

- Drive client education – digital ambassadors and tools
- Streamline mobile client and mortgage loan digital point of sale experience
- Increase auto-decision % by deepening usage of automated credit decisioning matrices
- Pilot usage of alternative credit information and AI assistance for underwriting
- Streamline branch lending processes and ensure that all underwriting, processing, funding activity is centralized
- Improve loan product training and financial coaching skills for all front-line staff

FUTURE

- Transform branch role
- Leverage biometrics
- CRM across retail
- Integrate more budget/balance management tools into digital experience
- Video chat integration with contact center and branch offices
- Leverage credit bureau information to drive proactive lending cross sell offers
- Blockchain integration
- Virtual interfaces
- Rationalize branch network

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Roadmap Ideas: Commercial/Payments

NOW

- ✓ Proactive pipeline and client management tools
- ✓ Collaborative workflow tools for credit analysis, underwriting and portfolio management triaged by complexity
- ✓ Streamline small business loan digital point of sale experience
- ✓ Increase auto-decision % by deepening usage of automated credit decisioning matrices
- ✓ Pilot usage of alternative credit information and AI assistance for underwriting
- ✓ Cross-sell for Treasury Services with use of data analytics
- ✓ Data analytics for lead generation

NEXT

- ✓ Ensure strong mobile experience for payment related use cases
- ✓ Full suite of payment rails (wire, ACH, RTP, etc.)
- ✓ Integrated back-office payment hubs
- ✓ Drive stronger payment alert adoption and improve fraud alert experience
- ✓ ISO 20022 compliant
- ✓ Deepen Merchant penetration CRM usage across enterprise
- ✓ Increase product penetration from specialty finance options to commercial lending client base

FUTURE

- ✓ Integrate and comingled payment types
- ✓ Improve mobile functionality and offerings
- ✓ FedNow deployment
- ✓ Develop BI Strategy for data Improve business lending technology and streamline processes
- ✓ Digital small business loan applications and self service
- ✓ Enter crypto lending

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"I don't know where I'm going from here, but I promise it won't be boring.

— David Bowie

Building Alignment

Establish clear Target outcomes

Growth at a pace that balances investment with protection of profitability & Net Worth
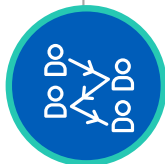
Capture leverage of investments in digital origination and servicing capabilities

Focus in on digital culture change to drive best member experience

Enhanced cross-sell & depth with existing customers & households

Laser focused on a business intelligence strategy to drive strong relationship management

Increase fee income with a strong Payments Strategy

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Purposefully craft your digital experience

Mobile-first w/functional parity providing freedom to clients by featuring broad self-service options

Customizable offering that will allow your FI to set the brand apart through SDKs & APIs with or w/o developer resources

Robust functionality from retail to business and ability to pull in 3rd party offerings with ease

Robust Payments - Integrated card controls, disputes, faster payments (P2P, Bill Pay, etc.)

Strong integration for all systems both customer facing experience and backroom processes and ancillary services – think BaaS – no SSO

Strong marketing tools for personalization, offers and services; Flexibility with workflows and branding to drive client experience

Partnership with strong vendors - collaboration, thought leadership & innovative "market leader" focus

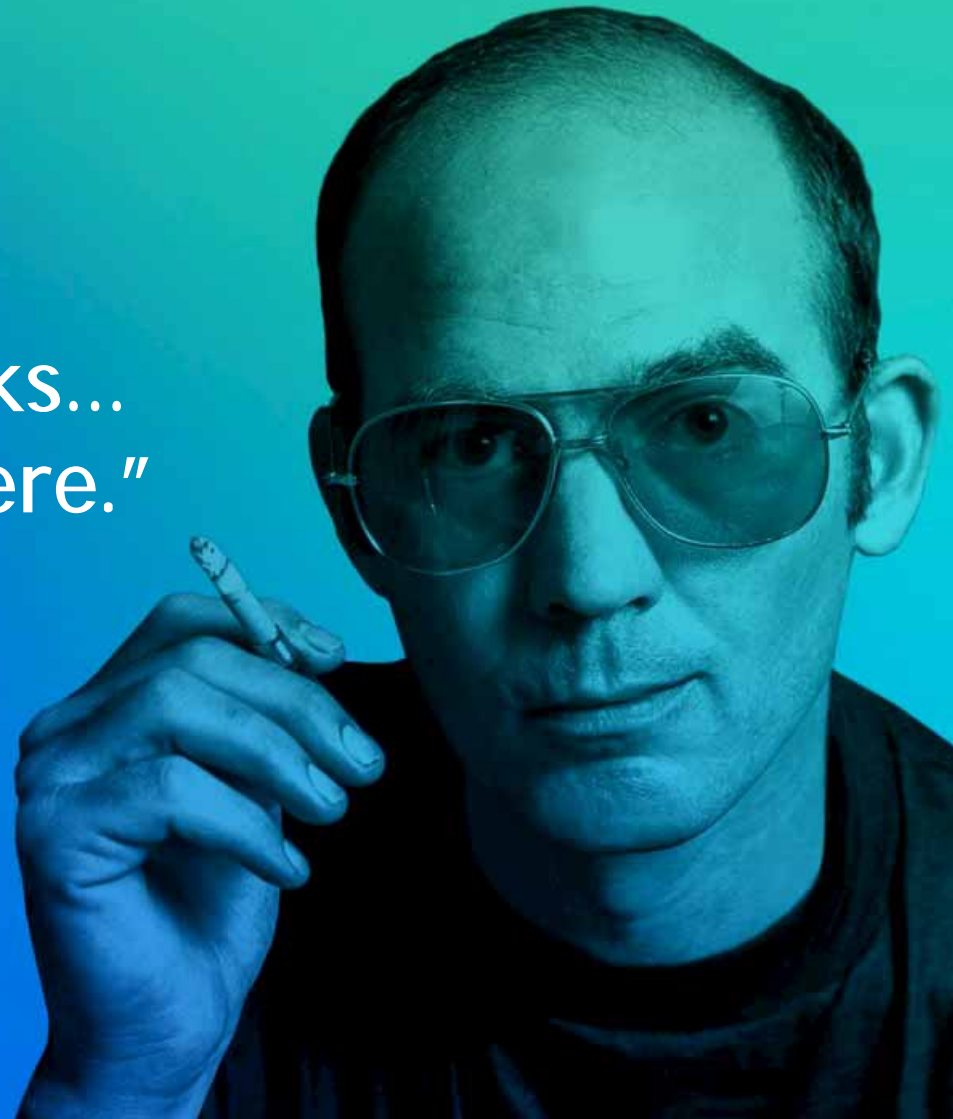**Strong cyber security practices** around customer and employee authentication; robust fraud mitigation abilities

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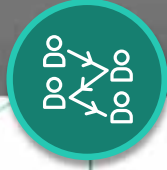
Develop a Digital Culture

Senior Leadership	Empower Employees	Inclusiveness	Client Centric	Innovation	Governance

Senior Leadership
- Strong Senior Leadership to move forward
- Drive digital culture internally & externally
- Digital touchpoints from Client to employees
- Set priorities that align to strategy

Empower Employees
- Empower employees to look at existing processes and remove friction that we've always done it this way.
- E.g. manual review of accounts – how can smooth this process down with limited paper and move to electronic.

Inclusiveness
- Digital Culture change is all lines of business and operations striving to make the change.
- Including all into the transformation and how can they complement each other

Client Centric
- Digital culture change focuses in on the Client (internal and external) – how can we improve the engagement for them to bank with us.
- Look at how Client want to engage – branch, digital, chat, contact center and adjust strategies and deployments to achieve ease of use in these areas.

Innovation
- Innovation generally focuses in on IT, Fintech and technology – however this last year with the pandemic has made our industry show how innovative we can be to meet Client needs.
- How can we use the technology we have today – and can we revamp it to achieve the goals of Digital Culture change within the organization.

Governance
- Building a strong governance around Digital Culture change that is managed by senior leadership team (steering committee outside of the board).
- Ideas from employees, other business lines, Client, competition can be fostered through this group to bring the digital culture change into the organization.

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"This is the fast lane, folks...
and some of us like it here."

— Hunter S. Thompson

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Thank You

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CONTINUE THE CONVERSATION

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