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State of Digital Transformation in Financial Services

How industry leaders are responding to
digital disruption

In association with Adobe

State of Digital Transformation in Financial Services

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Foreword by Adobe

Disruption. When it happens in the financial services industry, it can reshape organizations to their core. With the explosion of the new technologies, like mobile, businesses in financial services are expected to incorporate their convenience and ubiquity into the experience they offer. This is easier said than done. In this report, Econsultancy shows that more than 40% of FSI businesses worry about appealing to their new generation of consumers.

What's the cause of this concern? Customer expectations. Expectations that have risen as technology, like mobile, has allowed customers to consistently and conveniently get what they want more often than before. Ten years ago, mobile phones were merely telephones on the go. Today, mobile devices, sites, and apps are people's connection to everything. A multichannel customer experience is now the new normal.

With so much change in the way companies engage with customers, I've observed that there are two kinds of businesses in this industry. Those that are treading water in this downpour of data, channels, and expectations. And those that quickly read the waters, and paddle hard, and catch the next wave of innovation before their competition does.

That gets to the root of what this new report examines — the digital leaders and the mainstream. What the two types are doing differently from each other, and how that manifests itself in retail banking compared to insurance and investment businesses.

Adobe has helped some of the biggest financial brands navigate the ever-changing waters of digital marketing. I'm excited that we now offer a single, integrated Experience Cloud for these same brands, as well as others in the financial industry, to design and deliver the best customer experiences. But what I particularly like to see are the businesses that share Adobe's vision for digital innovation. Those that do more than improve what's around them, but also look down the road — not just interpreting, but creating the next big thing.

Successful marketers in financial services are aware that competition is coming from more sources than ever. Digital disruption has given a big stick to small upstarts and a window of opportunity to the likes of Google, Apple, and Microsoft. That's what makes digital disruption so unpredictable, but in my view, also so fun.

I hope you enjoy this report, and it inspires you to explore new ideas, blaze new paths, and create tomorrow's new financial services experience today.



Christopher Young
Director, Industry Strategy for Financial Services
Adobe

Executive summary

How will established financial services companies continue to grow? How will they appeal to a new generation of customers? How will they maintain margins in the face of the new, automated commoditization of service products?

These are some of the questions addressed in the ***State of Digital Transformation in Financial Services*** report, based on a survey of over 400 executives in financial services sectors. Where appropriate, the study's findings are broken down by subsector and success, comparing marketing *leaders* with the *mainstream* to identify current tensions and future trends.

Key trends are summarized below.

Leaders are competing for the future

If you are a digital leader, your organization is looking ahead, and sees competition coming from newer players. That's driving priorities in growing the client base today and providing a consistent, high-quality customer experience to support growth.

For the mainstream, the immediate path to growth is through current customers, reaping easier rewards while trying to address digital shortfalls.

This difference between forward thinking companies and their peers underlies many of the study's findings; leaders are already focused on the future, while the mainstream is mired in legacy thinking and technology.

Accordingly, there's a marked difference in how digital leaders and mainstream companies see their greatest competitive threats over the next two years; leaders are much more likely to be conscious of competition from the *new economy giants* such as Google, Microsoft, Apple and *startups* providing seamless, quick, and cheap services.

Almost half of digital leaders (49%) say that competition from the new economy is their greatest competition, compared to 29% of mainstream respondents.

Digital's impact on sales is increasingly rapidly

In planning, the lines between digital and offline marketing are fading, but they're still distinct in most budgets. The vast majority of digital budgets are expected to rise in 2017, and their growth continues in the double digits. The average increase cited is 15% by mainstream companies and nearly double that rate (27%) by leaders.

Digital's impact on sales is also on the rise, both direct and influencing, with roughly one-third of sales today ascribed to digital channels.

Leaders see data as the key to winning with experience

The ability to manage customer data for first party advertising, partner marketing and customer experience management will be an important lever for growth in coming years, and leaders are better positioned to pull it.

Half of leading companies have deployed a data management platform, nearly 60% more than the mainstream. Looking ahead, a quarter of leaders who haven't already done so have targeted DMPs as a priority area for 2017, compared to only 14% of the mainstream.

Personalized experiences are a goal across sectors and companies, but barriers vary. Mainstream companies are still most likely to run up against IT and security concerns. Leading companies



aren't immune to these, but are just as likely to be focusing on structure and political issues, citing channel ownership as a key challenge.

The cloud has arrived, with AI on the horizon

Leaders are significantly outpacing their peers in implementing cloud solutions; they are 44% more likely to be using cloud marketing platforms and 40% more likely to have moved internal systems and operations to the cloud. Most striking, they are 89% more likely to have moved product backend systems there, allowing a more flexible approach to a rapidly evolving customer experience.

More than half of leaders say that they've implemented artificial intelligence in some customer-facing areas. Among the subsectors, retail banking leads, with over one-third of respondents having an active AI initiative, and 45% describing it as a high priority in 2017. Insurance and investment lag significantly; more than half of these companies say that it's not a near-term priority.

Also in the State of Digital Transformation in Financial Services Report

- What are the top technology investment priorities in financial services?
- What are the top areas of innovation in retail banking?
- How does the industry see the impact of mobile on sales today and in three years?
- What is the role of digital in enabling human advisors?
- How does digital maturity differ by financial service sector?

Methodology

This report is based on an online survey conducted in Q1 of 2017, using third-party providers for distribution as well as targeted Econsultancy and Adobe lists. Respondents from third-parties were offered an incentive to complete the survey. It closed on February 24th with 402 qualified responses. The sample was comprised of executives in varied financial services with the largest concentrations in retail banking, investment and insurance.

- Senior managers (VP and above) make up 40% of the sample. Forty-one percent are decision makers in digital marketing investments for their organization.
- Response was concentrated in North America (68%) and the United Kingdom (21%).
- Only those respondents at a “Manager” level or above were included in the results.
- Organizations with less than \$100 million in 2016 revenue were removed from the sample.

About Econsultancy

Econsultancy’s mission is to help its customers achieve excellence in digital business, marketing and ecommerce through research, training and events.

Founded in 1999, Econsultancy has offices in New York, London and Singapore.

Econsultancy is used by over 600,000 professionals every month. Subscribers get access to research, market data, best practice guides, case studies and elearning – all focused on helping individuals and enterprises get better at digital.

The subscription is supported by digital transformation services including digital capability programmes, training courses, skills assessments and audits. We train and develop thousands of professionals each year as well as running events and networking that bring the Econsultancy community together around the world.

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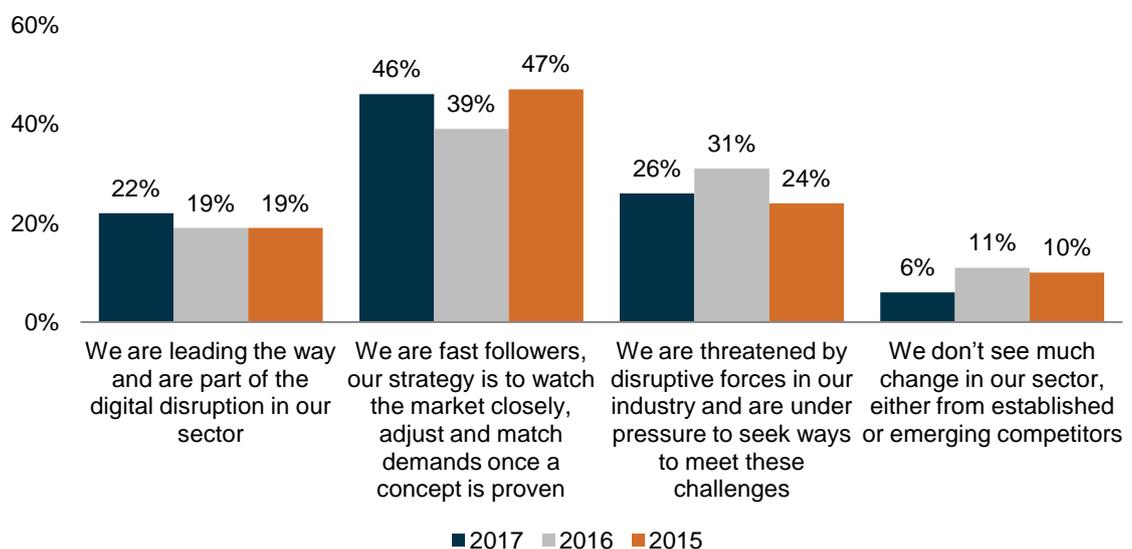
State of digital in financial services

For the third year running, this study seeks to establish how financial services and insurance (FSI) companies view their position in the context of the sometimes momentous digital disruption that is occurring across their industries.

The outlook is somewhat more positive this year. More companies see themselves as leading the way or being fast followers in that disruption (68% vs. 58% last year), and fewer see themselves as being under pressure to meet related challenges (26% vs. 31% last year).

Meanwhile, the proportion of companies who say they *don't see much change in their sector* has almost halved, from 11% last year to 6% this year.

Figure 1: Thinking about how digital technology has affected your industry, which statement best describes your organization today?



Respondents 2015: 217
 Respondents 2016: 156
 Respondents 2017: 250

The multi-faceted nature of the financial services industry makes it important to differentiate between different sub-sectors. Respondents in the retail banking sector are significantly more likely to self-classify as *digital leaders* (32%) than their counterparts working for insurance and investment companies (10% and 14% respectively).

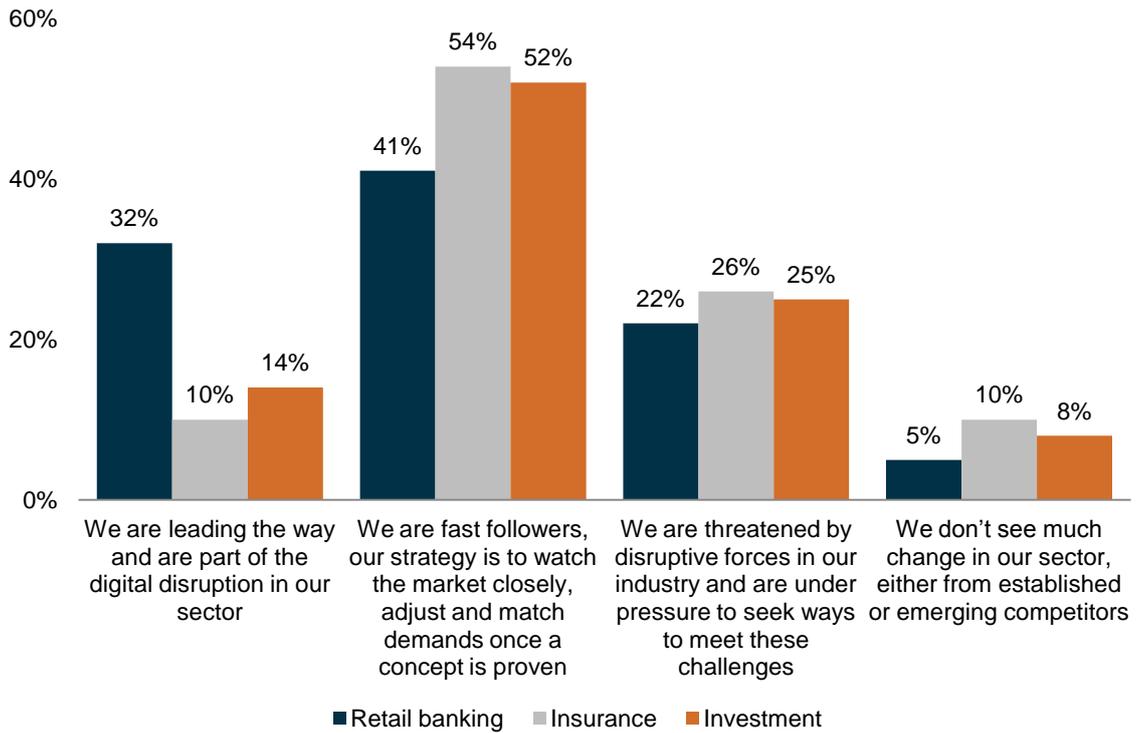
Retail banking

The retail banking sector has been forced to adapt more quickly than other FSI sectors to digitally driven change, because of the faster speed of disruption. Challenger banks such as Moven, Atom and WeBank, founded in the U.S., U.K. and China respectively, have tapped into the desire of many consumers to deal with their banks exclusively (or almost so) through their smartphones.

As long ago as 2011, the analyst firm Gartner predicted that, by 2020, customers will manage 85% of their relationships with the enterprise without interacting with a human.¹ This trend hasn't escaped the notice of traditional retail banks with huge bricks-and-mortar operations.

To give them their due, many now have excellent smartphone apps, which have reduced friction for users and helped to stem the flow of customers to the new kids on the block. It's an example of how digital leaders in any FSI sector can come from both pure play digital and established multichannel businesses.

Figure 2: Thinking about how digital technology has affected your industry, which statement best describes your organization today?



Respondents: 250

Investments (or Investing)

Figure 2 showed that only 14% of investment companies regard themselves as digital leaders, while 52% describe themselves as fast followers.

So what are the leaders doing to set the pace? Those who are really grasping the nettle are seeking to provide a truly integrated customer experience across channels, for example with unified and user-friendly portals for clients which help them navigate numerous institutions simultaneously.

Both incumbent and disruptive investment firms are focusing on simplification of deal management and alternative models for raising capital, as well as building on-the-go service applications and secure online ledgers which harness blockchain technology.²

Put simply, there is a wealth of opportunity for investment firms to steal a march on their competitors by removing unnecessary steps and reducing friction for their customers.

¹ https://www.gartner.com/imagesrv/summits/docs/na/customer-360/C360_2011_brochure_FINAL.pdf

² <http://www.bobsquide.com/guide/news/2016/Nov/23/digital-disruption-in-capital-markets-and-investment-banking/#>

BNP Paribas, which straddles retail and investment banking, is a good example of a traditional banking company that is investing in technology. The France-based banking giant's CEO, Jean-Laurent Bonnafé, told the Financial Times in February this year that his company was planning to invest €3bn in digital transformation over the next three years³, at a time when it is closing hundreds of physical branches.

Insurance

As with the investment sub-sector, only a small minority of companies in the insurance arena describe themselves as digital leaders—not surprising in an industry that's widely seen as lagging behind retail banking and other less regulated sectors in digital transformation.

But the pace of technology change in this industry is increasing at an unprecedented rate.⁴ One of the most significant trends in this industry is the shift from pooling and pricing risk using historical data, to a more personalized model where consumers can be assessed on a more individual and real-time basis. Examples of innovative insurance schemes include cheaper policies for those using health-monitoring devices such as the Apple Watch, or better car insurance deals based on telematics which monitor driving behavior. And more opportunities are opening up—Aviva UK last year became the first home insurer to offer a water-leak detection system to its customers.

As with other FSI sectors, the greatest opportunity for insurers is to offer a customer experience which is more integrated and personalized than their competitors. Although innovations driven by artificial intelligence (AI) and the internet of things (IoT) can play an important role in improving the customer experience, true digital excellence is more about the adoption of the right culture and processes within a business, and the hundreds of incremental improvements which can add up to something powerful and compelling.

³ <https://www.ft.com/content/c57ac5ca-ec9b-11e6-ba01-119a44939bb6>

⁴ <http://ins.accenture.com/rs/897-EWH-515/images/Accenture-Technology-Vision-for-Insurance-2016-Executive-Summary.pdf>

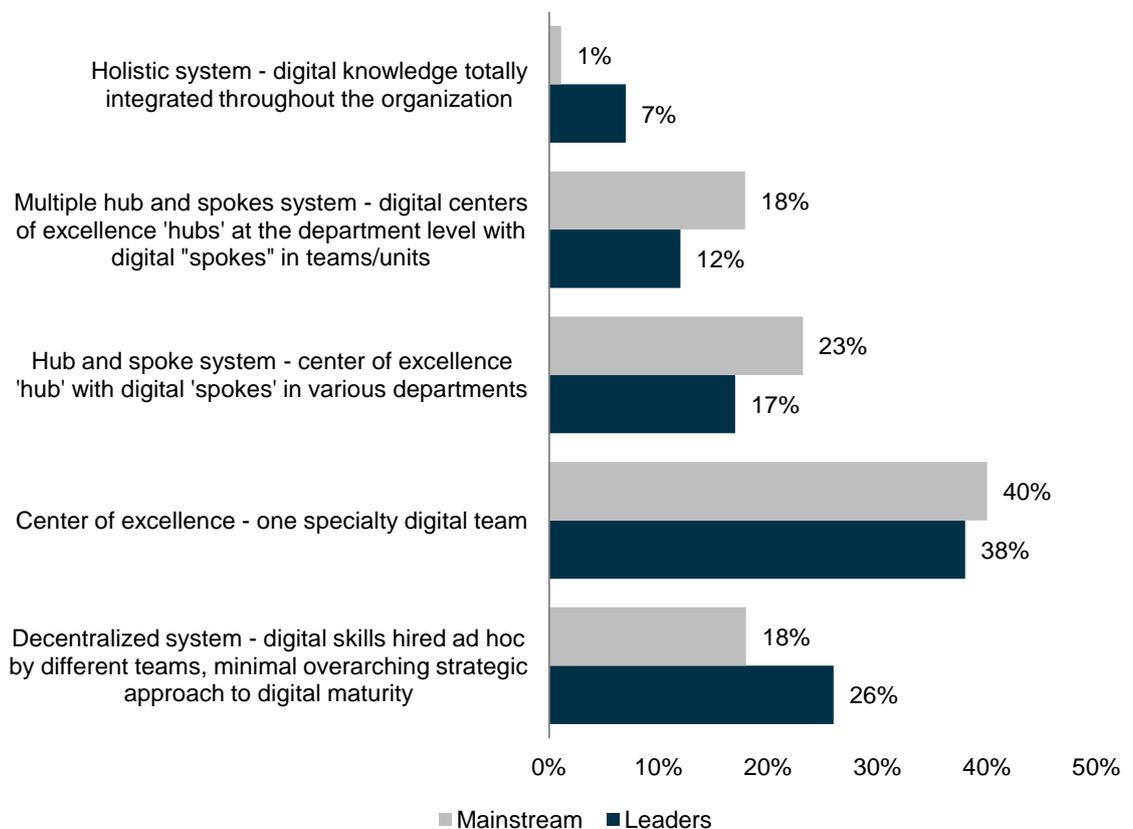
How digital is organized

FSI companies use a range of structures for digital transformation, from a *holistic* to a *decentralized system*.

The most popular approach among both leaders and the rest of the sample (the mainstream) is for a *center of excellence* in the form of *one specialty digital team*, selected by 38% of leaders and 40% of mainstream respondents.

Centers of excellence have typically been set up to ensure digital technology is harnessed as effectively as possible. While they can undeniably be effective as catalysts for change, they can sometimes be viewed as a silo within the business unless there are efforts to move towards a more *hub and spoke* approach where digital is dispersed across different departments.

Figure 3: Thinking about your organization's approach to digital transformation and maturity, which of the following best describes your organization's current structure?



Respondents: 192

It's therefore surprising that fewer leaders than mainstream companies describe themselves as having either a multiple or single hub and spoke set-up though more of the leaders say they have reached the nirvana of a *holistic system* (7%, versus 1%).

They're also more likely than mainstream companies (26% vs. 18%) to say their companies have a *decentralized* system. This may seem like a rather chaotic approach by companies with a "command-and-control" style of leadership, but it does offer flexibility, directing skills where they're needed. As well as having a more flexible digital set-up, these companies are also likely to be characterized by a higher tolerance of risk among the leadership team, and more devolved responsibility across the organization.

Many organizations that are succeeding in the digital era are likely to be adopting a “done is better than perfect” approach in their products and services, which may also apply to their more fluid, more horizontal, and less hierarchical organizational structures.

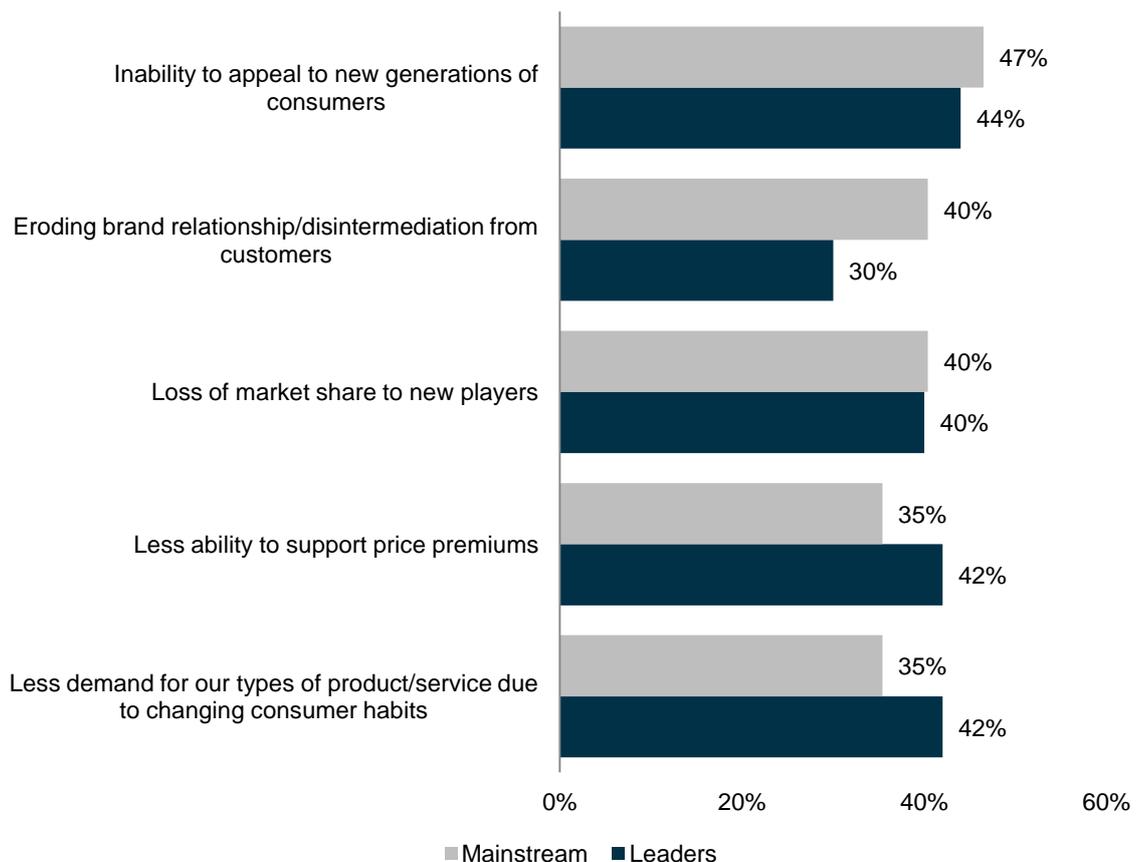
Sources of disruption

Businesses are facing a range of threats from the disruption affecting their industries. Of chief concern is the *inability to appeal to new generations of consumers* who have different expectations about user experience. While the differences between age groups are nuanced, there is typically a lower tolerance among younger people for anything which stands in the way of self-service and online fulfilment.

Although meeting the needs of younger consumers is foremost in the minds of FSI respondents, there is an even spread of major challenges. It’s again worth focusing on the differences between digital leaders and the mainstream—most notably the ten percentage-point difference for *eroding brand relationship / disintermediation from customers*, cited by 40% of mainstream respondents but only 30% of digital leaders.

While reducing the cost to serve customers, the internet has reduced the human element in cementing the relationship between consumers and FSI brands—a mixed blessing. In retail banking, as we observed in last year’s equivalent report⁵, customers want to minimize visits to physical branches, and rely increasingly on website and mobile apps.

Figure 4: Thinking about disruption in your industry, what are your primary concerns? *Top two. Leaders vs the rest*



Respondents: 245

⁵ <https://econsultancy.com/reports/digital-trends-in-the-financial-services-and-insurance-sector-2016/>

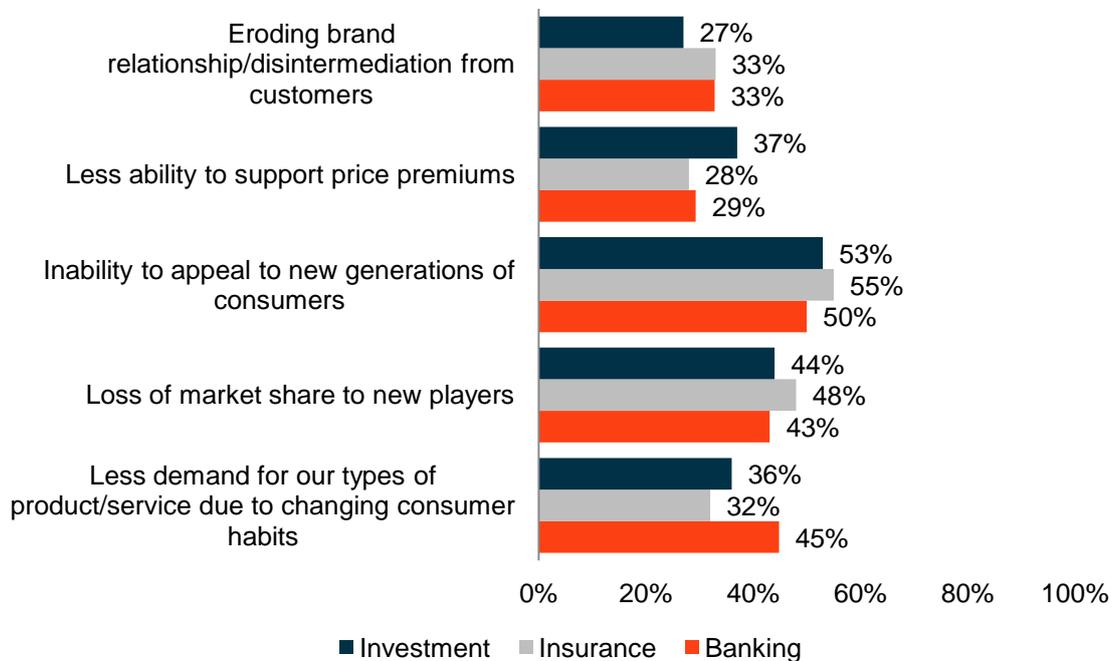
With this in mind, it's likely that digital leaders have understood that their brand is the digital experience they offer to consumers, and therefore not at all incompatible with a deepening of brand relationships when they get it right.

However, leaders are more likely than their mainstream counterparts to be concerned by *less demand for product / service due to changing consumer habits*. Perhaps digital leaders are more likely to be conscious of changes that could fundamentally undermine their business models.

As *Figure 5* shows, this fear of disruption in the form of reduced demand for products and services is most prevalent in the retail banking world, where businesses are particularly conscious of how their customers, particular younger ones, are more keen on app-driven and automated interactions, and increasingly reluctant for human involvement unless it's genuinely needed.

Related is *loss of market share to new players*, which is a concern for more than four in ten respondents in each sub-sector. If companies are not offering the right products and services, new players will enter (and reinvent) the market with a more appealing proposition.

Figure 5: Thinking about disruption in your industry, what are your primary concerns? *Top two by subsector*



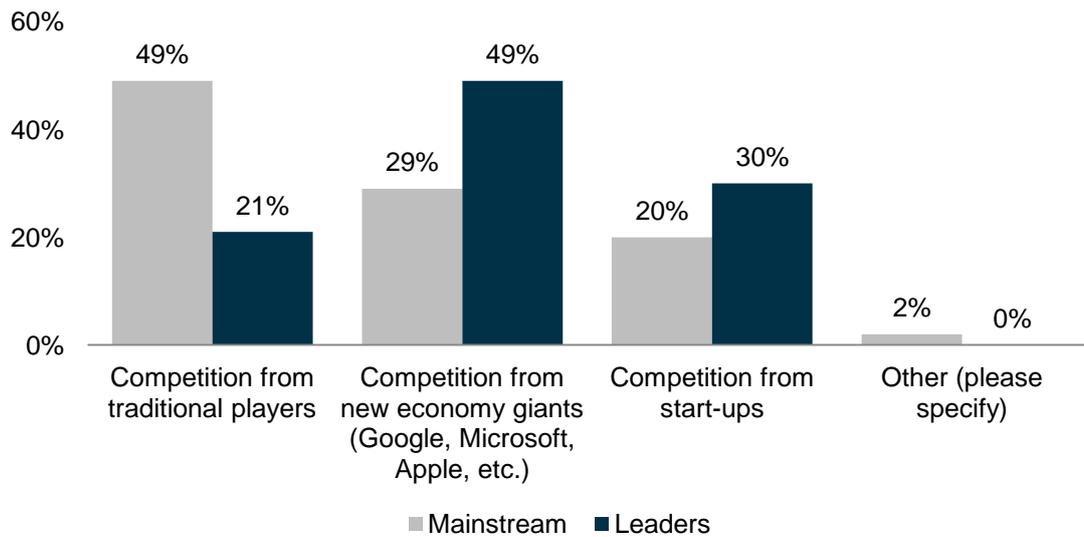
Respondents: 240

Competition grows from new directions

Disruption in the financial services industry is coming from all directions as the fintech phenomenon shows little sign of abating. Fintech isn't just the preserve of pureplay start-ups, it is also something which has taken hold of incumbent businesses through their own, homegrown initiatives, or collaborations and acquisitions.

There is a marked difference in where digital leaders and mainstream companies see their greatest competitive threats coming from, with leaders much more likely to be conscious of competition from the *new economy giants* such as Google, Microsoft, Apple and others providing seamless, quick, and cheap services. Almost half of digital leaders (49%) say that competition from the new economy is their greatest competition, compared to 29% of mainstream respondents.

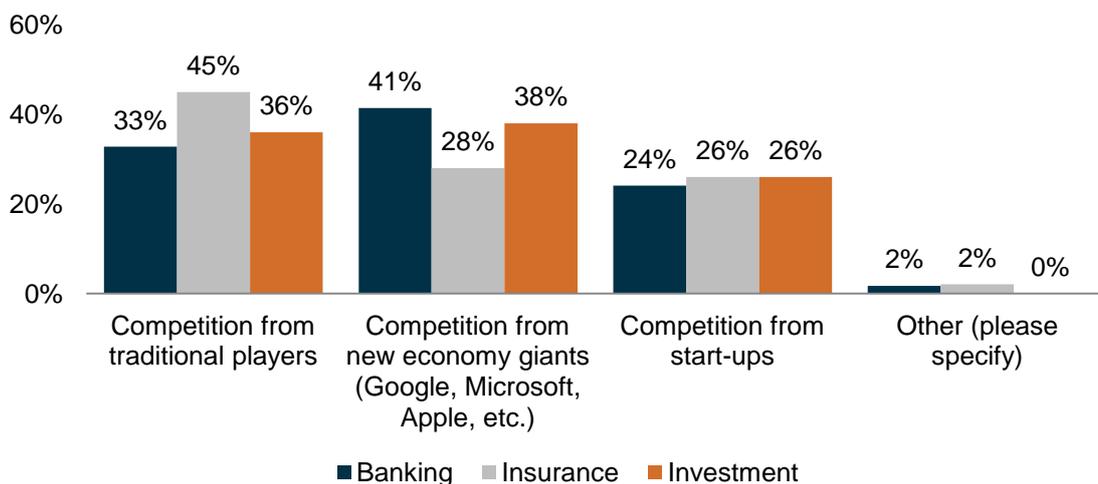
Figure 6: Where do you see the greatest competitive threats emerging in the next 24 months? *Leaders vs the rest*



Respondents: 226

Insurance is the FSI sub-sector least likely to see the most significant threat coming from the new economy giants. The sector will already have taken note of Google’s unsuccessful foray into selling auto insurance online through Google Compare⁶. The company had partnered with car insurance providers and was taking commission when someone bought insurance online or by phone. However, Google announced to its financial services partners last February that it was closing Google Compare, amid speculation that it was concerned about cannibalizing AdWords advertising revenue.

Figure 7: Where do you see the greatest competitive threats emerging in the next 24 months? *By Sector*



Respondents: 216

Of course, this abandoned venture doesn’t spell the end of the threat from the likes of Google and Apple, and the sector should not be complacent, but it may well be that the brands with a deep heritage and history in insurance will prevail, rather than the new economy giants.

⁶ <http://www.insurancejournal.com/news/national/2016/02/23/399632.htm>

Priorities for 2017 and beyond

Figure 8 shows that digital leaders are prioritizing customer acquisition while their mainstream peers are focused primarily on *deepening existing customer relationships*.

Mainstream companies are in a position of playing defense, attempting to maintain marketshare, and seeing growth coming first from existing customers.

The lower priority for retention doesn't mean that digital leaders are ignoring it. These companies may be more likely to have categorized their cross-selling and up-selling initiatives as "business as usual", and are now focusing on how they can grow their client base. They have been quicker to fix the leaks which lead to customer churn, and now want to invest their energy into pouring more business into the top of the funnel.

It may be that these companies also have more innovative products and services which are more likely to appeal to new customers, while their mainstream counterparts need to focus on their captive audiences.

Leaders are also more focused on using technology to *reduce costs to service customers*, which is a "win win" if they are simultaneously able to improve the experience.

Figure 8: What are your organization's top priorities?

Mainstream		Leaders
<i>Deepen existing customer relationships (cross-sell, up-sell)</i>	1	<i>Grow client base</i>
<i>Increase customer retention</i>	2	<i>Provide consistent, high-quality customer experiences</i>
<i>Grow client base</i>	3	<i>Reduce costs to service customers</i>
<i>Provide consistent, high-quality customer experiences</i>	4	<i>Increase profit margin per customer</i>
<i>Increase profit margin per customer</i>	5	<i>Deepen existing customer relationships (cross-sell, up-sell)</i>
<i>Reduce costs to service customers</i>	6	<i>Increase customer retention</i>

Respondents: 256

Underlying the difference between these groups is the position of customer experience. For leaders it is second only to growing revenue from new clients. For the mainstream, it sits at fourth position. This is a fundamental and probably temporary juxtaposition.

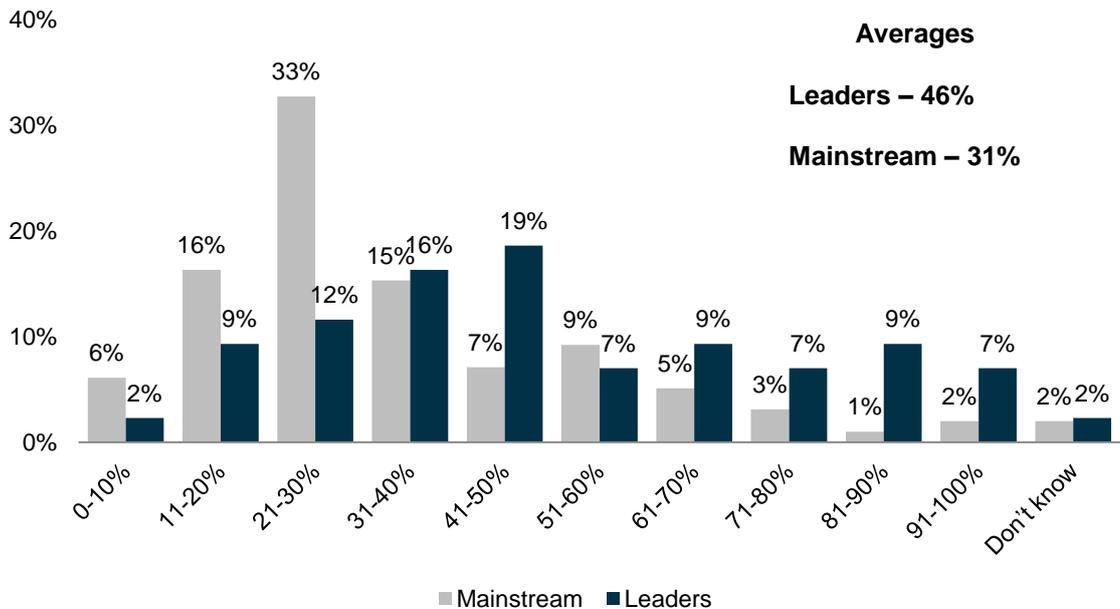
Leaders recognize that when all products and services are commoditized and increasingly automated, experience is the main support of sales, retention and margin. Mainstream companies are investing in and making a strategic nod to CX, but are simultaneously trying to shore up broken models.



Rising digital sales and budgets

Digital leaders are generating, on average, almost half of their sales from digital channels (46%), compared to less than a third (31%) for mainstream. *Figure 10* also shows that 41% of leaders are deriving at least half of their sales from online, compared to 22% of mainstream respondents. With successful legacy offline operations in place, it is easy to understand why many incumbent businesses rely primarily on offline for their sales.

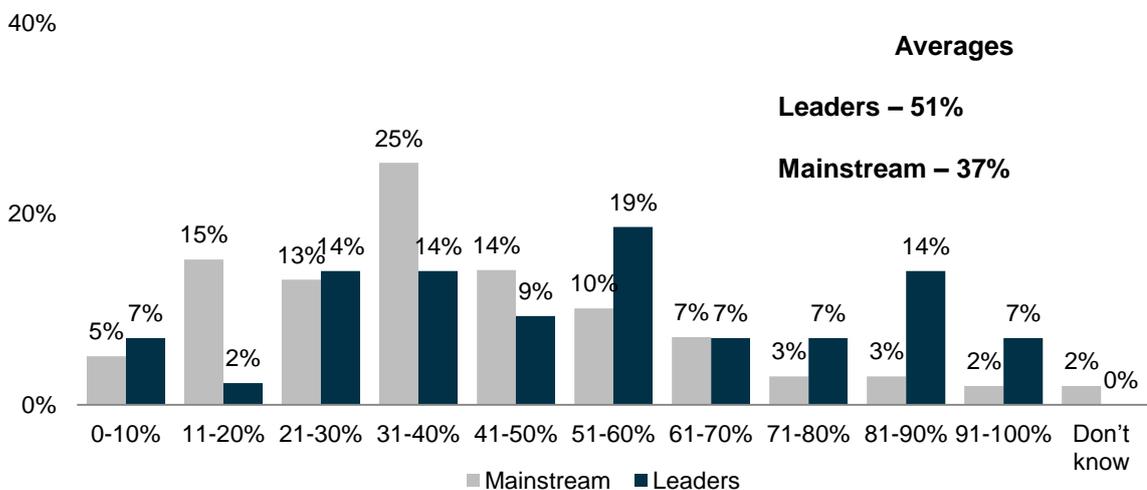
Figure 9: What percentage of your sales (new accounts from prospects and existing customers) are ‘from’ digital channels?



Respondents: 208

Figure 11 shows that a greater percentage of leaders’ sales are *influenced by* digital channels, too-- 51% for leaders and 37% for mainstream respondents.

Figure 10: What percentage of your sales (new accounts from prospects and existing customers) are ‘influenced by’ digital channels?

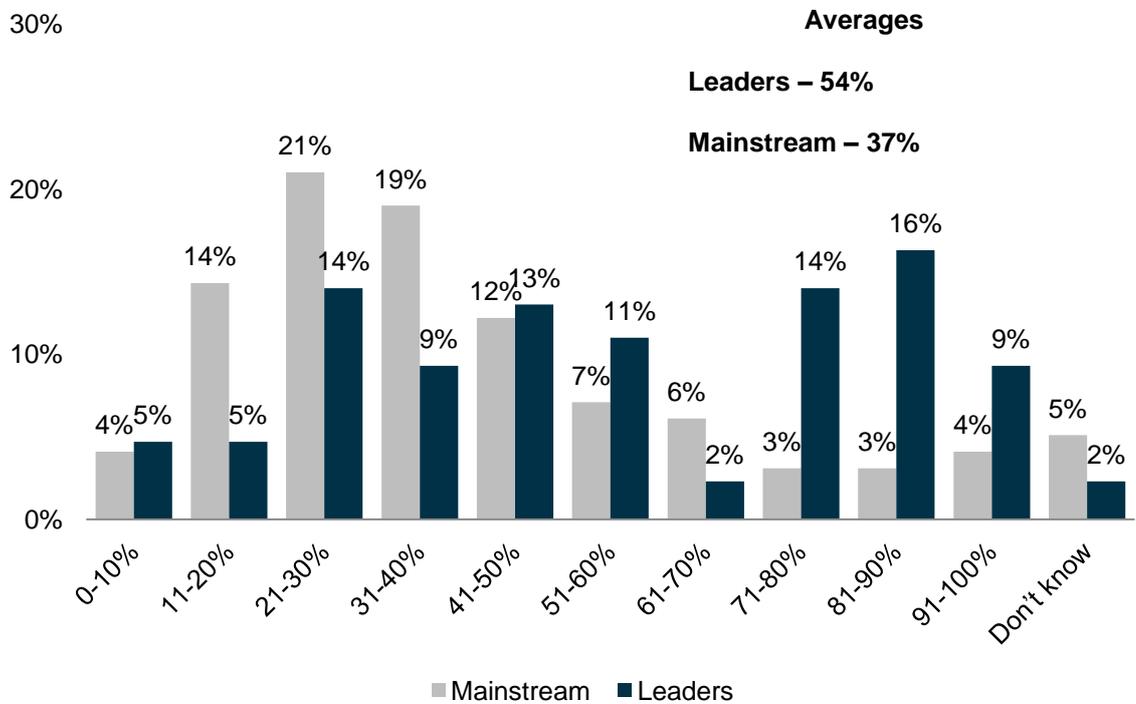


Respondents: 192



Over the next three years the retail banking segment and insurance segments aim to increase their sales directly from online, respectively, from 37% to 44%, and from 33% to 41%. For investment, the hoped-for increase in online sales is more modest, up from 40% currently to 43% by 2020.

Figure 11: What is your three-year percentage goal for sales (new accounts from prospects and existing customers) from digital channels?



Respondents:

Figure 12: Digital sales and influence estimates by sector

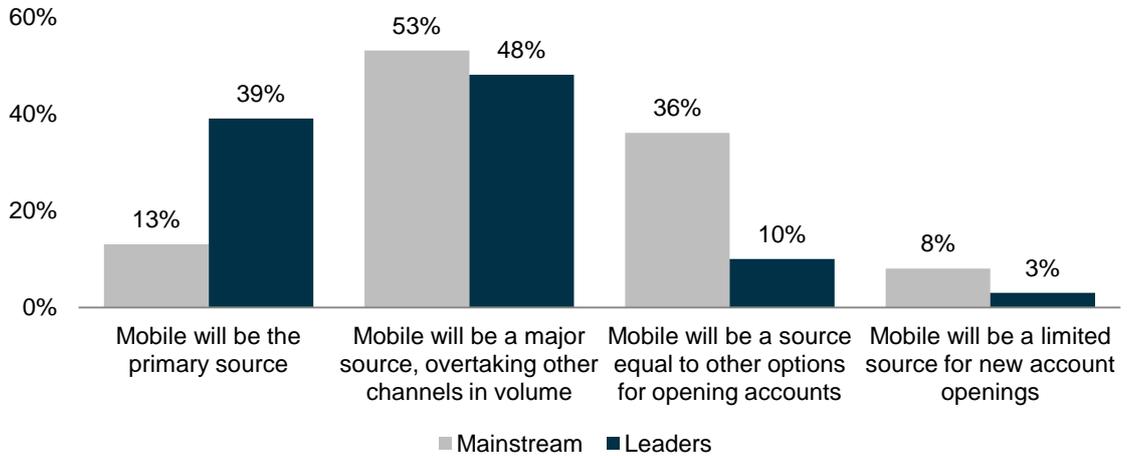
	Retail banking	Insurance	Investment
Sales from digital	34%	28%	30%
Influenced by digital	44%	40%	46%
3 year sales goal	44%	41%	43%

Mobile contributions

Digital leaders have a dramatically different view of the growing role of mobile in account origination, compared to the mainstream. Leaders are three times as likely to say that *mobile will be the primary source* for new accounts in the next three years (39% vs. 13%).

Many established businesses with varied customers understandably want to be channel-agnostic when it comes to meeting customer needs, though almost half of mainstream businesses recognize that *mobile will be the major source of accounts*.

Figure 13: What role will mobile play in new account origination in the next 3 years?

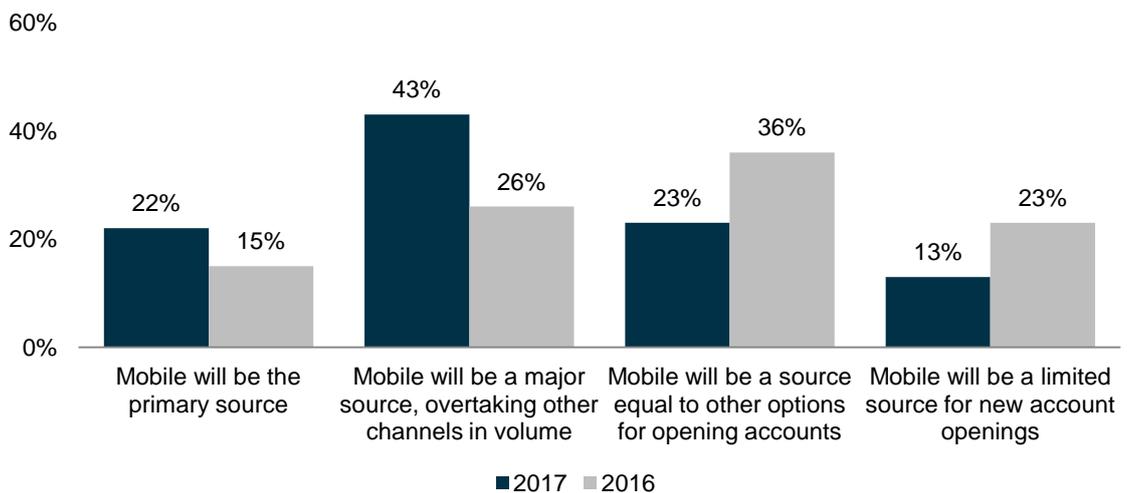


Digital leaders see mobile as a strong source of competitive advantage. And as the year over year data shows, (Figure 14) there has been a large shift from the *mobile will be an equal source* camp to *mobile will overtake other channels*. Perhaps mobile-first is indeed prevailing.

Figure 14: What role will mobile play in new account origination in the next 3 years?

Respondents: 208

Respondents: 208



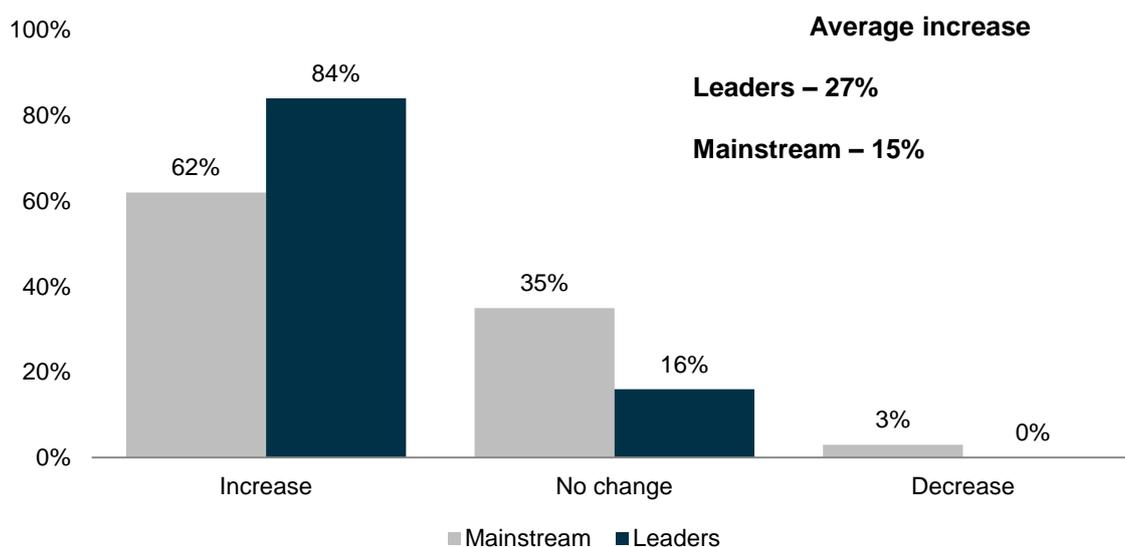
Respondents: 208

Digital budgets continue upwards

Companies across the spectrum of FSI are planning to increase investment in digital marketing in the year ahead. Retail banking respondents are the most likely to be doing so (76%), ahead of insurance (71%) and investment (65%).

Retail banking respondents are also investing the largest proportion (42%) of their marketing budgets in digital. This compares to 37% for insurance and 36% for investment.

Figure 15: Are you planning to increase or decrease your digital marketing budget in 2017?



Respondents: 234

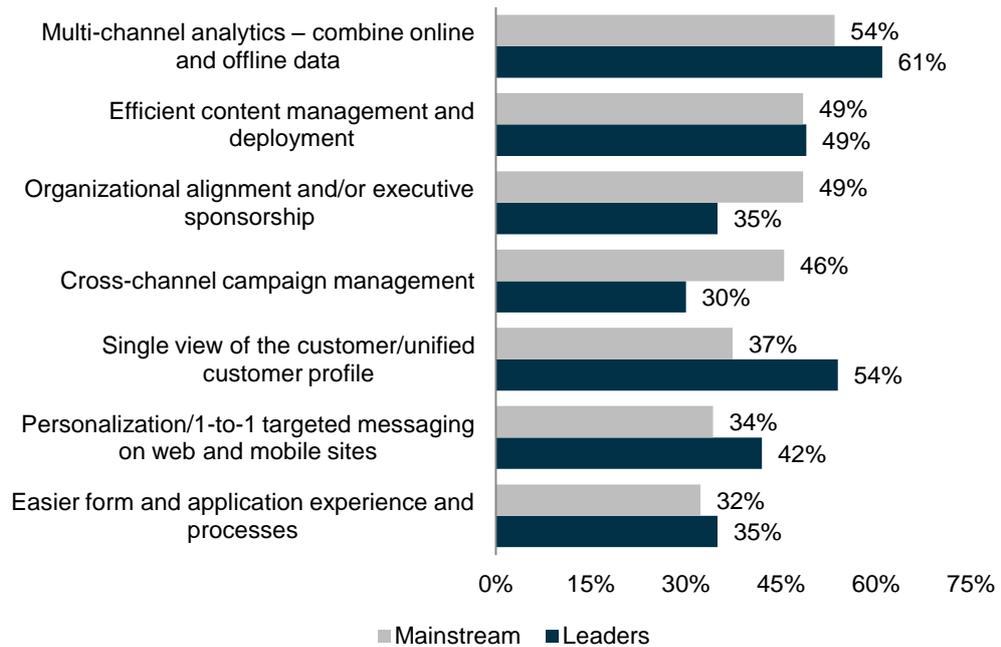
Figure 16: Digital marketing budget investment by sector

	Retail banking	Insurance	Investment
% of marketing budget invested in digital marketing	42%	37%	36%
Planning on increase for digital marketing	76%	71%	65%
Average increase	21%	18%	23%

Priority and investment in marketing technology

Data is the lifeblood of digital transformation, and *Figure 16* underlines that acquiring the capability to derive actionable customer insight from data remains a fundamental challenge for the financial services sector.

Figure 17: What would have the biggest impact on the advancement of your company’s digital maturity? *Select your top three choices.*



Respondents: 251

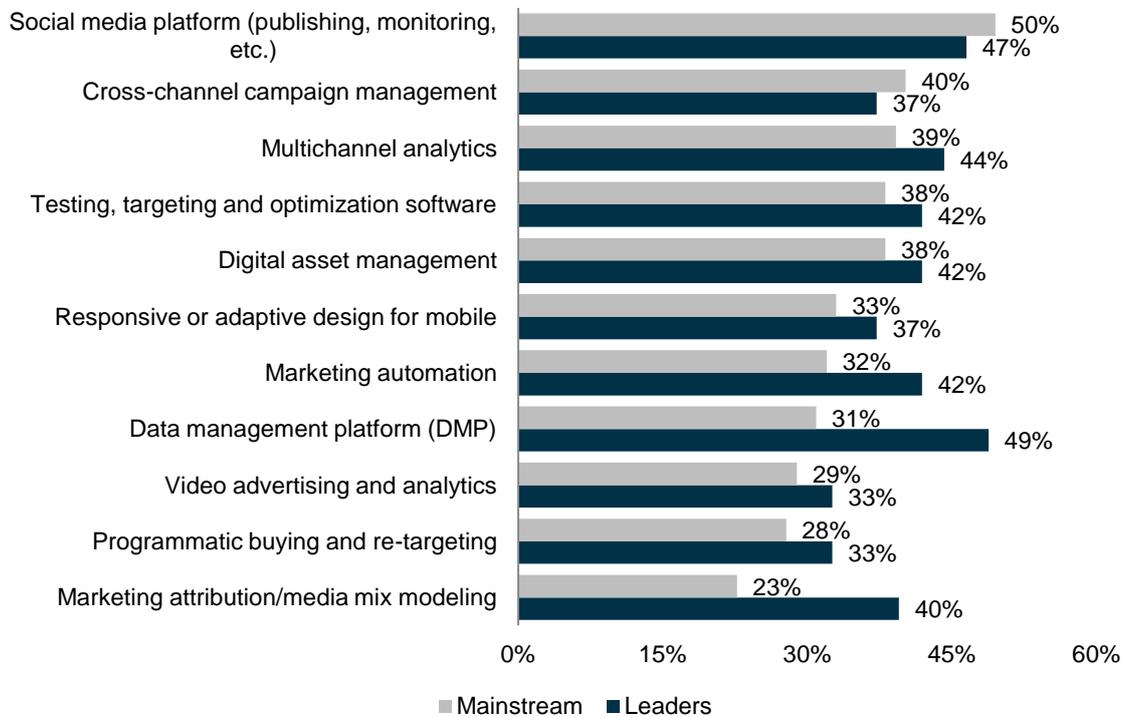
Across the board, *multichannel analytics to combine online and offline data* is the area where most practitioners see the greatest potential for *impact on the advancement of their digital maturity* (Figure 16), and is a top priority investment for both categories of respondents over the coming 12 months (see *Figure 18*). Financial service providers clearly recognize the potential strategic gain from the mining of offline data to improve digital experiences, and vice versa. Here, a high-street presence and other legacy assets are advantages over digital-only challengers in this area, rather than encumbrances.

Two areas – *cross-channel campaign management* and *organizational alignment and/or executive sponsorship* – stand out as realms of digital transformation where mainstream companies feel they can step up. A much higher proportion of mainstream respondents (49%) cite this as the top area where they could impact digital maturity, compared with advanced companies (35%). Perhaps digital leaders are currently comfortable with their organizational set-up and the high-level executive support they receive.

With insights from *Figure 3*, which shows varying organizational approaches among all respondents, this suggests there is no overriding ‘correct’ model for marshalling digital resources, and that a wide set of ingredients is needed.

More digital leaders tend to highlight the holy grail of a *single view of the customer* as an area of ambition, suggesting greater confidence and readiness to take on what can be a daunting challenge. A recent wave of investment in data management platforms ties in with this (*Figure 17*).

Figure 18: Which of the following digital marketing technologies is your company currently using?



Respondents: 192

Having the tools for the job is a pre-requisite of success in digital transformation, and, as in 2016, it is evident that those describing themselves as leaders have considerably more technical firepower. Across the 11 technology categories featured in *Figure 17*, nine have seen greater adoption among leaders than other practitioners. The breadth of system adoption also shows that there is really no ‘quick win’ in digital marketing and a wide set of inter-related capabilities are needed to push efforts forward.

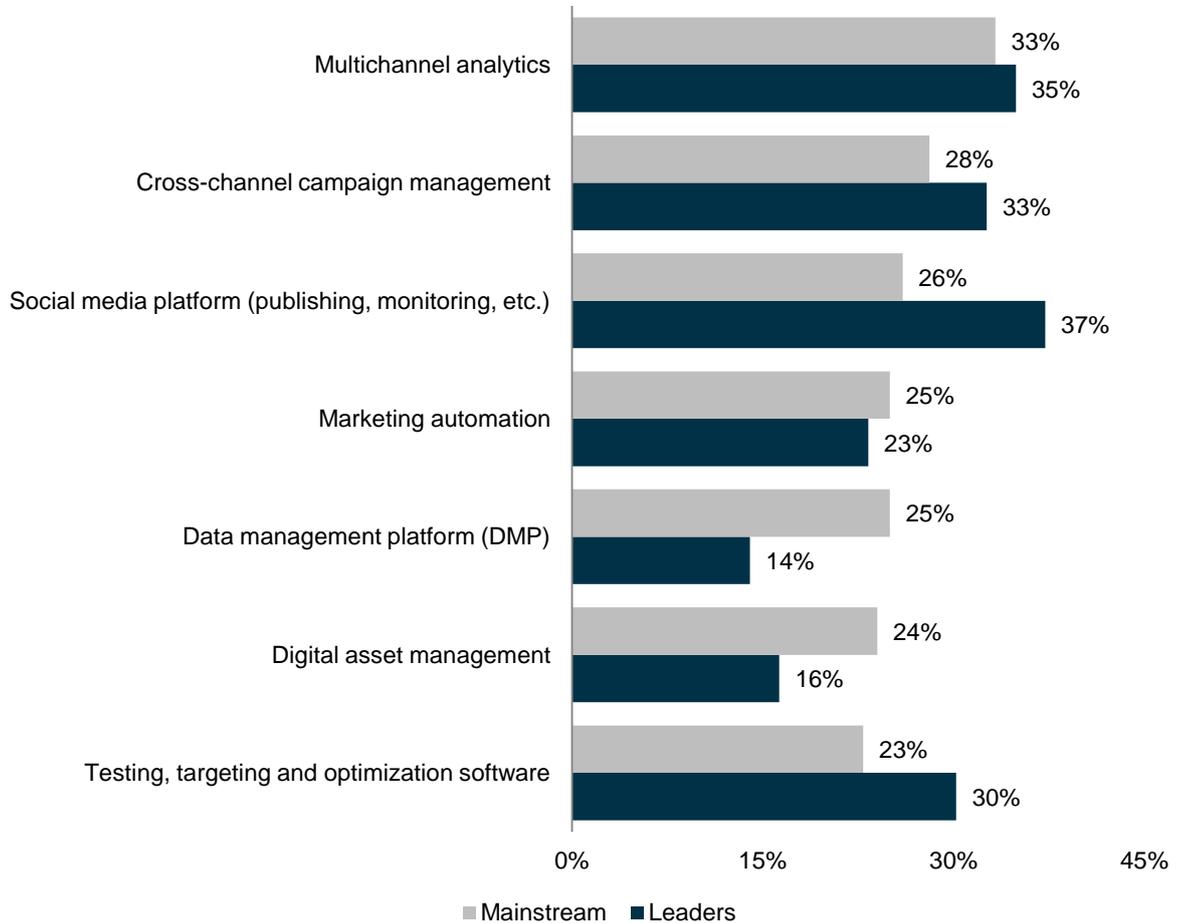
Areas where the lead is widest show leaders have worked to become better at deriving customer insight from data.

Data management platforms – in effect marketing-specific versions of enterprise databases and data warehouses, geared towards gathering, segmenting, and distribution data more effectively – were highlighted as a key spend priority in 2016, and their use is now much more widespread among leaders than the mainstream (49% versus 31%).

Similarly, leaders are outpacing rivals with regard to investment in *marketing automation* and *marketing attribution*, which can deliver a major boost in marketing effectiveness, but are highly challenging to get right and are subject to the data access challenges DMPs are designed to resolve.

Others are following in their footsteps. A quarter of mainstream companies (25%) highlight DMPs as a priority area, compared to only 14% of the mainstream. The ability to manage customer data for first party advertising, partner marketing and customer experience management will be an important lever for growth in coming years, and leaders are better positioned to pull it.

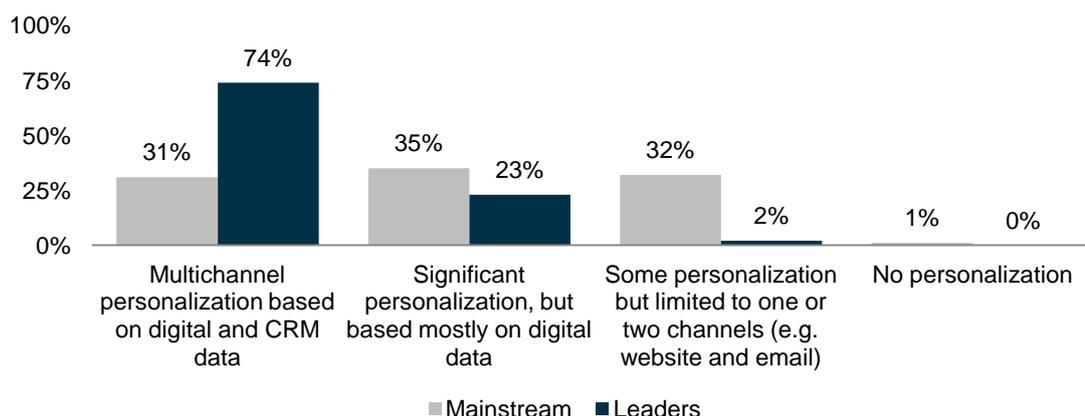
Figure 19: What are your company’s top two priority areas for technology investment over the next 12 months?



Respondents: 197

Marketers across the spectrum are looking at *multichannel analytics* as a top priority because it reflects their customers increasingly itinerant behavior. Understanding how prospects and customers are moving through the multi-channel experience is challenging and vital; the customer journey in every sector is continuing to fragment across media, devices and platforms. This diaspora of audience can only continue as artificial intelligence invades the technology of daily life and adds countless touchpoints in connected, smart devices.

Figure 20: Which of the following statements best describes your company's ability to deliver personalized customer experiences?



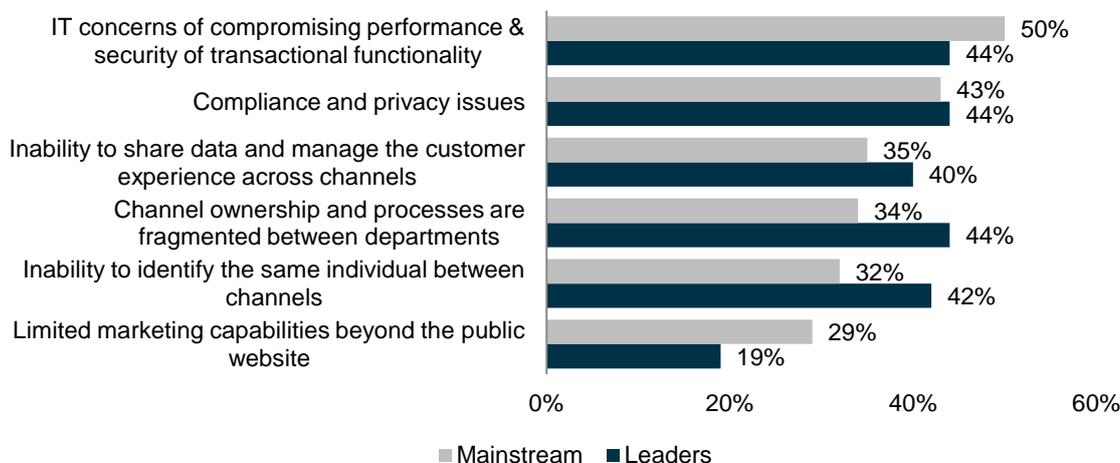
Respondents: 285

It's no surprise that the strongest proponents of digital marketing are much further down the road in terms of putting customers at the heart of their commercial activity. A strong focus on delivering personalized customer experiences is becoming a defining characteristic of digital leadership. Three quarters of these companies (74%) now claim ability to deliver *multichannel personalization based on digital and CRM data*, compared with just 31% of mainstream respondents.

The gap in capability is growing, too (*Figure 20*). The proportion of leaders with multichannel personalization capability has grown by 23 percentage points since 2016, while for the mainstream, 2017's figure is only eight points higher.

Progress in personalization is at least partially attitude and strategy-based—there is no marked difference between digital leaders and less advanced players when it comes to citing practical barriers. Some, such as data sharing issues, fragmentation of channel ownership, and difficulties of gaining a single customer view across channels, are even more prevalent among digital leaders.

Figure 21: What are the greatest barriers preventing the ability to deliver more personalized experiences?



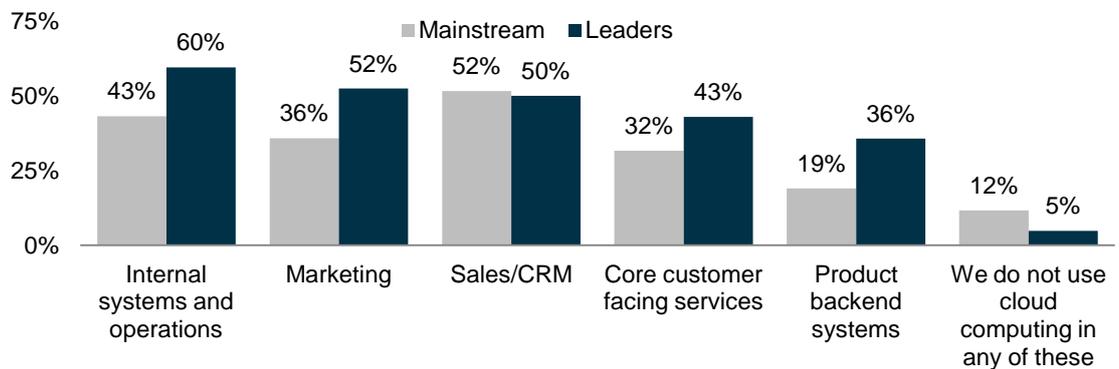
Respondents: 292

Enter the Cloud and AI

The role of cloud-based technology in underpinning digital transformation has been highlighted for several years, and it's no surprise that these applications are most widely used among self-described digital leaders. A higher proportion of leaders vs. mainstream use cloud computing across four of the five business areas featured in *Figure 21*.

Nonetheless, cloud service providers still have work to do to persuade financial services players to migrate, whether because of awareness, legacy considerations, skepticism, privacy worries, or other barriers. Adoption is strikingly low in business areas focused on commercial activity, such as *marketing, sales/CRM, and core customer-facing services*. Only around half of digital leaders have yet invested in cloud applications to support these areas.

Figure 22: Does your organization use "cloud" computing in any of the following areas? Please check all that apply.

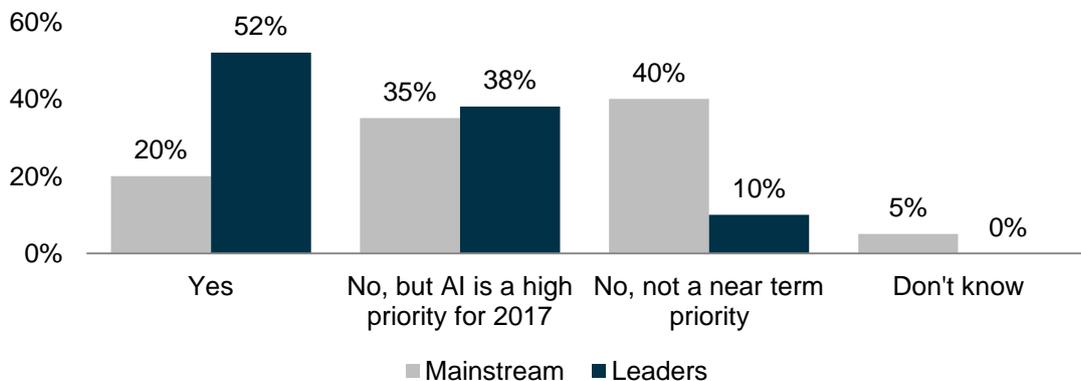


Respondents: 242

Artificial intelligence is being widely billed as an area for FSI players to gain a digital edge over competitors, and drive further customer experience improvement. Econsultancy's recently-published Digital Intelligence Briefing: 2017 Digital Trends in Financial Services and Insurance⁷, also produced in partnership with Adobe, highlighted interest in utilizing AI to drive campaigns and experiences, and to enable enhanced payment services such as mobile wallets and e-receipts.

As with cloud services, there's a correlation between propensity to invest in AI and digital activity generally. Ninety percent of digital leaders say they have already *begun to apply AI in customer-facing areas*, or have prioritized it, compared to 55% of mainstream.

Figure 23: Has your organization begun to apply AI in any customer-facing areas?



Respondents: 322

⁷ <https://econsultancy.com/reports/2017-digital-trends-in-financial-services-and-insurance/>



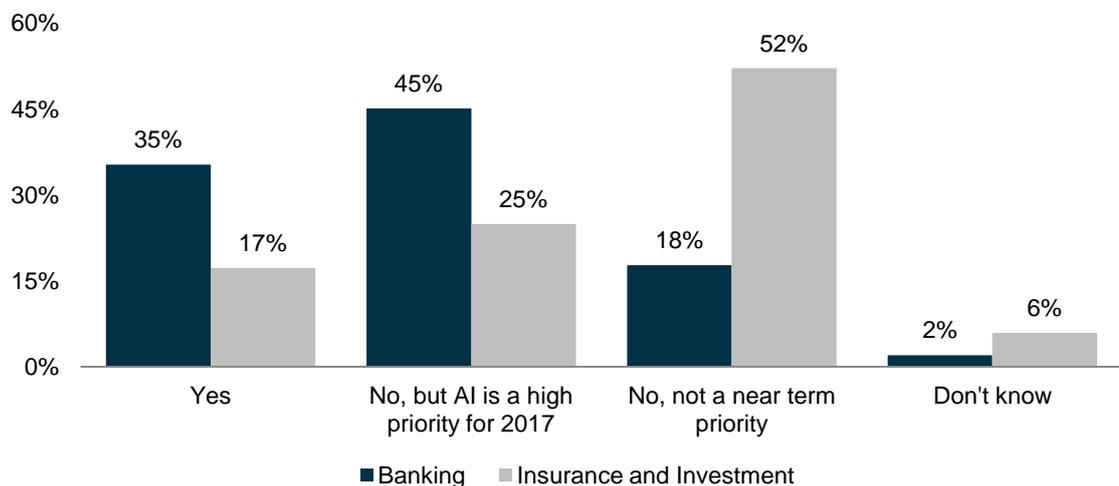
Focus on Banking Innovation

Throughout this report we've seen that retail banking is moving more quickly than other sectors of FSI. But is it moving quickly enough? No industry is experiencing a more rapid digitally-driven shift in their marketplace.

The disruptors discussed earlier coalesce around consumers just entering the marketplace for financial services. The Millennial Disruption Index reports that 73 percent of consumers under 35 prefer offerings from Paypal, Apple and Google over their local banks.⁸

One path to competitiveness is automation of messaging and services, prioritizing AI as a necessary piece of appealing to younger consumers. Compared to insurance and investment, bankers report that artificial intelligence is a high priority for their businesses' customer facing areas in 2017. Over one-third of respondent organizations have already begun to apply AI in customer facing areas, more than twice the rate for other FSI sectors.

Figure 24: Has your organization begun to apply artificial intelligence in any customer-facing areas, such as financial management, investing, insurance product optimization, customer service, etc.?



Respondents: 151

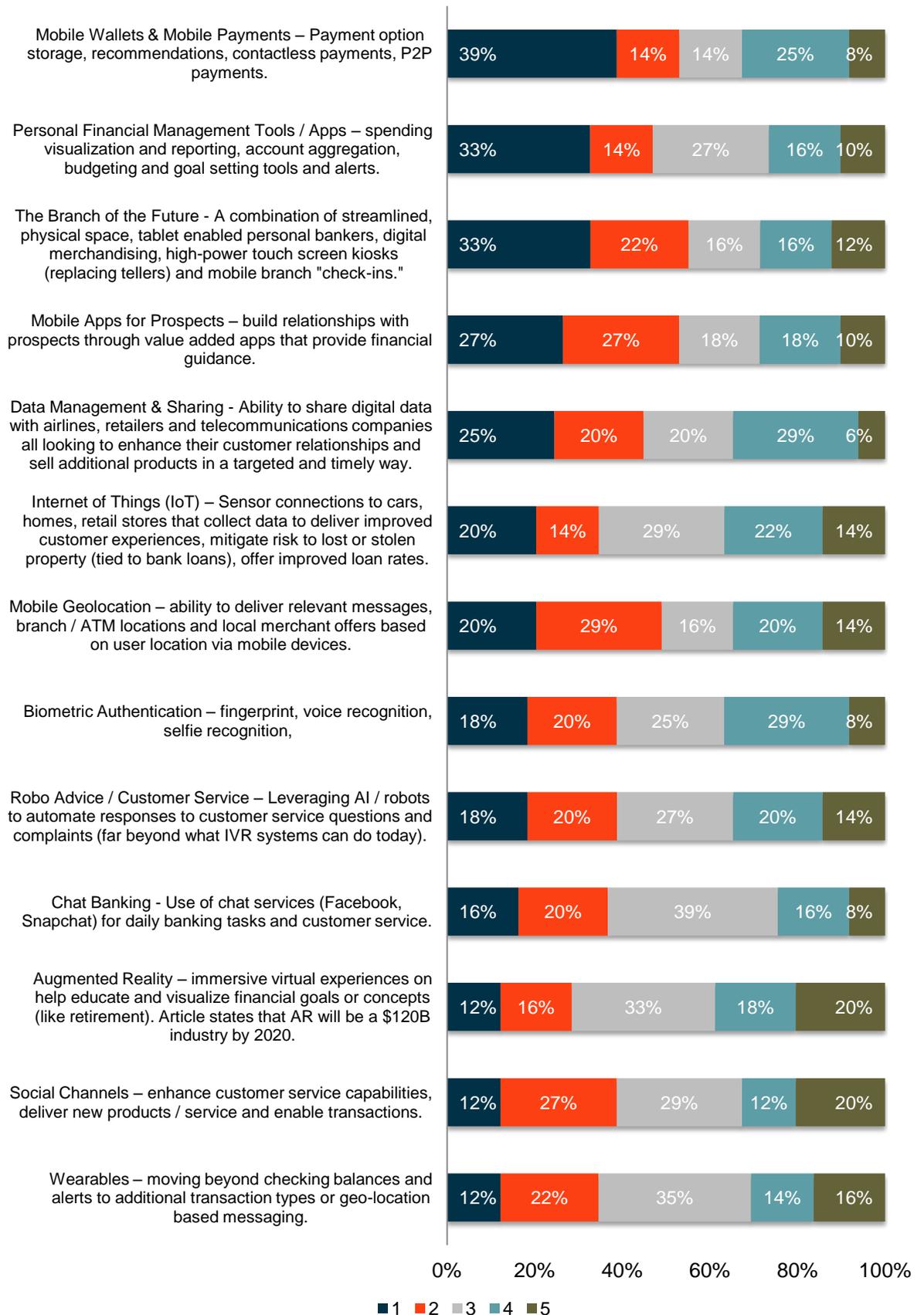
In Figure 25 (next page) we see these same disruptive forces helping to shape top priorities in banking innovation. At the top of the list are technologies designed to appeal to a consumer base that is rarely in a physical branch, is driven by a desire for convenience and demands adaptability to an increasingly mobile lifestyle.

- **Mobile wallets and payments** have rapidly become one of the most competitive areas of digital finance. The explosion of easy-to-use apps, most notably from PayPal and its subsidiary Venmo has largely outpaced the traditional players. But the public is getting a taste of mobile wallet/P2P service in major banking as America's Big Four (JPMorgan Chase, Bank of America, Wells Fargo and Citigroup) introduce features related to the inter-bank P2P payment system "Zelle."⁹

⁸ [Millennial Disruption Index](#)

⁹ [Big banks look to Zelle to compete with Venmo et al](#)

Figure 25: What initiatives within these areas of innovation is your organization prioritizing? 1 through 5 ranking (1 = top priority, 5 = not a priority):

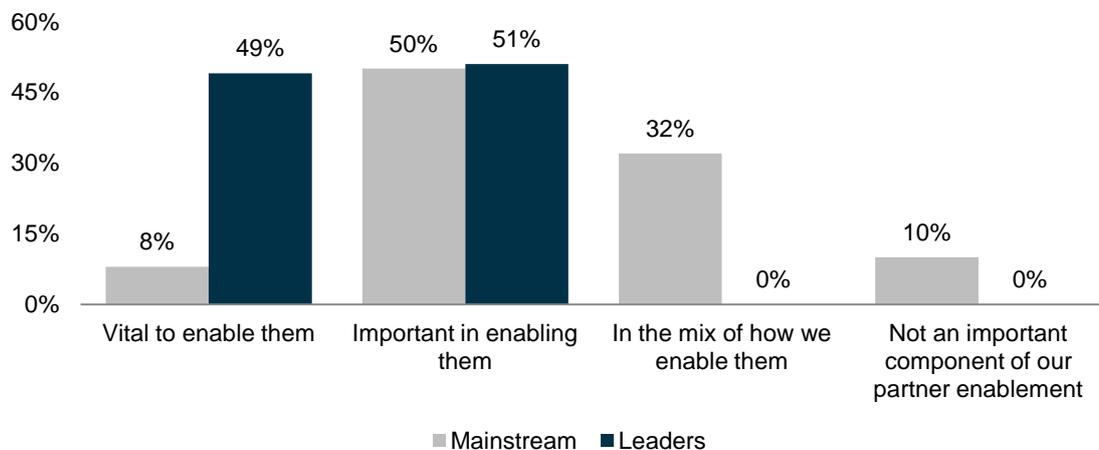


Respondents: 99

- **Financial management apps and tools** are one of few routes to customer loyalty and up-selling of services in a world where consumers assign less value to individual financial brands and more to self-service financial management. By giving customers new and better ways to access and analyze their own data and financial options, mobile and online technologies offer incumbents a way to efficiently expand their relationship with customers, offer a better experience and potentially access valuable related customer data. For example,
- The **branch of the future** will continue down the path toward automation and mobility. While they will retain human tellers for an ever-diminishing set of tasks and customers, their primary focus will be enabling self-service banking while finding ways to promote additional services. Their physical spaces will shrink as services are ported to digital screens, but their offerings will be increasingly personalized. The industry's focus on AI will play an important role in giving sufficient context to the individual banker's needs and experience.
- The ability to **share and manage data** with partners may be among the most important levers for growth in coming years. As first party data redefines the possibilities for personalization, the need to look beyond internal silos and even beyond the brands grows. Organizations that can bridge the gaps with complimentary brands and services will be able to add value to the relationship and the bottom line. Privacy laws and best practices are often cited as barriers, but as innovators have shown, a more seamless, valuable experience is possible and a differentiator.

Broker/Agent digital enablement

Figure 26: To what degree does digital play a role in enabling brokers /networks/advisors today?



Respondents: 140

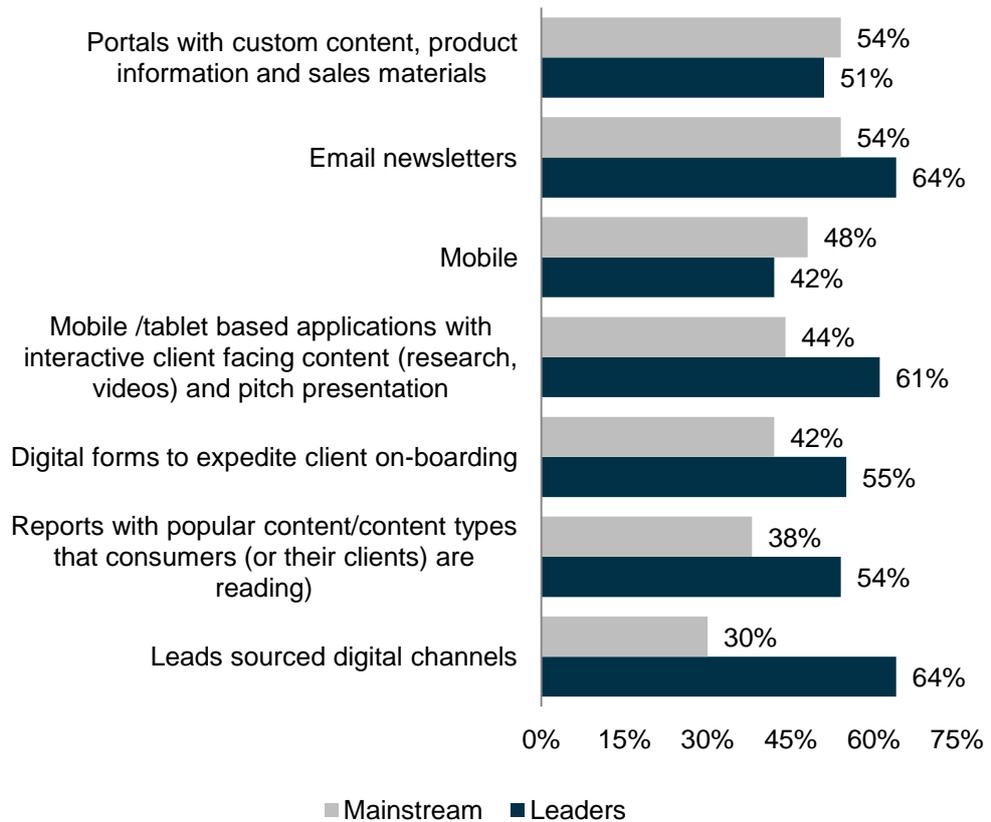
One area of stark difference between leaders and less progressive proponents of digital is their positioning of digital resources to empower and enable channel partners. All leaders describe digital as either *important* or *vital* in *enabling brokers/networks/advisors*. By contrast, only 8% of those in the mainstream deem it *vital*, and a large minority (42%) are lukewarm about digital's potential to help generate third-party revenue.

While it is important to have a balanced approach that does not disrupt tried-and-tested broker and partner approaches, particularly with their higher-value clients, this shows clear and significant room for expansion of digital's role in partner enablement.

Investment in this area has the potential to accomplish several key objectives;

1. Use data to drive insights into how customers behave, what they want and how to provide it.
2. Use digital tools to minimize rote work and reduce error rates in data entry.
3. Manage and distribute content to augment advisor offerings to clients.
4. Offer tools to help advisors learn best practice and new, relevant skills.
5. Quickly and accurately answer advisor questions about products, service, processes and any other information they need.

Figure 27: What digital methods do you use in enabling your advisor networks today and what are planned for 2017?



Respondents: 144

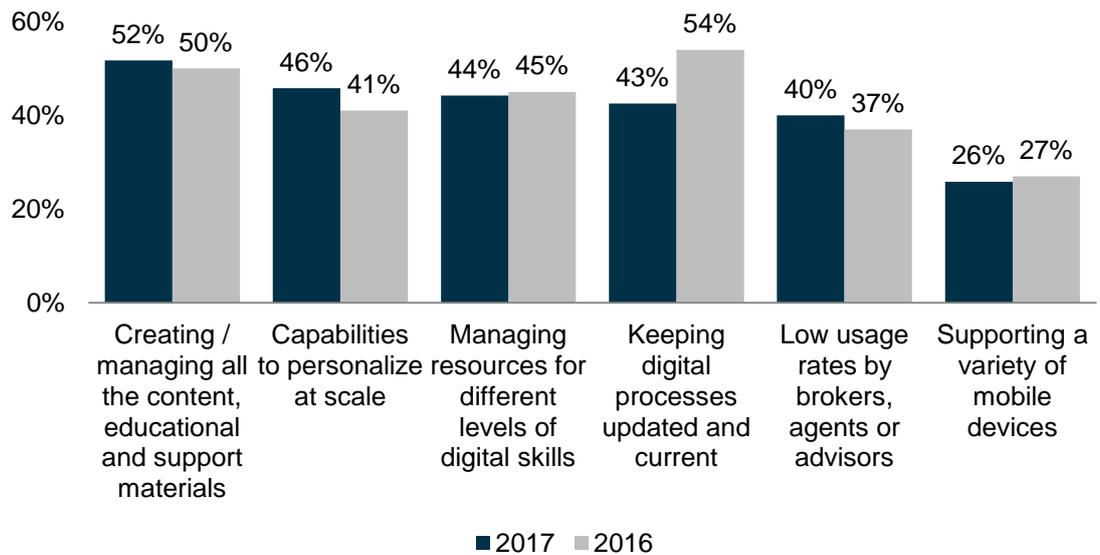
Figure 27 reveals some low-hanging fruit potential for financial service players to do more in partner enablement. Among respondents describing themselves as in the digital mainstream, only two (relatively basic) partner-focused programs have received investment by more than half of those surveyed – *email newsletters* and *portals with custom content*.

Even among digital leaders, there is by no means universal adoption. Only three programs – *email newsletters* (64%), *leads sourced through digital channels* (64%), and *mobile/tablet-based applications with interactive, client-facing content and pitch presentation* (61%), have received investment from more than six in ten respondents in this category.

Nonetheless, digital leaders remain more aggressive in most activities, and are noticeably ahead when it comes to supporting partners to advance clients through each stage of the purchasing funnel.

Despite relatively widespread use of *mobile* as a channel to enable partners, there is a 17-percentage point-gap between the proportion of more and less-digitally advanced companies when it comes to developing *mobile/tablet-based applications*. These apps can not only assist partners in eliminating paper work and data entry, but can also provide valuable data on how customers seek information and proceed through the buying process. Similarly, for use of *digital forms to expedite client on-boarding*, there is a 13-point gap. Most dramatically, there’s a 34-point difference in investment in providing partners with *leads sourced through digital channels*.

Figure 28: What are the challenges to using digital to enable your advisor networks?



Respondents: 160

Figure 28 shows growth in the confidence of financial service players regarding the workflow difficulties associated with enabling partners digitally. The highly demanding area of *keeping digital processes updated and current* had the highest ranking in 2016, in terms of challenges, but has dropped to fourth this year.

The challenges of *creating and managing all the content, educational and support materials* to support partners digitally remains a headache. This aligns with Econsultancy’s research which suggests that most content is significantly underutilized because so much emphasis is placed on publication at the expense of support and integration.

Enabling capabilities to personalize at scale, an area of major complexity, tied in with data quality availability, has risen as a difficulty financial service players are focusing on.