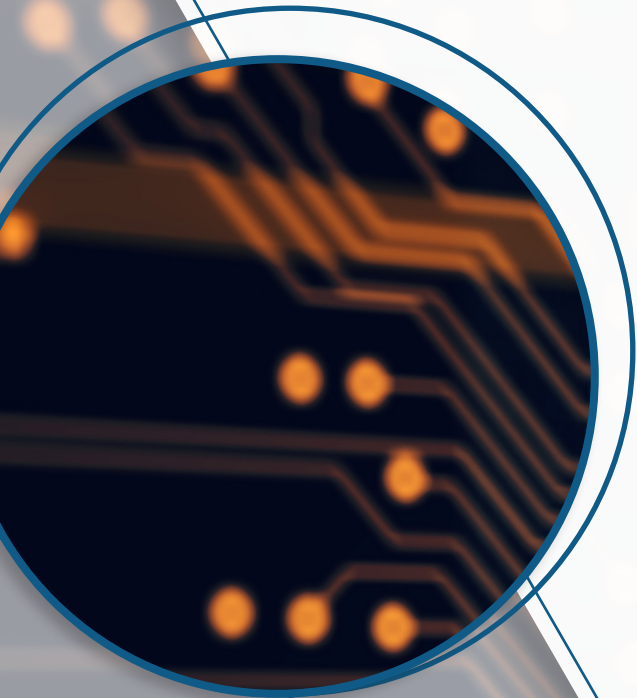




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Experience, Not Products, Is the Battleground for the Retail Banking Customer

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CLOUDERA

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About this paper

A Pathfinder paper navigates decision-makers through the issues surrounding a specific technology or business case, explores the business value of adoption, and recommends the range of considerations and concrete next steps in the decision-making process.

ABOUT THE AUTHOR



SHERYL KINGSTONE

RESEARCH VICE PRESIDENT
& GENERAL MANAGER - VOCUL

Sheryl Kingstone leads 451 Research's coverage for Customer Experience & Commerce, which covers the many aspects of how customer experience is a catalyst for digital transformation. She oversees the company's coverage of a variety of customer experience software markets spanning ad tech, marketing, sales, commerce and service.

Key Findings

- The financial services industry was one of the first to align around a digital culture, with organizations that embrace formal transformation strategies doubling over the last three years to reach a high of 60% embracing formal digital transformation strategies.
- Two-thirds of firms have seven or more silos of customer data, making data unification, privacy and security a complex and cumbersome process. This will only continue to remain a major point of contention as new types of devices and approaches are implemented to capture real-time information and consumer behavioral data, requiring new approaches and strategies.
- Well over three-quarters (84%) of firms are gathering a 360-view of the customer to understand intent and context. The use of prescriptive insight helps financial services firms build deeper connections, recommend next best actions and create more contextually driven experiences.

Engagement Demands Context

Significant market disruptions and the rising influence of the empowered consumer continue to exert pressures on the financial services industry, increasing demands for differentiated and consistent experiences across the entire consumer journey. Simultaneously, digital-native technology companies like Apple, Google and Amazon have emerged as new market entrants, changing the dynamics of the industry.

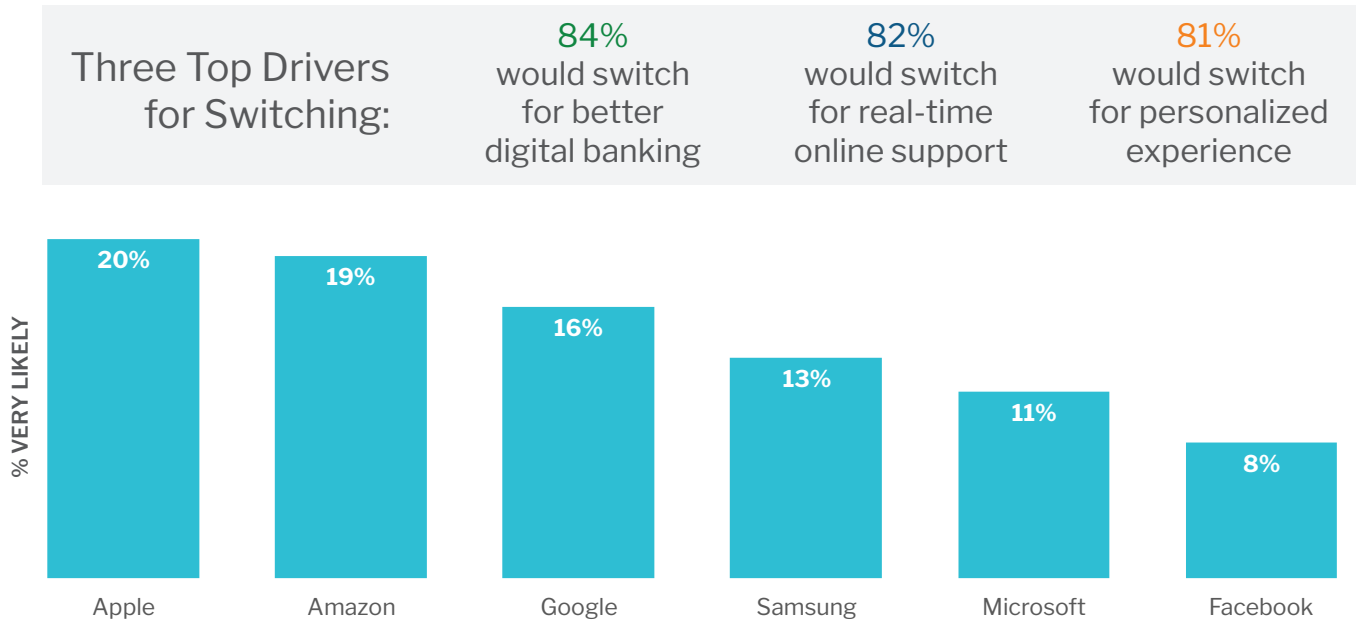
451 Research's Voice of the Connected User Landscape: Connected Customer survey shows latent potential: 20% of consumers stated they would be 'very likely' to use an online banking service from Apple if it were available, whereas 19% said the same for Amazon and 16% for Google. When we probed into the top reasons why these consumers would be willing to bank with tech providers, the 'promise of a better digital experience' ranked as a top-two factor. Across the board, the promise of a better digital experience has the power to lure consumers to switch providers. This makes it vital for existing financial services providers to invest in key digital experience improvements like providing real-time customer support online and personalization.

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Figure 1: Digital disruption in the banking sector

Source: 451 Research's Voice of the Connected User Landscape: Connected Customer – Consumer Population Representative Survey

Q: If any of the following technology companies launched an online banking service (e.g., savings/checking), how likely would you be to use it?



New entrants are shifting the competitive landscape, implementing new engagement models that emphasize loyalty building and retention. In effect, this is forcing an evolution of technology stacks and business culture toward enabling real-time, data-driven digital experiences. These digital-native businesses are capitalizing on the growth of data and new ways for people to engage, communicate and transact. However, a critical part of the feedstock powering these new digital experiences remains consumers' personal data and information. Yet, 31% of consumers are less trusting of businesses today than they were one year ago.

Data-Driven Experiences Require a Delicate Balance of Trust and Privacy

Nearly all (93%) consumers are somewhat to very concerned with businesses' ability to protect their personal data. Establishing trust and privacy is critical as consumers become increasingly aware of the value their personal data holds and demand greater agency over the ways in which businesses can access, store and manipulate their personally identifiable information. Striking a balance between emerging compliance requirements and consumers' trust and privacy concerns creates a fine line to walk. This will put pressure on the industry to make data privacy and security a core aspect of the digital consumer experience moving forward, with transparency and control paramount in their approach to business and IT innovation.

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The goal should be a more synergistic relationship between IT and lines of business, evolving to embrace and capitalize on this disruption. As the pace of technology innovation and competitive pressures increases, business leaders that ignore this new reality do so at their own peril. 451 Research has warned businesses for nearly a decade that **experiences, not products, are the battleground of the future**. It's essential to move beyond transactional relationships to meet heightening customer demands for convenience, context and control. Doing so is not a luxury, but a necessity for survival.

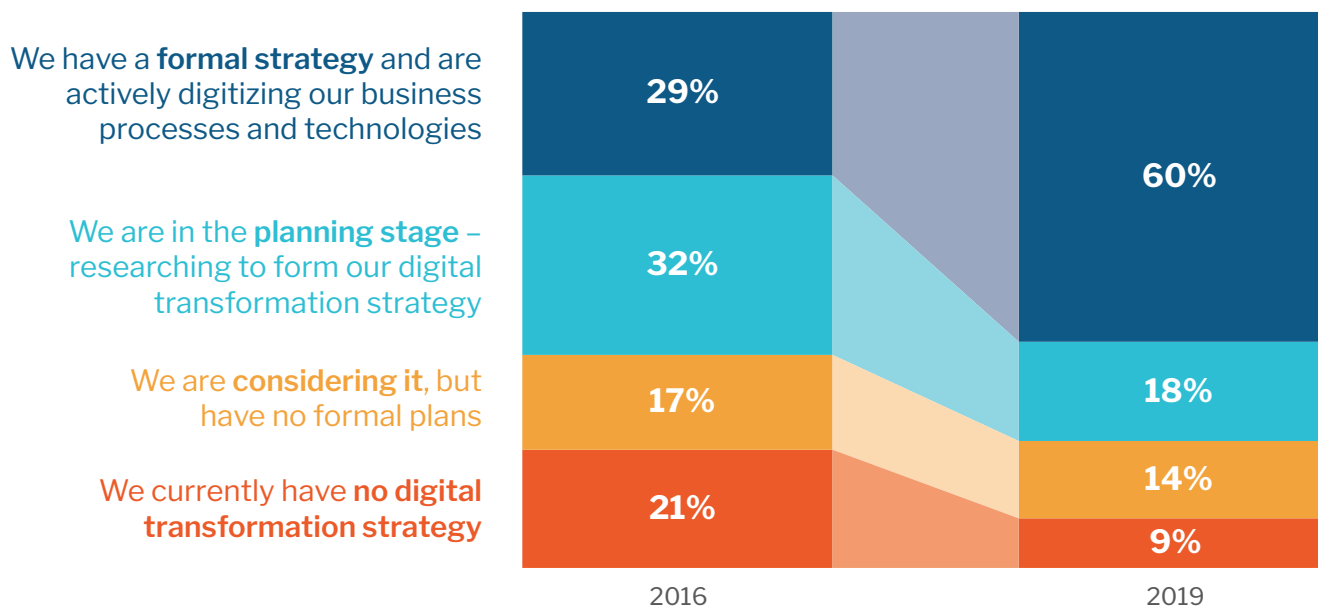
Delivering on the Experience Economy

A major maturation strategy of the data-driven experience economy is digital transformation. It is real, and it's happening. It is an inescapable truth that every business – especially those in financial services – is becoming a digital business, empowered by software. 451 Research defines digital transformation as the result of IT innovation that is aligned with, and driven by, a well-planned business strategy, with the goal of transforming how organizations serve customers, employees and partners; support continuous improvement in business operations; disrupt existing businesses and markets; and invent new businesses and business models.

The goal for organizations is to invest in new approaches to remain relevant in the eyes of their customers. Figure 2 shows that the financial services industry was one of the first to embrace a digital culture; the number of organizations that have adopted formal transformation strategies has doubled over the last three years.

Figure 2: Strong shift in financial services' formal digital transformation strategies

Source: 451 Research's Voice of the Enterprise: Customer Experience and Commerce, Digital Transformation Q2 2019



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Over the years, improving the customer experience has remained the top driver for digital transformation, making it critical to understand where businesses are making investments in new digital technologies and improved processes to more effectively engage customers, partners or employees across sales, marketing, support and commerce functions. As the sheer number of digital endpoints and channels explodes, the complexity for businesses also skyrockets.

Data Remains at the Heart of Creating Unified Customer Experiences

Financial services providers need to not only capture and unify disparate sources of consumer data, but they also need to effectively contextualize and operationalize the information so they can push critical insights across channels and the various organizational stakeholder groups that have a hand in shaping the customer experience.

The desire for an omniscient, multi-channel view of consumer behavior and intent is driving investments to deliver the optimal customer experience, but the coveted 360-degree consumer view remains out of reach for many. Two-thirds of firms have seven or more silos of customer data, making data unification, privacy and security a complex and cumbersome process. This will remain a major point of contention as organizations implement new devices to capture real-time information and consumer behavioral data, requiring new approaches and strategies for handling it.

Figure 3: Barriers: data silos, data governance and legacy systems are ongoing concerns

Source: 451 Research's Voice of the Enterprise: Customer Experience and Commerce, Digital Transformation

Q: How many customer or prospect data sources does your organization use today (e.g., spreadsheets, ERP, CRM, SFA, marketing applications, email, data warehouses)?

Q: In your opinion, what are the main barriers to digital transformation?



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When looking at the barriers hindering digital transformation efforts, we see significant organizational and resource constraints. Digital transformation requires investment in and adoption of new technologies, so it is no wonder that top growing pains are a combination of technology-centric and organizational constraints. These include the potential failure to secure sensitive data, the complexity of legacy applications, interdepartmental silos and a lack of talent. With the rapid changes in the technology landscape, businesses require new skillsets, especially for newer cloud-native technologies, machine learning and AI modeling, as well as data governance specialists.

The abundant growth of data along with regulatory compliance demands and rising consumer privacy constraints have shifted the landscape for achieving a unified view of customer data. It is now not enough to simply manage transactional data; organizations need to adopt mature data governance initiatives. As the universe of what is 'knowable' about customers expands, technologies evolve to help businesses garner the most value from the data to improve customer experiences and business decision-making.

Why Now? Experiences, Not Price or Products, Will be the Differentiator

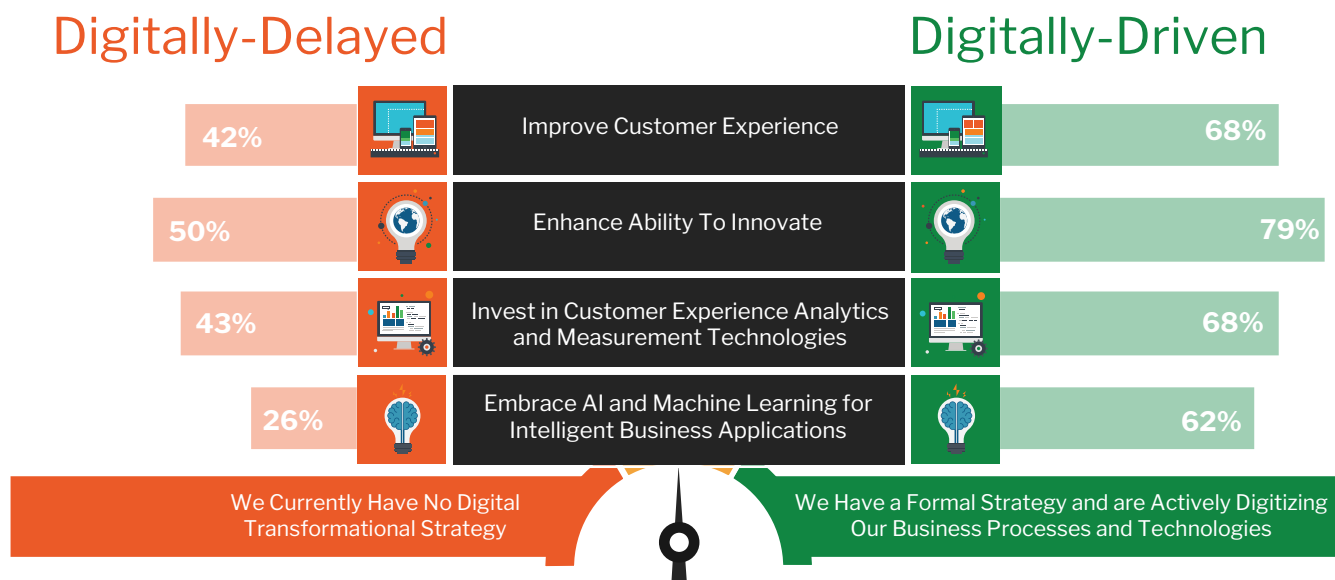
As today's empowered customers are constantly bombarded with information, they ultimately decide what they want and how they want it – thus dictating the terms of engagement with businesses to a much greater degree than was previously possible. As firms continue to make a digital culture central to their organization, they need to invest in new business models and technologies to address customer demands for faster credit decisions, improved risk modeling/ fraud detection and better cross-sell opportunities.

The goal is to flip the value proposition on its head from being product-focused toward offering personalized experiences. Our data in Figure 4 shows that digitally driven organizations are leapfrogging their less digitally mature counterparts. Digitally delayed organizations tend to have approaches that are tactical and operational in focus, compared to more forward-thinking companies that embrace digital technologies with an eye fixed on transforming their business.

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Figure 4: Maturity matters: Don't get leapfrogged

Source: 451 Research's Voice of the Enterprise: Customer Experience and Commerce, Digital Transformation



As firms embark on digital transformation initiatives to improve the customer experience and enhance their ability to innovate, many are prioritizing new technology investments on ways to capitalize on the explosion of data from intelligent devices. This finally makes it possible to create personalized experiences, augmented by real-time context and customer preferences.

As organizations invest in new technologies to become data-driven in the experience economy, benchmarking and understanding digital maturity are critical. Tools that synthesize the data from various sources across enterprises are starting to provide insights into moments of influence, enabling faster and more personalized interactions with customers. New AI and machine learning technologies are driving the largest wedge between digitally driven vs. digitally delayed organizations, with a 36 percentage-point differential. Harnessing the power of data is essential for businesses as they capitalize on improving the customer experience.

Improving the overall customer experience consumes an enormous amount of organizations' labor and technology resources, but it becomes relevant at influential moments in the customer relationship. Customers demand easy access to financial information and require the most relevant and timely information. Well over three-quarters (84%) of digitally driven institutions want to embrace new customer engagement tools to respond quicker to customer inquiries. The use of prescriptive insight helps financial services firms build deeper connections with customers, recommend next best actions and create more contextually driven experiences. But to scale customer service, financial service companies need to shift as many customer interactions as possible to automated systems and reserve expensive live agents for more complex interactions. Virtual assistance technology and conversational interfaces provide a new avenue for businesses to meet customer expectations while lowering the cost to serve.

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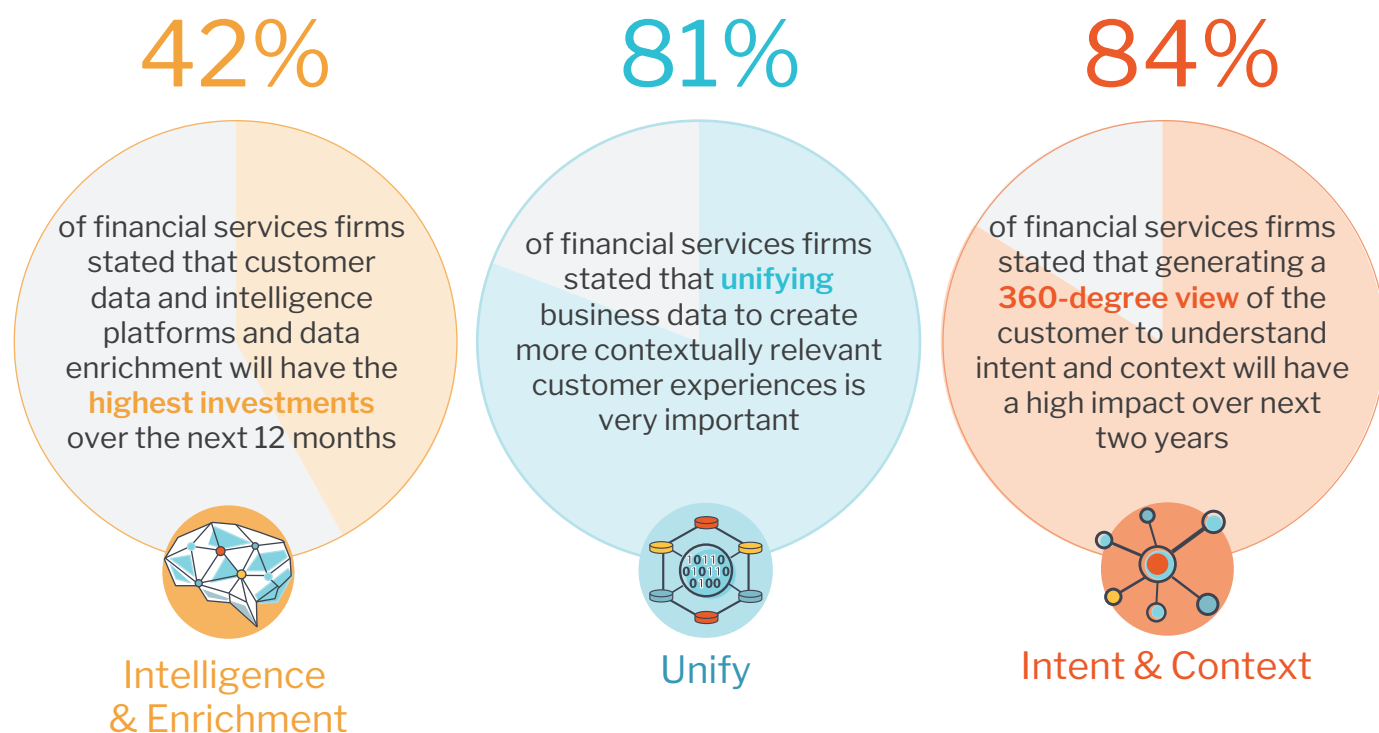
Experience Economy Transformation Demands a Modern Data Platform

It's virtually impossible to plan for all potential customer journeys because each is a nonlinear, self-directed set of interactions. Businesses can use facets of the journey, if tracked, as influencing factors in digital interactions. The data improves algorithms that factor in overall intent, resulting in greater relevance and effectiveness. Figure 6 shows that 42% of firms said that customer data and intelligence platforms will have the highest investment over the next 12 months.

The old model for building experiences was to create one story – a basic customer journey – and hope that millions of people read or experience it. Now, thanks to machine learning and deep learning within new digital platforms, firms can create millions of unique stories and customer journeys tailored to an audience of one – the essence of the ultimate contextual experience. More than three-quarters (84%) of firms are unifying data to improve intent and context with the goal to foster interactions between a firm and a customer, augmented by rich sources of real-time information, delivered in the right format and at the right time.

Figure 5: Modern data platforms are key to enriching the customer experience

Source: 451 Research's Voice of the Enterprise: Customer Experience and Commerce, Digital Transformation



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The most meaningful (and ultimately profitable, for those that provide them) experiences will be informed by data-driven context clues, which will only increase in number as the amount of available data – especially unstructured data – proliferates. This will continue to accelerate with the growth of new types of connected devices capturing unprecedented volumes of behavioral data.

Hybrid Access to Data in Real Time

Firms must do more than create a single view of the customer: they need to add a layer of data governance, synthesis and identity, which powers a dynamic customer graph to fulfill the vision of improving experiences. New data platforms go a step further than past approaches by applying contextual AI to synthesize data using an optimized mixture of matching techniques, converting raw data into relationship discovery, leveraging graphs and real-time streaming.

As a growing volume of data originates in the cloud, firms are exploring alternative approaches to potentially leave the data where it's sourced or take a hybrid approach that combines private and public cloud. Today, 35% of firms have mostly on-premises infrastructure with some cloud-based services managed by IT. The majority (65%) are moving toward more cloud deployments, which means that more firms will require hybrid strategies.

The importance of cloud applications is very significant. Achieving greater agility, time to market and efficiency are significant drivers for the adoption of cloud. This provides not only flexibility for growth, but also a key advantage to pivot as business conditions change.

However, there is a 24-point gap between digitally driven organizations and firms that are digitally delayed with respect to prioritization of cloud strategies. Organizations that are optimizing for business agility are replacing legacy on-premises technologies with SaaS and even multicloud deployments. As they do so, firms will want to operate in a hybrid environment with transparent data architectures.

The benefits of a more modern cloud infrastructure include the ability to scale and use resources more cost-effectively, as well as collaborate across departments for multiple customer analytic use cases. Automated reasoning helps firms make inferences and enrichments on each customer profile and helps customer service and marketing users predict customers' actions, such as the likelihood to switch, their propensity to buy products and services, and their proximity to the closest branch, if necessary. It provides a deeper understanding of individual customer journeys and unique interactions. That information combined with transactional information helps organizations understand and improve the customer experience.

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Top Use Cases Driving Investment and Results

Today, customers experience a wide variety of service levels across different channels and often find themselves caught amid inter-departmental handoffs, which creates friction points in the customer journey. As financial service firms grapple with finding the best way to offer a personalized experience using a privacy-first approach, customers can get inundated with data and notifications for complex products and services.

Figure 6: Top five use cases driving investment in financial services

Source: 451 Research's Voice of the Enterprise: Customer Experience and Commerce, Digital Maturity



Use cases are intermingled because the financial services industry faces multiple challenges, including regulatory compliance constraints, complex customer journeys and real-time insight for marketing. However, to earn trust and improve the customer experience, firms must:

- **Ensure regulatory compliance:** Ensuring privacy has become a critical requirement for firms to earn and maintain the trust of their customers. Because data privacy, security and risk are now interdependent, modern platforms must provide speed, agility and embedded privacy to process unstructured data and run real-time analytics. At the same time, they must have heightened data security to meet the high governance standards and stringent data security regulations of the financial services industry.
- **Offer intelligent real-time personalization and targeting:** Organizations should use data that addresses customer desires on a more personal level for loyalty and retention. This will give small business banking sales representatives better insight into customers and prospects. Firms must create real-time 360-degree profiles of consumers from both structured and unstructured data – i.e., current products, call history, social information – for understanding sentiment and tracking life-changing events such as mortgages, refinancing and marriage.

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- **Optimize customer journey to reduce friction:** This means delivering relevant experiences and uncovering hidden insights that provide context to personalize the experience. Organizations can navigate in-person experiences or institute a completely automated process. Regardless of the channel or context of the interaction, the ability to navigate micro-moments and adjust accordingly based on the language, tone and content of the conversation is the difference between strategies of the past and requirements of the present and future.

Many financial firms are prioritizing data-driven experiences across departments and business units such as wealth management, commercial lending and retail banking. For example, one firm's critical requirement was to link real-time data streams to identify thousands of new corporate customer prospects and reduce capital expenditures by \$3.2m. The organization combined more than 40 million customer records using streaming transaction data; 10 years of historical data led to greater personalization and real-time relevance, which improved the customer experience. Now, the firm can engage with customers at the right moment – by identifying the need for real-time assistance with a loan application, for example, or identifying a life situation that requires proactive outreach for loan payment options to help ease the stress.

Another institution leverages machine learning to benefit customers directly by providing personalized services – such as proactive reminders for payments based on the context of a wire transfer for a rent or school fee payment, which includes important details such as the remitter, the beneficiary, the amount and the duration. The bank built a neural-network-based transaction-purpose model that classifies the purpose of customer transactions with the true intent to offer unique friction-free digital experiences.

With increased competition, time to market is also essential. Another large firm needed to respond quicker to support customers with new differentiating products and services. It also needed to identify and prevent financial dilemmas, such as loan repayments, by detecting warning signals in the extremely early stages before default. By using real-time datasets, machine learning and financial modeling, the bank was able to gain immediate customer insight and solve problems proactively, as well as shorten time to market of new services.

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Conclusions

For the industry to effectively compete in the data-driven experience economy, firms must capture and analyze data so they can understand their customers, predict customer intent, and then act swiftly to fulfill customers' needs. Firms also need to recognize patterns, comprehend ideas, plan, predict, solve problems, identify actions and make decisions on a grand scale. Executing on business transformation demands new investments in new digital platforms.

The customer experience has been redefined from a transactional relationship into a more nuanced relationship between humans and the automated systems and devices used to engage with the world. Heightened demands for context, convenience and control in all customer interactions require companies to invest in new digital platforms that can optimize the customer experience in real time across the entire customer journey.

CLOUDERA

Financial services providers are reinventing their data management and analytics strategy— leveraging real-time data, streaming analytics, and machine learning to better understand and serve their customers. Cloudera offers financial services organizations an enterprise data cloud powered by the *Cloudera Data Platform* (CDP) to manage the end-to-end data lifecycle, collecting raw data at the source and driving actionable insights to enhance the customer experience. Learn more about using data to transform financial services to a customer-centric business [here](#).

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**NEW YORK**

55 Water Street
New York, NY 10041
+1 212 505 3030

**SAN FRANCISCO**

One California Street,
31st Floor
San Francisco, CA 94111
+1 212 505 3030

**LONDON**

20 Canada Square
Canary Wharf
London E14 5LH, UK
+44 (0) 203 929 5700

**BOSTON**

75-101 Federal Street
Boston, MA 02110
+1 617 598 7200