

The Battle for CX: Essential Traits of a Digital FSI Leader

Firms report progress with digital transformation, but many hurdles remain

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Summary

In brief

Ovum, in partnership with Adobe, interviewed 300 financial services firms in the US, Europe, and Asia-Pacific across the retail banking, insurance, and investment sectors in January 2019 to determine their level of involvement and progress toward digital customer engagement. The survey was also intended to pinpoint the hurdles that block progress and anticipated outcomes from investments. The following is the output from the survey, which examines the enabling connected journeys being made by integrating the institution end-to-end through connected data, technology infrastructure integration, and organizational transformation.

Ovum view

The customer experience (CX) battleground is won through connected enterprises and digital customer experiences. In an increasingly connected world, a synthesized approach to customer engagement is more important than ever for enterprises to adapt to the shift in engagement and consumption as well as to unify customers' offline and online experiences on an individual level.

Today's consumers expect contextual and fluid interactions with the brands with which they do business. Amazon, Facebook, and Netflix have conditioned the population to expect always to see personalized content. In turn, that has created an individualization imperative; brands that are not doing this are going to disappoint their customers and prospects.

As in many other sectors, in the financial services industry (FSI), many firms remain hampered in delivering a consistent and unified customer experience. The top challenge facing FSI firms, according to this research, is the ability to engage across all relevant communications channels in a relevant and personalized fashion. That is followed by a lack of integrated and shared data across the enterprise and an inability to break down silos that prevent a holistic view of customers.

Many gaps exist in today's multistep, multipath customer journey that prevent firms from fully seeing and understanding customers' complete journeys and therefore from connecting the dots on specific digital campaigns or messaging intended to drive offline behavior and vice versa. Stitching those pathways together to gain a holistic understanding of customers' transactions and their behaviors – both online and offline – and what prompted specific transactions is integral to providing proactive and relevant engagement and offerings to customers.

Therefore, staying relevant in a constantly changing business environment means that IT must deal with the challenges of continuous development, deployment, and integration. Ovum believes there are four primary requirements for creating continuous digital enablement: agility, speed, experimentation, and adaptability. An absence of these characteristics is often the result of complexity of legacy systems, gaps in communications across organizations, a lack of tools to personalize engagements, a lack of long-term vision, marketing automation platforms that do not deliver individualized expectations, and a culture that opposes experimentation. Without these capabilities, enterprises face digital limitations.

This white paper summarizes these challenges, highlights the strategies that digital leaders are taking, pinpoints areas for planned investments, and describes the progress made toward digital adoption in financial services.

Key messages

- In financial technology (fintech), customers' evolving needs threaten laggards.
- Firms are unable to connect with customers across channels in relevant ways.
- Investments in engagement with millennials and generation Z must be ongoing.
- Problems plague current digital marketing systems.
- Supporting a digital experience is becoming a top priority.
- Firms are planning heavy investments in artificial intelligence (AI).
- Data is becoming a top focus.
- Digital investments are still in the early stages.
- Investments may be too little, too late.
- Senior-level support is lacking.
- Firms must adopt a centralized structure for digital marketing.

Meeting customers' needs in a digital world

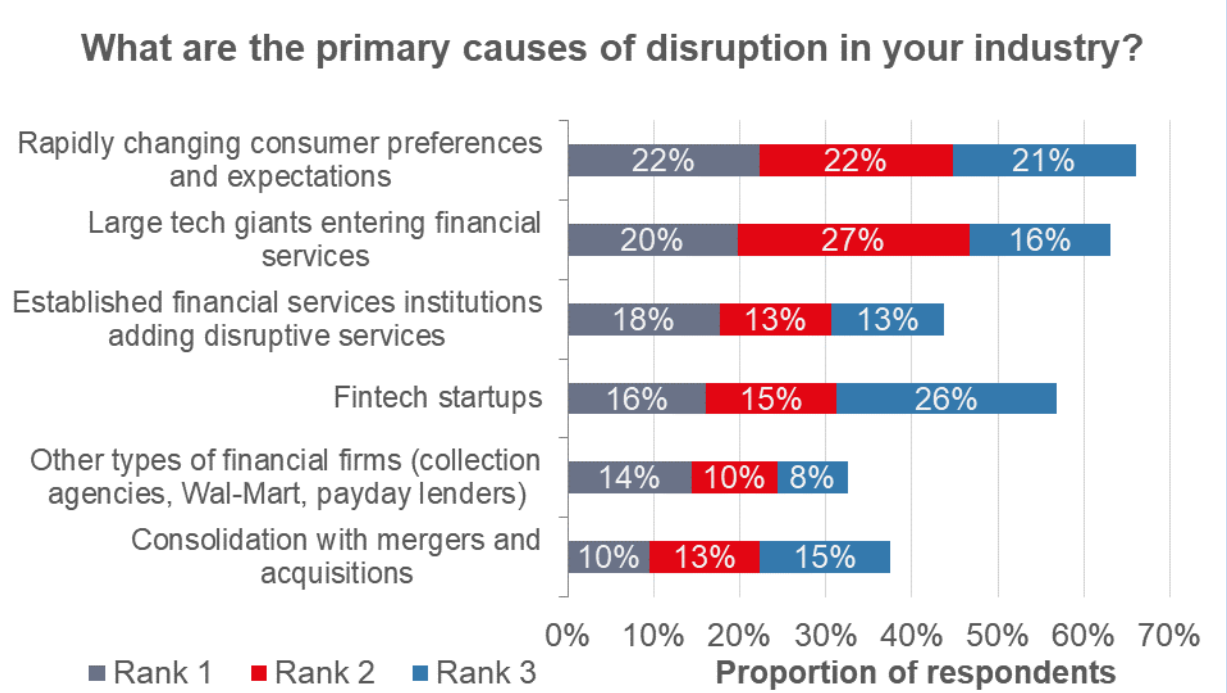
Customers' evolving needs are a primary source of disruption

In financial services, disruptors are often fast-moving companies focused on delivering innovative technologies that automate or process everything from mobile payments to mortgage lending. Today's disruption comes from a variety of sources, including tech giants such as Apple and Amazon, fintech companies, and established players that are successful in meeting customers' needs and demands by expeditiously investing in digital technologies that enable frictionless experiences.

In fact, 18% of respondents said "established institutions adding disruptive services" is the primary source of disruption (see Figure 1), with 22% of insurance companies, 21% of investment firms, and only 11% of retail banks citing it as the leading cause of disruption.

Competition has also shifted to fintech and large tech giants: 16% of respondents cited fintech as a primary source of disruption. This year's survey also reveals a greater concern over customers' evolving needs, with 22% citing it as their top concern: 25% of retail banks, 22% of investment firms, and 20% of insurance companies.

Figure 1: Disruptive services at established players threaten competition



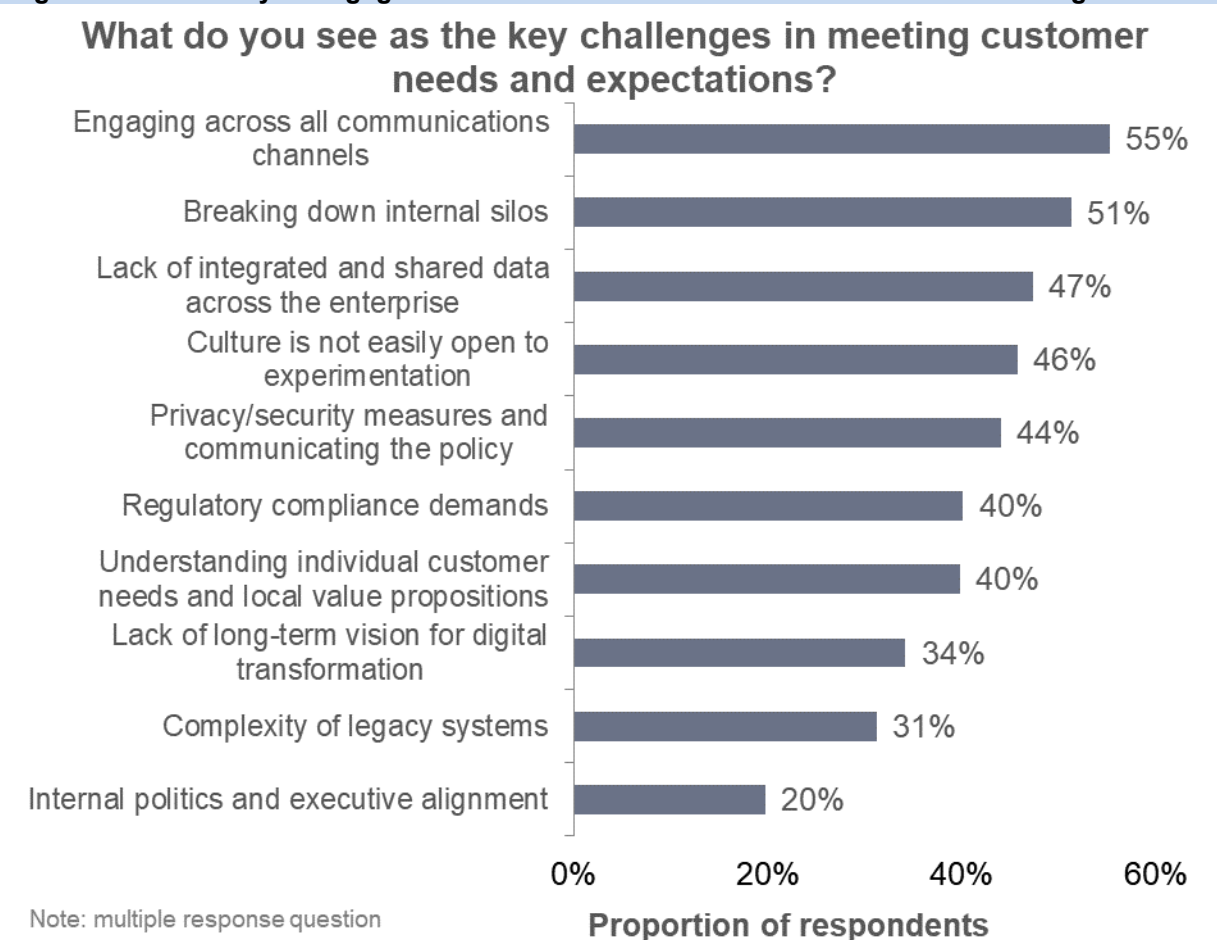
Source: Ovum and Adobe

Firms unable to connect with customers across channels in relevant ways

There are many business challenges that prevent firms from meeting customers' needs, from cost containment to complexity of legacy systems. The top challenge facing FSI firms, according to this survey, is the inability to engage across all relevant communications channels in a meaningful and personalized fashion, with a surprising 55% of respondents reporting they are unable to seamlessly engage (see Figure 2). Of the respondents, 58% of investment firms reported this as a main challenge, followed by 56% of insurance companies and 52% of retail banks.

That was followed up by an inability to break down silos that prevent a holistic view of customers (51%). Rounding out the top five were a lack of integrated and shared data across the enterprise (47%), a culture that is not open to experimentation (46%), and inadequate and poorly communicated security and privacy measures (44%).

Figure 2: An inability to engage with customers across channels is a critical challenge



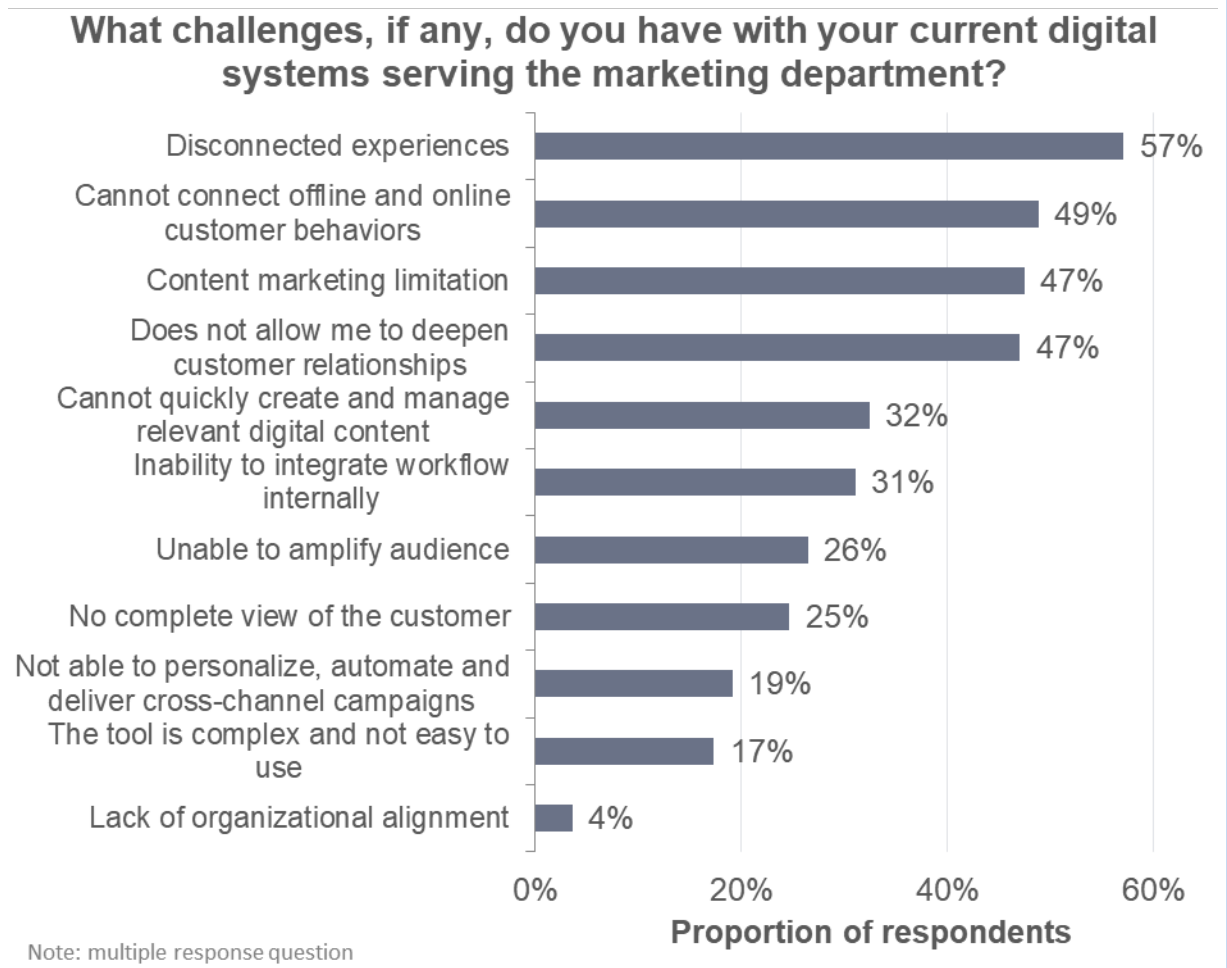
Source: Ovum and Adobe

Problems plague current digital marketing systems

An inability to connect with customers in relevant ways across multiple channels often occurs when the customer experience or digital marketing platform in place does not span the enterprise. Dynamic orchestration of content, knowledge, responses, and timing requires intelligent automation based on predictive analysis of data. This demands a high level of customer data integration of historic transactional information from customer relationship management (CRM) and back-office systems and contextual data gleaned from customer interactions in real time and augmented with relevant third-party data. To trigger the right response and deliver continuity and consistency of experience, customer interaction data must persist across all the channels customers use during their many and diverse customer journeys.

The survey's results point to a schism in customer experience management/digital marketing systems that prevents connected experiences from happening. This inability to connect experiences and insights is likely a contributing factor to firms' inability to connect with customers in meaningful and personalized ways across channels. In fact, 57% report disconnected experiences as a main challenge resulting from their current marketing system (see Figure 3), while 49% have difficulty connecting online and offline experiences, 47% report not being able to deliver relevant content, and another 47% said their next-best offers do not deepen the customer relationships.

Figure 3: Many current digital engagement systems do not support connected experiences

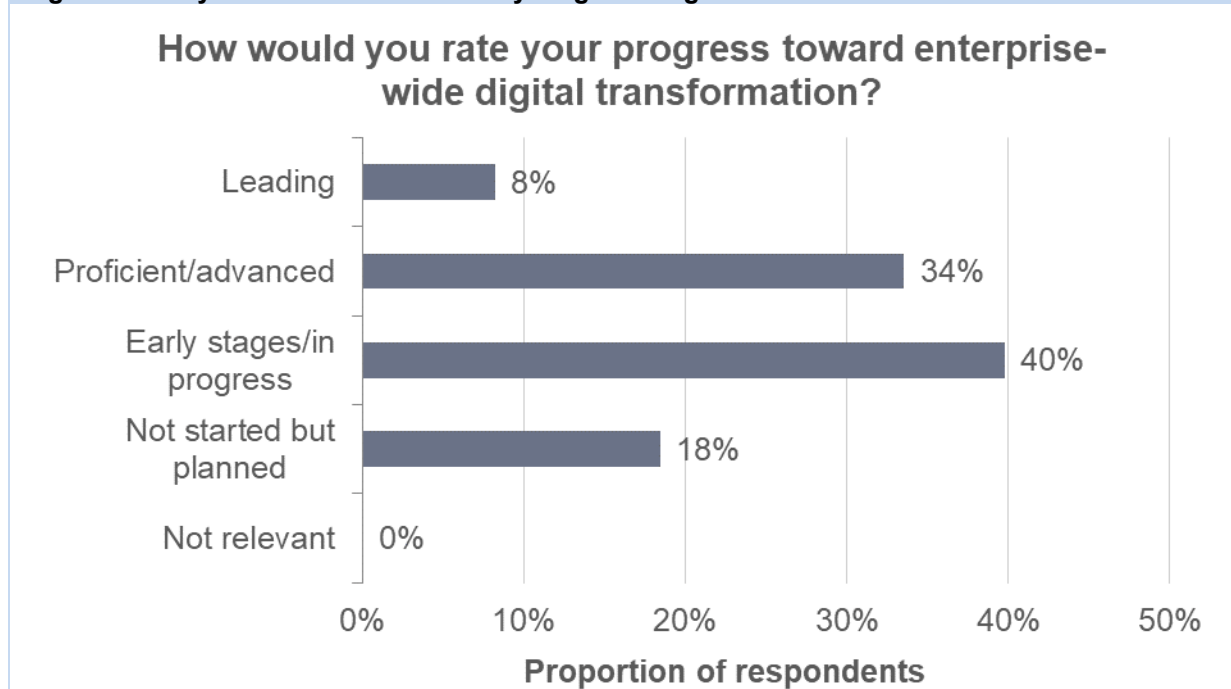


Source: Ovum and Adobe

Most digital investments remain in early stages or are not yet started

Despite the realization that technology can help firms connect customer experience and therefore serve customers better and bring competitive advantage, 40% report remaining in the early stages of enterprise-wide digital transformation (see Figure 4). Only 34% said they are proficient in digital transformation, and 8% said they are leading. A sobering 18% have not started their digital transformation initiatives.

Figure 4: Many firms remain in the early stages of digital transformation



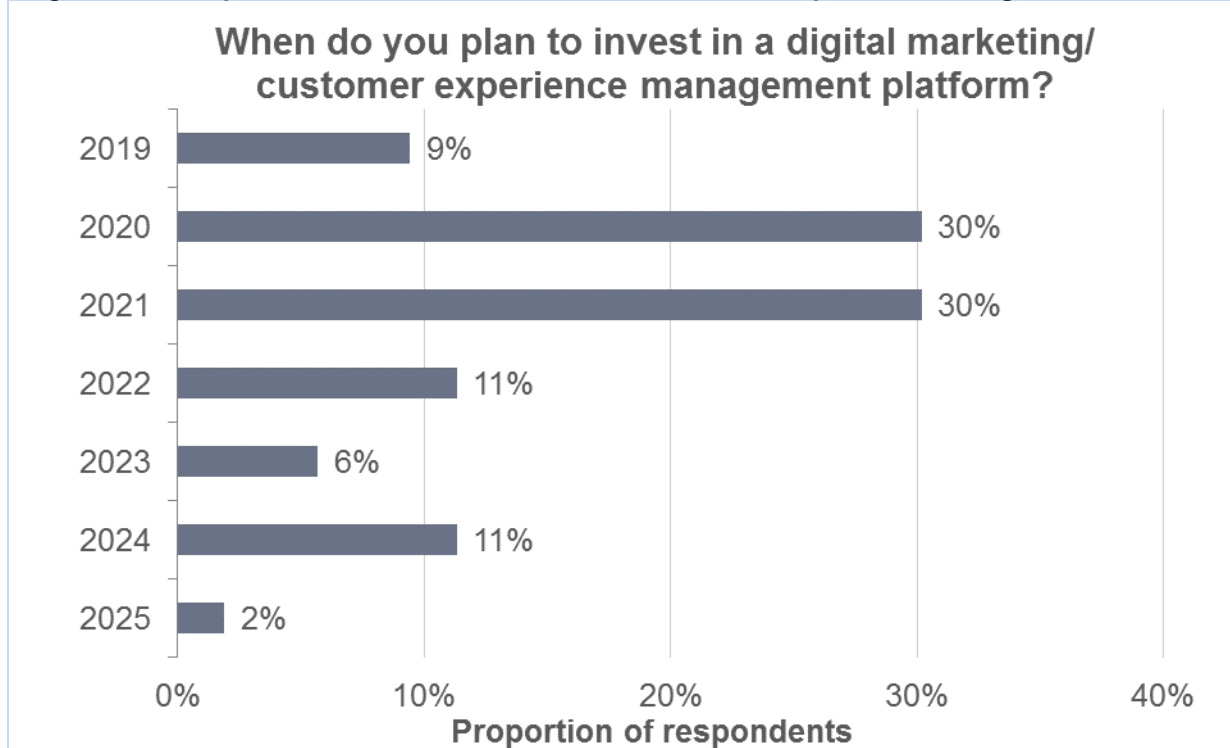
Source: Ovum and Adobe

CX investments on the long-term roadmap: too little, too late?

Faster adoption of digital tools is critical if finance is to deliver on its key mandates such as driving growth while holding down costs. It is therefore promising to see that 63% said they plan on investing in new digital marketing systems. But 30% plan to wait until 2020 to invest in a digital marketing/customer engagement platform, although 100% of the leaders said they will invest by 2020. Further out, another 30% plan to wait until 2021 (see Figure 5), 11% plan to make investments in 2022, 6% in 2023, 11% in 2024, and 2% in 2025.

Retail banks will invest the most in the interim, with 45% reporting planned investments in 2020, while 23% of investment firms and 39% of insurance companies will make most investments in 2021.

Figure 5: Firms plan to wait until 2021 to invest in customer experience management



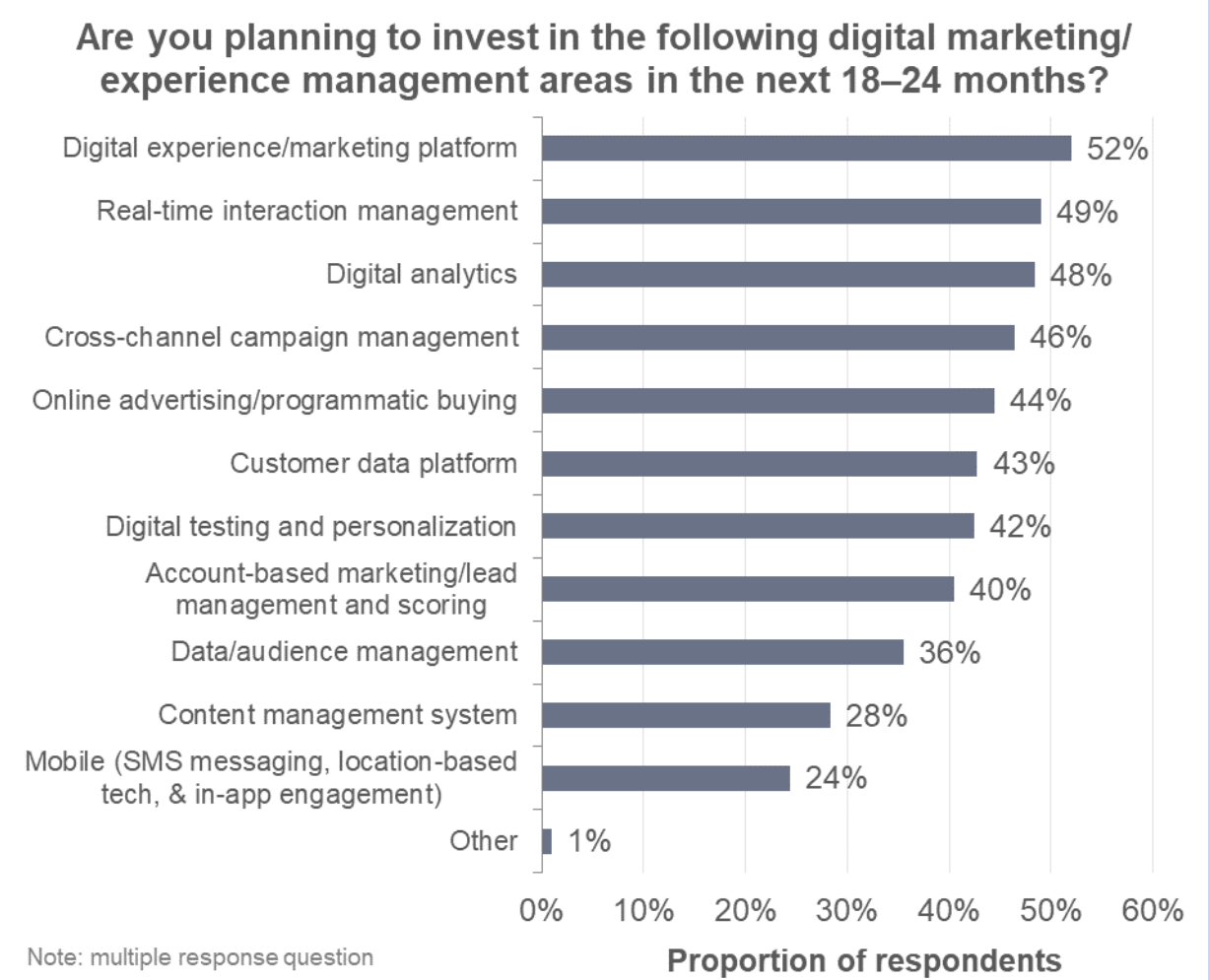
Source: Ovum and Adobe

With increased competition, growing customer needs, and rapidly evolving technology, financial services enterprises must focus on reinventing their business and operating models through digital transformation. A "fail fast" philosophy that embraces a lot of little product experiments, with the idea that some will work and grow and others will fail and die, may be necessary to stay competitive.

Firms prioritize enabling a digital experience

Despite slow investments in customer experience management, unlocking the value of digital transformation is emerging as a strategic imperative for the enterprise in 2019. Investing in a digital experience/marketing platform is finance's top enterprise objective (52%), and 44% of the leaders said they plan to invest in this, with 54% of those who are proficient also planning to invest. This is closely followed by enabling real-time interaction management (49%) and digital analytics (48%) (see Figure 6). The goal of the analytics focus is to enable finance to more effectively provide critical insights so that management can make smarter decisions about investments and capital allocation.

Figure 6: Investing in digital experience marketing is a top objective for 2019

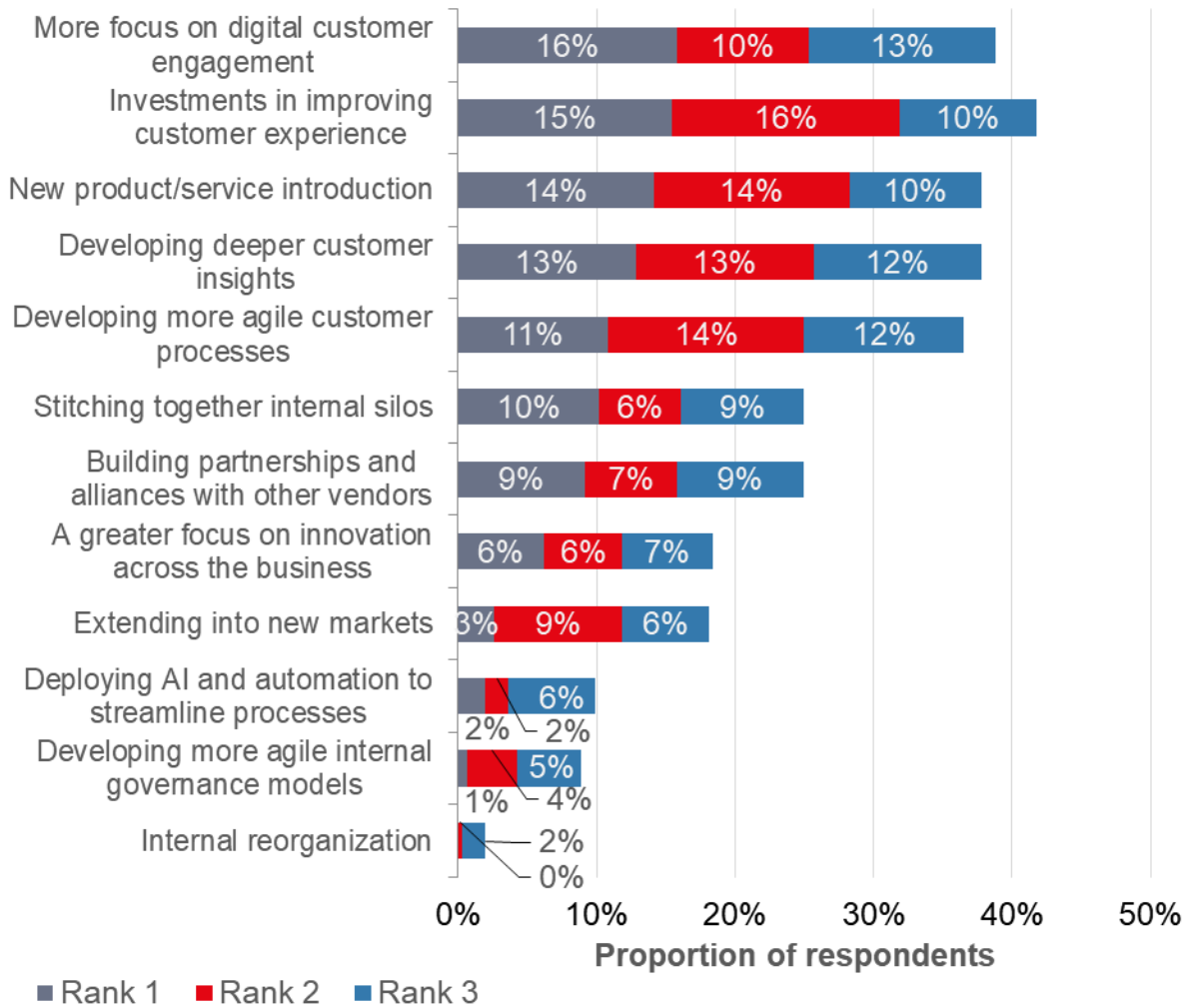


Source: Ovum and Adobe

Many want to counter the threats shown in Figure 1 and meet customer needs through a range of strategies. Financial services firms will set their primary strategic response on developing more digital engagement (16%) (see Figure 7), which differs from last year's top response, which saw firms developing new products and services. This year, 24% of leaders will focus on digital customer engagement as their top competitive response, and 14% of those who are proficient will do the same. Also, 15% said they plan investments to improve the overall customer experience, 14% will launch new digital offerings, 13% want to develop deeper customer offerings, and 11% want to develop more agile customer processes.

Figure 7: Firms will focus on digital customer engagement as their top competitive response

What are the three most important strategic responses your company is undertaking to counter competitive threats and rising customer expectations?



Source: Ovum and Adobe

Firms plan heavy investments in AI

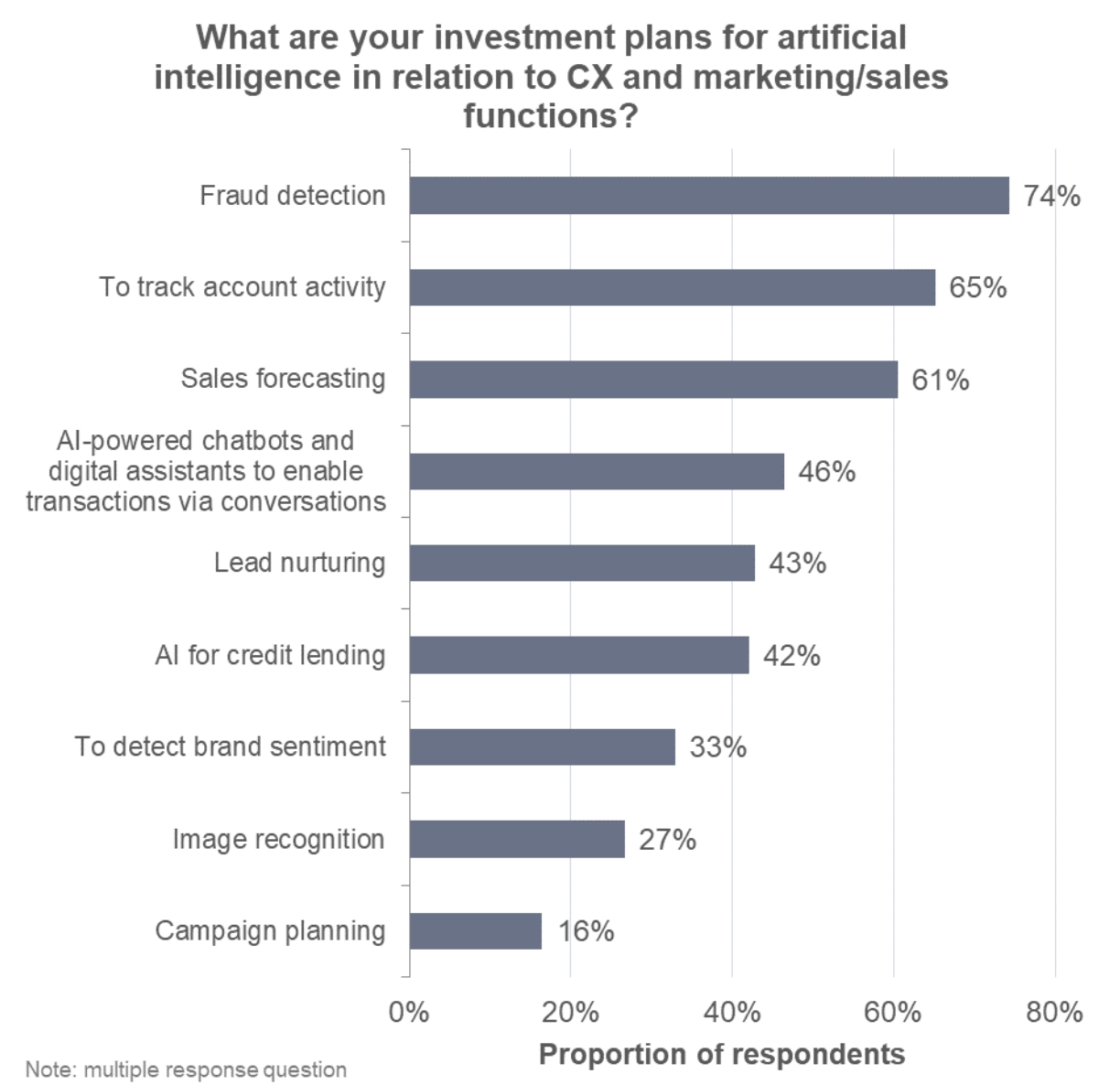
Ovum believes providing such effortless experiences through digital assistants and AI-powered conversational interfaces will become paramount, because they will continue to emerge as the next competitive battleground.

Financial services enterprises especially believe that AI will play a key role in bridging that digital gap and bringing individualized experiences lower into the funnel. Consequently, as machine learning technology continuously improves, AI will become decidedly mainstream. Nowhere is this more apparent than in marketing, where AI is becoming a virtually indispensable tool. The respondents in this survey who report being leading and proficient in their digital efforts are applying AI to use cases that extend beyond fraud detection and sales forecasting to improve the customer experience. Of the leaders, 40% reported using AI-powered digital assistants to track conversations, while 52% of

proficient respondents also use them. And 52% of those who are proficient said they plan to invest in AI to advance the customer experience in 2019, whereas 40% of the leaders plan to do the same. The percentage of leaders is likely lower than those who are proficient, because many already have them in place.

Firms have deployed AI to detect fraud and to track account activity for the past several years, so it is not surprising to see 74% overall plan investments in AI to counter fraud, and 65% want to invest for the purpose of tracking account activity (see Figure 8). Using AI-powered digital assistants and chatbots to enable conversations between customers and brands is a relatively newer strategic initiative, therefore the fact that 46% of respondents plan to invest in AI for such purposes is somewhat unexpected.

Figure 8: AI is most often used for fraud detection and tracking account activity



Source: Ovum and Adobe

The AI revolution in marketing has been spurred by the influx of affordable and accessible advanced data analytics tools (typically based on machine learning methods); the availability of increasingly rich, connected, and extensive datasets; and a growing acceptance among marketers of the potential power of automated, data-driven approaches to marketing decision-making.

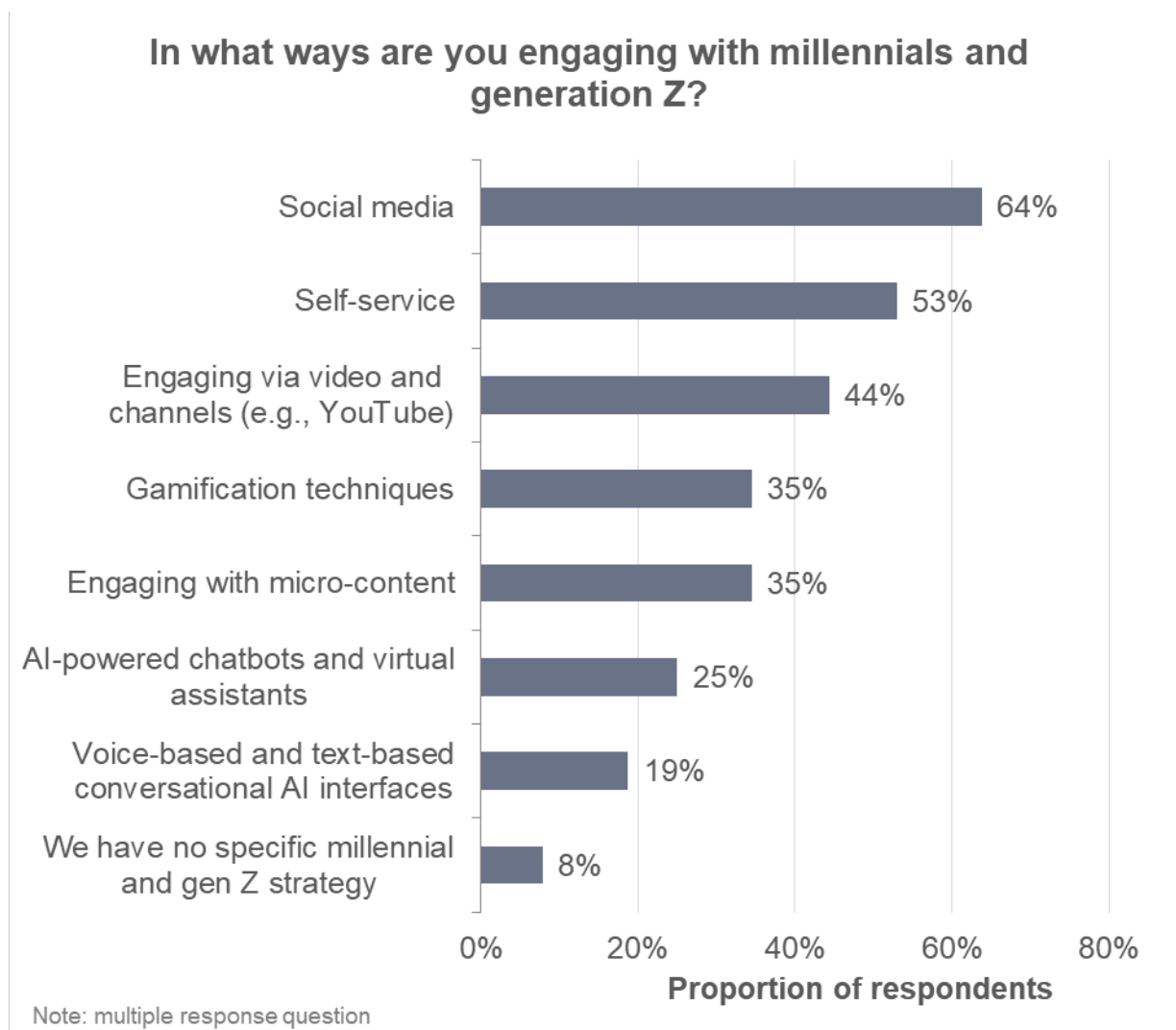
In financial services, where sophisticated implementations are on the rise, AI-powered conversational interfaces can handle a variety of basic banking tasks. Across many firms, these systems answer customer questions, pay balances, and open new accounts through digital channels. Conversational AI can also help banks better understand this data. Through deep data analytics, pattern recognition, and predictive algorithms, AI-powered virtual assistants can communicate intelligent insights about banking customers' present and future banking needs. These insights can be used to offer more personalized banking products and services to build lifelong customers. Enthusiasm for such intelligent platforms will likely grow as bankers, insurers, and wealth managers realize the potential to dramatically reduce costs and grow accounts through automation.

Investments in millennial engagement tools such as AI digital assistants remain modest

As the transfer of wealth moves from the baby boomers to millennials, the old model of a sit-down appointment with a financial planner will no longer suffice. Millennials want frictionless engagement conducted entirely online via digital channels and devices.

It is no secret that millennials are heavy social media users, so engaging with them through a social media site, as well as recruiting them to an insight community, serves as a great starting point for engagement. Firms appear to have adopted a strong social presence with their millennial customers and prospects: a whopping 76% of leaders reported using social media to engage with this generation, followed by 64% of those who are proficient. That figure aligns with the overall percentage of respondents (64%) who reported they use social media to engage with them (see Figure 9). Top millennial engagement channels after social media include self-service at 53% and YouTube at 44%.

Figure 9: Social media engagement ranks high with millennials, but firms must increase AI



Source: Ovum and Adobe

While firms demonstrated a strong commitment in the top three millennial-preference engagement methods, interacting via AI-powered virtual assistants (25%) and voice-based conversational interfaces (19%) rank lower in response. And a surprising 8% report having no millennial strategy in place at all. Over the next few years, a growing number of customer interactions will be handled without human intervention. Video engagement, self-service, and (sometimes) social media do not provide interactive engagements. Often, there is a need for customers to escalate to an agent if their inquiry remains unresolved through those channels.

AI-powered virtual assistants and conversational interfaces via voice and text will help to solve this challenge while still offering up millennials' preferred method of engaging with a brand. They provide a conversational experience between the customer and the brand, bypassing the tedious path of emailing or calling to resolve an issue, ask a question, or buy a product. Instead of clicking on a menu of choices or speaking predetermined commands, users can type or talk as if they were having a normal conversation in natural language. Customers, especially millennials, want to type their inquiry from the messaging services they already use or speak a voice command to pay a bill or check their balance through their voice-controlled assistant.

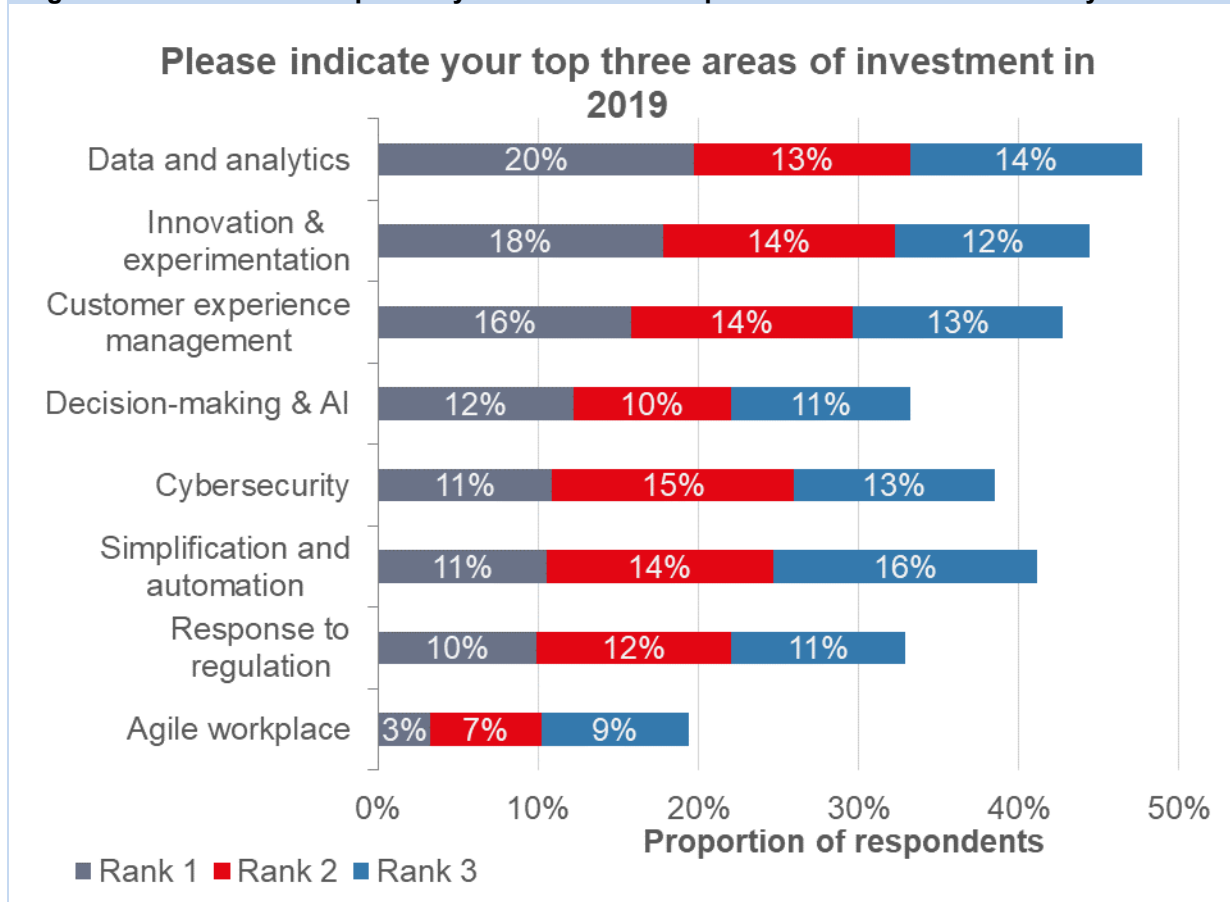
Voice and text will be a natural progression to current customer interactions that will eventually eliminate screens and will change the way users interact with technology. According to Ovum's *ICT Enterprise Insights 2018/19* survey, many consumers interact with their digital assistants several times per week over a wide range of functions. From playing music (29%) and controlling the TV (18%) to making voice calls (22%) and reading recipes (18%), many consumers opt for engaging in conversations with devices several times throughout a given week.

Data emerges as a top focus

The planned AI investments among firms also point to the interrelationship between post-data collection and machine learning. This will become a critical focus area in the coming months, as more enterprises realize that well-managed and utilized data serves as an important part of the customer experience and a fundamental enabler in evolving the intelligent conversation with customers across channels and devices. Ovum predicts more instances of machine learning embedded in applications so that data can be processed and analyzed on "the edge" rather than in the cloud. This will enable faster and more accurate real-time response, which is especially important when interacting through Internet of Things (IoT) devices.

The survey results show that firms may be aligned with that thinking by prioritizing investing in data and analytics, with 20% citing it as the primary priority of their top three investments in 2019; 16% of digital leaders prioritize it as a top investment and 19% of those who are proficient do the same. That is followed by "innovation and experimentation" at 18% (see Figure 10). Investing in customer experience management also ranked high, with 16% of respondents ranking it as their top planned investment.

Figure 10: Firms to invest primarily in innovation & experimentation and data & analytics



Source: Ovum and Adobe

Firms must reorganize internal structure for digital

Multipronged approach required for organizational success

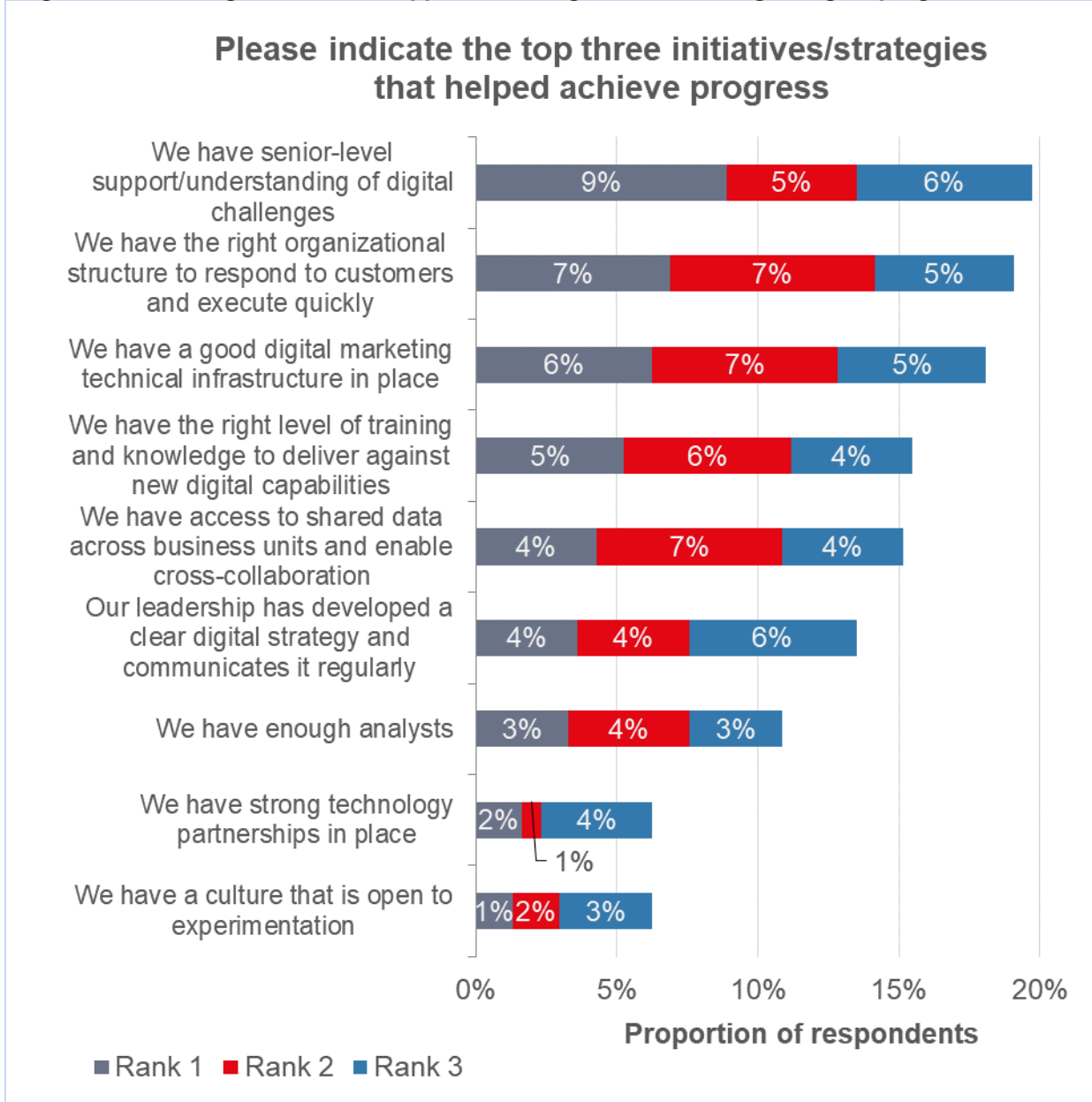
Inevitably, optimizing an enterprise for digital customer engagement is disruptive and will impact employees: how they work and how they are supported. New skills may be required, and training environments may need to be established. Managing the transformation and enabling employees to fulfill their new roles will be a major task that must be performed with skill and emotional intelligence. Most importantly, new digital strategies must emanate from senior management and be continuously communicated.

Although the survey data does not clearly indicate how many participants have digital strategies in place, only 9% of respondents ranked "having senior-level support" as the top strategy for obtaining progress around digital transformation (see Figure 11), and only 4% reported "having leadership that developed a clear digital strategy" as the primary strategy that enabled progress. That could potentially point to a low percentage of firms that have articulated digital strategies to their workforce. This would align with results from Ovum's *ICT Enterprise Insights 2018/19 – Global: ICT Drivers and Technology Priorities* survey, which revealed only 22% of financial services enterprises had enacted a digital workplace strategy.

Of the respondents in this survey who listed the top three initiatives that had the greatest impact on their success, both the leaders and those who had high proficiency in their digital transformation efforts also rated "having senior support" as a top contribution with a combined 39%.

Having the right organizational and technical marketing infrastructures is important to leaders, with 12% ranking it as their top initiative to achieve progress and 21% of those who are proficient ranking it at the top.

Figure 11: Securing senior-level support ranks high in contributing to digital progress



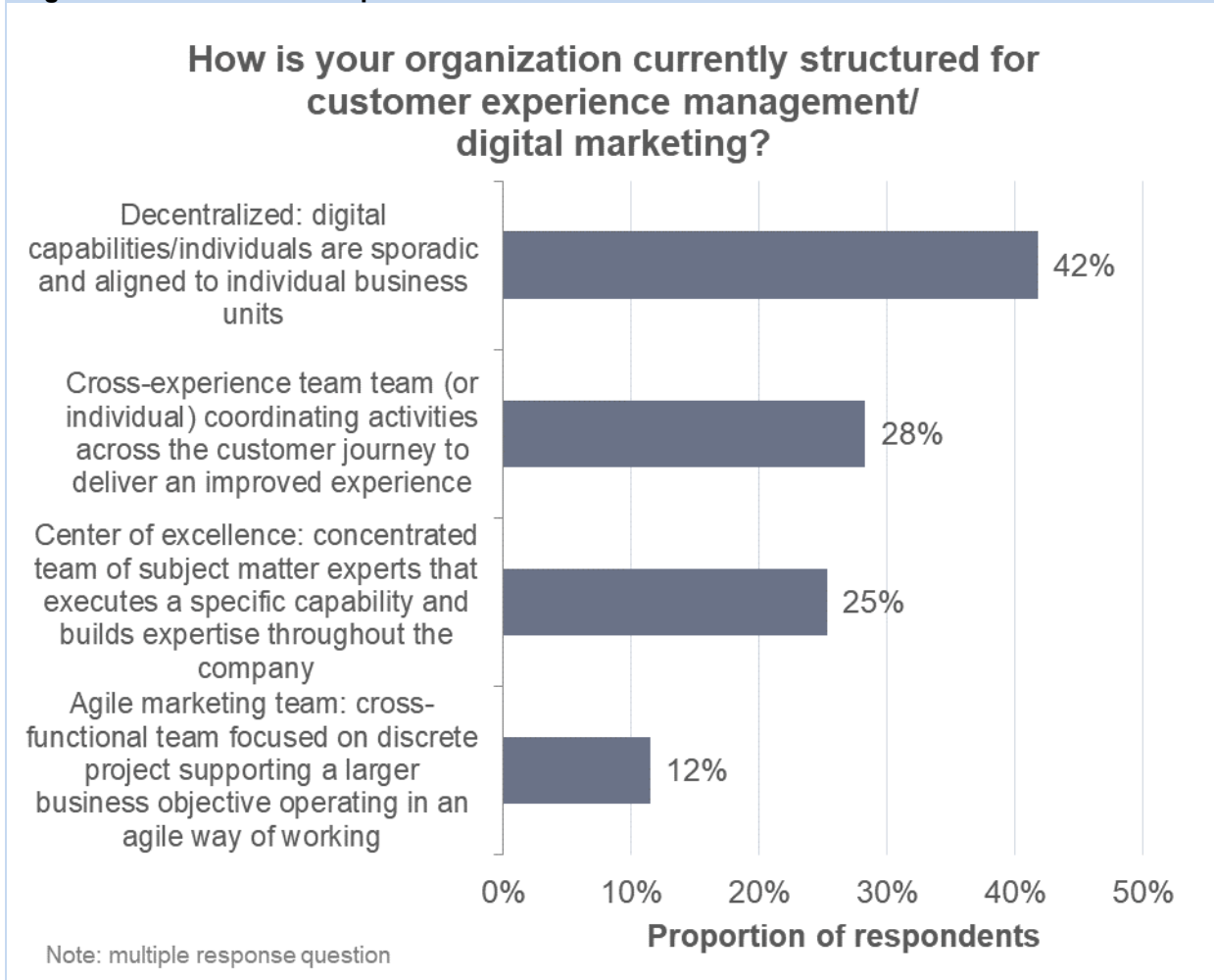
Source: Ovum and Adobe

While the ultimate responsibility for transformation rests with the CEO, firms will also need support from leadership team members with the right skills and customer-focused perspectives. This is one reason why growing numbers of organizations are appointing chief digital officers and chief customer officers to ensure that the right digital choices are made that will fulfill the goals of the enterprise.

Many marketing organizations are decentralized; few are agile

Apart from the lack of senior support around digital strategies and the dearth of ongoing communications about such strategies, there appears to be little advancement around how firms restructure organizationally for digital transformation. Many respondents (46%) appear to operate under decentralized organizational models, with only 28% employing cross-channel teams, 25% operating centers of excellence, and a meager 12% having an agile marketing team (see Figure 12). Those that report planned investments in 2019 in an agile workplace are only a stunning 3%. Conversely, 24% of the digital leaders plan to invest in an agile workplace, and 18% of those who are proficient plan to do the same.

Figure 12: Most firms still operate in a decentralized model



Source: Ovum and Adobe

Marketing today must be agile and continuously adapt to the changing market. The agile advantage reaps benefits: employees are working together in the same direction, teams become jointly accountable, CMOs and VPs are aligned on priorities, and there is a clarity of mission around digital engagement.

Becoming agile and cross-functional represents a mindset and methods that manage change and foster enterprise-wide collaboration, all instrumental elements in creating effective digital marketing and customer experience management.

Conclusion

Six essential traits of an FSI digital leader

Digital financial services leaders understand the one single and most critical business priority of all: shaping and designing the customer experience. They achieve this by creating sound digital strategies developed in collaboration with a cross-section of business leaders and with the big picture of the business in mind. There are six traits of a digital FSI leader.

They have deployed an end-to-end engagement platform

To meet consumers' engagement needs, organizations require end-to-end engagement supported by structures that enable closed-loop voice-of-the-customer mechanisms that capture and disseminate the feedback, customer-interaction analytics, processes, accountability, and empowerment to fix customer issues rapidly and as they happen, not after the fact. This means the entire enterprise value chain must be fully integrated and supported with near-real-time information. Such capabilities rely primarily on the intelligence and orchestration layers and the ability of enterprises to be intelligent and adaptive.

Customer engagement platforms that enable end-to-end employee and customer engagement hold the promise of unlocking transformation paralysis. They must unite employees around the customer where the front office, back office, and external networks should all work seamlessly toward common goals. This requires a framework for process orchestration and systems integration that enables employees to connect, communicate, socialize, research, share, and cooperate. Operating along a persistent data stream will enable employees to receive persistent messaging, notifications, activity streams, and content-sharing functionalities regarding customer journeys and how and when to deliver next-best intent.

They are adaptive and experimental

The path to digital adoption can be daunting, but wait too long and customers will have already switched to the competition or new online banking services.

Digitally oriented enterprises that want to promote connectivity need to become more agile, adaptive, and experimental. This continuum will be supported by adoption of agile methods and continuous automation architecture.

This requires adoption of new, customer-centric thinking in all departments, and leaders must empower advocates throughout the enterprise to become change agents. These people will help bring the customer experience along the complete customer journey by helping to bridge divides and foster collaboration between business units. Systems, processes, and the organization in general must be charged with rising to these challenges.

They have reorganized around the customer to become cohesive and intelligent

Intelligent enterprises can easily use data and organizational assets in unique ways that have previously never been possible. Such agility requires a reorganization of the enterprise around the customer to empower employees through integrated, accessible data to gain a holistic picture of the customer journey and to proactively act in the customer's best interests when necessary.

Achieving such customer centricity requires enterprises to evolve from a decentralized organizational model with sporadic capabilities and to establish digital centers of excellence (COEs) that serve as connectors between the digital and physical worlds. These COEs should develop comprehensive roadmaps for the enterprise, keep workflows dynamic, purchase digital technologies, and serve as a resource for employees who can tap into digital ideas in a collaborative format for execution.

Once enterprises organize around the customer, they enable cohesive customer journey management that looks across customer interactions and responds with agility to customer expectations faster and iteratively. They are then well positioned to adapt to the changing needs of customers, with teams collaborating toward common goals and outcomes with their needs aligned to their core values. By reducing the hierarchical structure, they become agile organizations, run by cross-functional teams and with minimal communications overhead. Such digital leading enterprises are adaptable and focused on customer interaction.

They give data a front seat in the transformation

In firms' digital transformation efforts, data serves as the lynchpin to companies' being able to make intelligent decisions about products, services, employees, and customers. Gleaning customer insights goes deeper than simple identity; it also must include insight into each customer's context and implied intent, based on the nature of their interactions allied to their historical data. It is this layered process that enables contextually relevant interactions with individual customers.

With improved processing power that can increase machine learning, the market will see digital leaders investing in making more of their data, and this will be done with machine learning and AI. Firms must also bring optimized data and resulting insights to wide populations of employees of various proficiencies to enable intelligent, fast, and seamless action.

They invest in AI-powered conversational interfaces

Conversational AI is transforming customer engagement. It is bringing together the many and varied automated touchpoints to create a closer, more personalized conversation with customers. Such platforms eliminate the need for customers to wade through endless menu systems; instead they can simply speak their inquiries.

In financial services, where sophisticated implementations are on the rise, AI-powered conversational interfaces can handle a variety of basic banking tasks. Across many firms, these systems answer customer questions, pay balances, and open new accounts through digital channels. Enthusiasm for such intelligent platforms will likely grow as bankers realize the potential to dramatically reduce costs through automation.

There is no doubt that in 2019 many enterprises will be deploying conversational systems. How successful they are in providing value to both the customer and the business will depend greatly on

the technology used, the data collected, and the ability to deliver the conversational experience that customers expect.

They stay on pace with the tech expectations of millennials and generation Z

In addition to providing brand authenticity, using a lot of images and video, and promoting influencer marketing, financial services must continuously stay ahead of emerging technologies that enable frictionless experiences.

Digital innovation has been the norm for millennials their entire lives, which means they expect simplicity and no barriers to interacting with brands or buying a product: they demand frictionless experiences. Therefore, as customers, especially in the younger generations, move along their buying journeys, it is essential for firms to anticipate their next steps and deploy the strategies and technologies, such as mobile and voice assistants, that will provide them with effortless and convenient experiences.

Appendix

Methodology

Ovum, in partnership with Adobe, interviewed 300 financial services firms in the US, Europe, and Asia-Pacific across the retail banking, insurance, and investment sectors to determine their level of involvement and progress toward digital customer engagement.

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