# Market Landscape: The State of Digital Transformation in Financial Services

PUBLICATION DATE:
19 MAY 2021

AUTHOR:
MILA D'ANTONIO, PRINCIPAL ANALYST, CONNECTED ENTERPRISE

Brought to you by Informa Tech

Commissioned by

Adobe

# Contents



# Table of Figures

# Summary

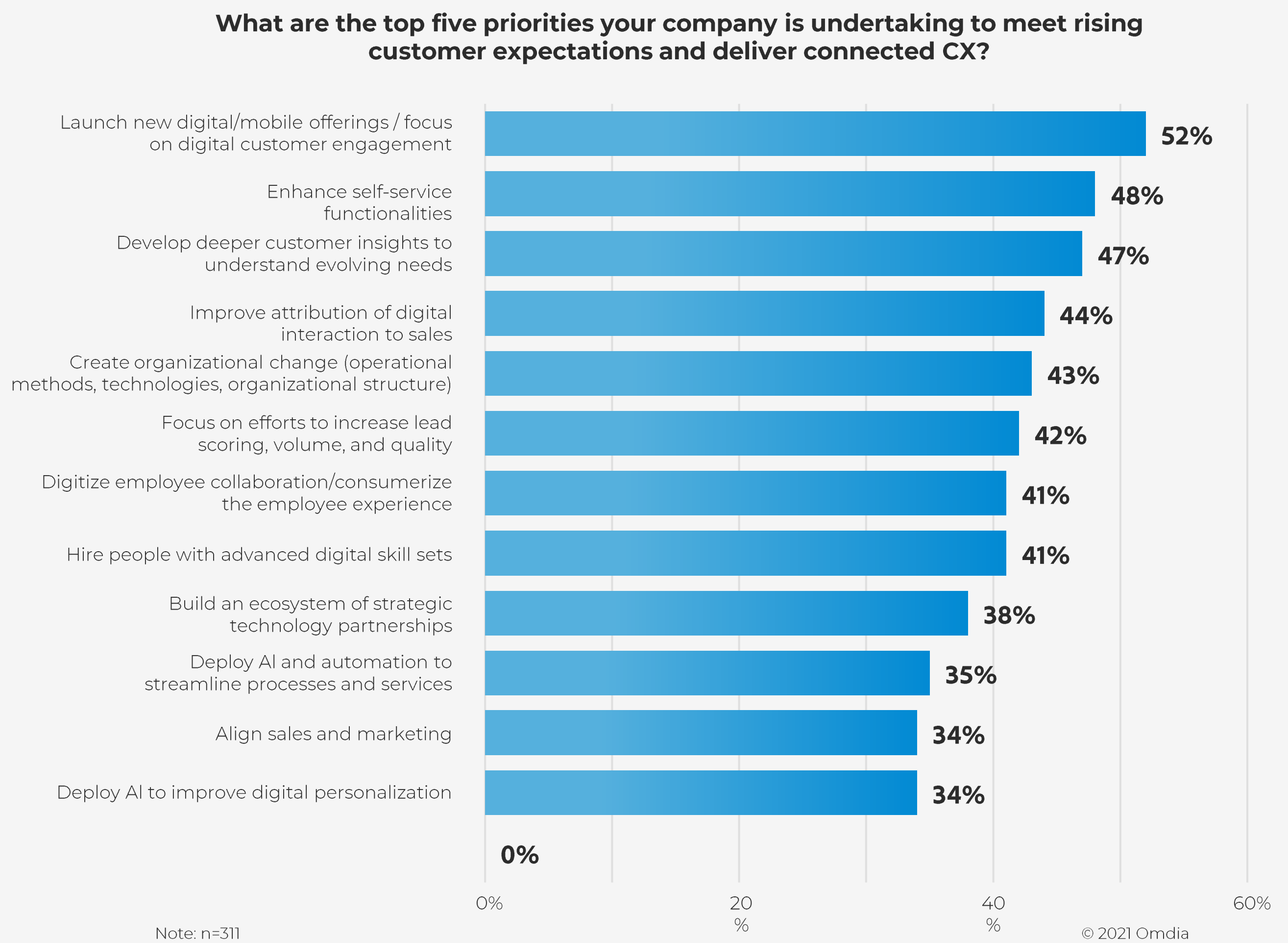
## Catalyst

Omdia partnered with Adobe in January 2021 to conduct a quantitative survey across the financial services industry (FSI). The respondents represent the insurance, retail banking, and investment sectors of 311 global firms. They work in functional areas including customer/user experience, sales, technology, product development, digital channels/strategy, marketing, and creative. Of those respondents, 46% make investment decisions, 35% influence decisions, and 19% provide research for investment decisions. The intent of the survey was to uncover firms' pain points, investment plans, and personalization strategies as well as the impact of COVID-19 on their digital transformations. The resulting research highlights the digital leaders and considers the capabilities and strategies that have led to digital successes across FSI.

## Omdia View: COVID-19 has upended financial services

The need to deploy digital technologies to drive customer engagement and provide key enterprise integrations has become more urgent than ever as COVID-19 has propelled firms into a new reality. As many contend with numerous disruptions resulting from the pandemic, a new crop of challenges threatens their stability. For example, in 2020, 68% cited "established financial services launching disruptive services" as the primary disruptor, but in 2021 that has fallen to 58%. New factors have also emerged, which include limited branches (55%), reduced consumer confidence (54%), and a decentralized workforce (52%). However, pockets of progress appear amid the rising pressures. When asked about the top five priorities their firms were undertaking to meet rising customer expectations, 52% of respondents said they plan to prioritize digital customer engagement (see Figure 1). The Asia & Oceania region leads in those efforts with 58% of respondents saying they plan to focus on that. Investment firms progressed in their efforts to share data across the enterprise: 46% cited this as a strategy that helped achieve progress toward enterprise digital customer engagement, compared with 38% in 2020. Overall, 74% said they plan to increase their digital marketing spend in 2021, compared with 69% in 2020.

**1. Figure 1: Investments in digital customer engagement top the list of priorities to deliver customer experience**




Note: n=311

© 2021 Omdia

Firms still face numerous negative impacts from disruptions that materialized from the pandemic in the form of loss in revenue and market share, cost-cutting measures, and increased competition. These can ultimately lead to stalled progress around digital customer experience (CX) initiatives. When firms clear those hurdles, the opportunities are vast. But how do they make the leap?

They must accelerate their digital investment plans, understand the gaps in the CX along employee processes, embrace emerging technology such as artificial intelligence (AI) and digital assistants that will bring a competitive edge, and continuously review and update business objectives to match the changing criteria. With such goals in sight, they must act with urgency to become digital and customer first, because the actions they take now and in the coming months will likely influence future purchasing and customer loyalty.

## Key messages

- Financial services remain exposed to the financial impact on their operations.
- Traditional firms are slow to become digital first risk losing customers to online firms.
- Firms are positioning themselves to respond to the shift in digital CX.
- Firms will give organizational restructuring serious focus, but it must become foundational.
- Firms intend to shift from customer acquisition to customer retention efforts.
- The crisis has forever altered the course of customers' actions.
- A lack of integrated, holistic, and accessible data may hinder further digital CX efforts.

# Recommendations

## **Immediate actions** (need to be implemented within six months)

**Build or restructure the culture for digital enablement**

With 69% of respondents saying their culture has been slow to pivot to a digital strategy, firms must lay the foundation for future digital investments to succeed. Even 64% of the digital leaders reported their culture has been slow to pivot to a digital-first strategy since the onset of the pandemic. As a result, only 33% said they had the right organizational structure to respond to customers quickly, only 38% reported having leadership that has developed a clear digital strategy and communicates it regularly, and a sobering 56% of retail banks in particular said they have no senior executive support for digital omnichannel initiatives.

Activating digital-first channels and proactively responding across channels requires a realignment of businesses, both internally and around the customer. Enterprises must understand how customers' intents, behaviors, and preferences are evolving to shape CX digital strategies.

Firms must find use cases that bolster their investment plans to support strategic efforts and share them across the enterprise frequently to help gain executive support. Assign change ambassadors who can communicate the value and benefits of planned technologies both within their teams and broadly throughout the enterprise. CIOs must ensure everyone in the business—not just in IT—is well informed on the digital skills and technologies that they need to succeed. Finally, senior leadership also needs to bring about cultural change and drive the need for new ideas and innovative digital retail models. Given the high level of respondents who said they have no senior support, digital-first cultural change may not take flight. To overcome such setbacks, manage up by sharing the top reasons (customer acquisition, cutting costs) for investments in digital transformation with the rest of the organization and build a library of use cases to use as catalysts for change.

### Build an integrated view of data across the enterprise

Data serves as the foundation to following and acting on customer behavior throughout customers' journeys. When data is integrated, centralized, and accessible, customer-facing employees will more easily and proactively deliver personalized experiences along the key moments throughout the customer journey. To succeed in today's complex and fast-changing world, firms must develop a robust data management strategy that unlocks the power of data across the entire enterprise. Creating an enterprise-wide strategy ensures that customer-facing departments are aligned. Data must also be aggregated, unified, and governed through data management platforms and customer data platforms (CDPs). Also, to conquer the complexity, ensure the data is accessible via robust APIs, and provide access to their business logic in a way that is independent of presentation layers.

### Conduct a gap analysis and assessment of employees' processes

Tightening the connections between customer experiences means finding the gaps along the journeys and removing the friction. In conducting such analysis, create feedback loops. Customer-facing employees can help aggregate customer feedback and provide insight into the challenges that prevent delivery of great service, such as policies or processes that do not suit customer needs or friction between siloed teams that is leading to slow resolution of customer issues. Customer feedback provides insight into customers' expectations and how they might change over time as the industry evolves. It can also signal where customers are getting stuck and confirm what is working well. Once these problem areas are seen, the need for emerging tech to fix or fill the gaps will become clear.

### Adopt a customer journey orchestration discipline and initiative

With only 25% of respondents reporting they have a data-driven approach to track journeys and measure success, the need for a formal enterprise-wide customer journey orchestration initiative is evident. Enabling real-time personalization requires enterprises to link offline and online customer behavior and attribution then share the insights with customer-facing teams. Complex, often discontinuous, customer journeys require sophisticated tools for managing anonymous and authenticated data and determining the microjourneys. These include the various steps customers take along the journey to achieve their goals, for example, responding to an online advertisement.

Finally, by enabling customer-facing employees to harness customer insights in real time, firms can transform the customer journey from a series of static interactions to one where actionable information is presented throughout the entire process.

### Champion current and pending digital initiatives

Once technologies have been deployed, they need advocates to enable them to take flight. Firms that appoint technology ambassadors to train their teams and ensure they are using the technologies will succeed. But 24% of respondents said their firms lack an owner or champion of the digital initiatives. In addition to advocates, these firms must establish digital strategies from the C-level and communicate them regularly across the enterprise. They should also conduct return-on-investment visualizations, share customer use cases and success stories, conduct in-depth evaluations to show the difference between applications and models, and depict how such technologies can benefit additional business units in the long term with continuous rollouts.

## **Urgent actions** (implement within 6–12 months)

### Invest in real-time customer engagement platforms

Building a cohesive and adaptive enterprise that can respond to pivotal moments throughout a customer's journey needs an agile platform that can span myriad functional areas throughout an enterprise, present an integrated view of data, and enable orchestration of communications and content to be delivered at the right times. However, 60% of respondents said they lack the tools to enable intelligent, proactive engagement, and 39% said they have no enterprise-wide digital engagement platform.

Customer engagement platforms help to solve this orchestration challenge and are essential mechanisms for consistently delivering a positive customer experience because they deliver a holistic enterprise-wide perspective to orchestrate relevant content or guidance or to trigger the most relevant action at every customer touchpoint. Being able to visualize interaction traffic and identify where the customer experience is suboptimal gives customer experience designers and cross-departmental teams real insight into improvement priorities. This also enables enterprises to sense behavioral changes and adapt accordingly, maintaining customer relevance and loyalty.

### Invest in AI to hyperpersonalize the customer experience

AI and machine learning (ML) are essential technologies to power and enable an effective CX personalization strategy. Once increases in adoption take place, the gaps that exist between personalization challenges and goals will lessen. However, only 34% of respondents said that investment in AI to enhance digital personalization is one of their top five priorities to meet rising customer expectations, and only 35% plan to have AI investments to streamline processes as one of their top five priorities.

As firms search for ways to reduce operational costs, scale the enterprise, and deliver on customer expectations, firms should start applying AI to scale the operation and enable personalization. By applying AI throughout the consumer journeys, firms can orchestrate next best actions at the right time and in the right places. They can personalize the experience, predict next steps, and proactively respond with the most appropriate content or interaction. This will prove vital in sectors such as investment firms where consumers expect such real-time, right-time interactions.

## **Important actions** (12 months and beyond)

### Tie digital investments to CX successes for continued investments

The digital era brings with it a rapidly changing technology landscape, and with this new technology comes the need to constantly evolve systems, processes, and skill sets to stay relevant.

One of the most significant barriers to digital transformation is the concern over costs and the organization's financial health. In fact, 54% said cost-cutting ranked as one of their top five disruptions from COVID-19, and "lack of budget" is one of the top three hindrances that prevent progress toward enterprise-wide digital omnichannel customer engagement. Worryingly, 47% said they are unable to meet customers' needs.

Cost factors can quickly derail progressive conversations and lead decision makers back to old issues that prevent forward momentum. So how do firms balance the need to continuously invest in digital CX to constantly adapt and evolve with a lack of budget?

Digital transformation success must be intimately tied to customer experience, and that emphasis will continue to drive business investments in digital transformation. This is especially true as firms increasingly transition from building internal competencies and improving efficiencies to delivering value by finding optimal audiences, creating new revenue streams, and delivering customer lifetime value.

**Form an ecosystem of collaborative partnerships with technology Vendors**

Of the initiatives cited that helped firms achieve enterprise-wide digital omnichannel customer engagement, having strong technology partnerships ranked first, with 44% citing the strategy. Despite these successes, only 38% said they plan to build an ecosystem of strategic technology partnerships.

When asked the reasons why technologies fail to drive proficiency, 59% said the tool is complex, which leads to a lack of adoption internally; 53% said they received no training; 49% said the technology does not integrate into existing systems; and 47% said it was an incorrect implementation.

These responses indicate broken technology partnerships. Firms must create synergistic relationships with vendors to collaborate on an outcome-based approach and then deploy the technology that will enable those needs. Firms and vendors should determine a clear picture of a firm's strategy and together align the firm's objectives with the expected outcomes of the technologies.

**Establish use cases for emerging tech such as augmented reality and digital assistants**

As augmented reality (AR) moves from having a moment in the spotlight to providing value-added enhancement to CX applications, firms across all sectors should determine long-term strategies for the technology that encompass all areas of the organization.

However, 23% of respondents said they show slow progress around deploying next-generation consumer-facing technological advancements such as AR, virtual reality, and chatbots. But in retail banking, use cases for AR apps are mounting. For example, AR can allow users to see real-time information on the nearest location and to book appointments. Some banks have even launched AR mobile apps with interactive features that overlay customers' banking histories and account information when customers scan their banking cards with their phones, allowing them to easily manage their accounts.

# Market Status

## Financial services remain exposed to the financial impact on their operations

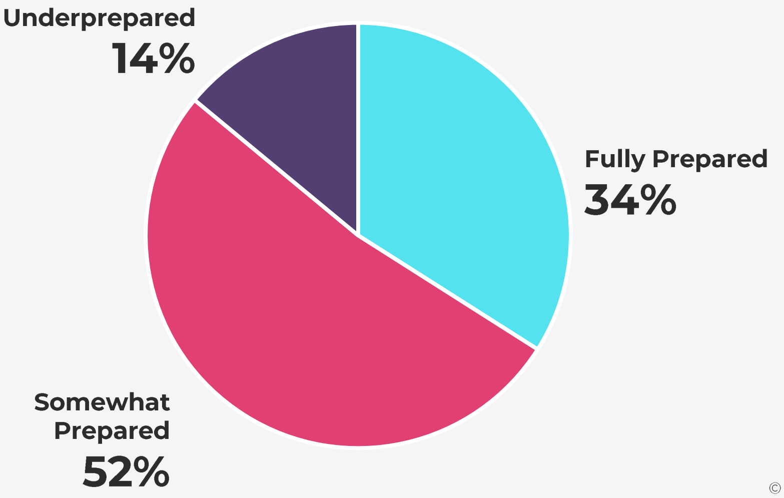
The disruptions brought on by the pandemic bore down heavily on firms, exposing them to financial risk. “Loss of market share,” “downward pressure on revenue and margins,” “increased competition,” an “inability to respond more quickly to market demands and changes,” and “cost-cutting measures,” ranked among the primary disruptive forces since the onset of the pandemic. Particularly, retail banks face downward pressure on revenue and margins and demonstrate more difficulty in responding quickly to market demands, which is likely a result of closed branches and reduced in-store associates. Investment firms’ gravest downstream impact is loss of market share followed by downward pressure on revenue, likely because investors are cautious in a turbulent market. And insurance firms report that cost-cutting measures, the significant economic slowdown, and accelerating digital initiatives have had the largest impact.

The sobering reality is that most respondents (a combined 66%) are at best somewhat underprepared to respond to the financial impact on their operations (see Figure 2). And all regions—the US (59%), Asia & Oceania (60%), and the EU (79%)—demonstrated high levels of unpreparedness.

Interestingly, B2C digital-only firms said they are more prepared than other sectors, with 42% saying they are fully prepared and 36% saying they are somewhat prepared.

**2. Figure 2: A combined 66% of respondents are “underprepared” or “somewhat prepared” to deal with disruption**

**How prepared are you to deal with your top five most disruptive market factors since the onset of COVID-19?**




Note: n=311

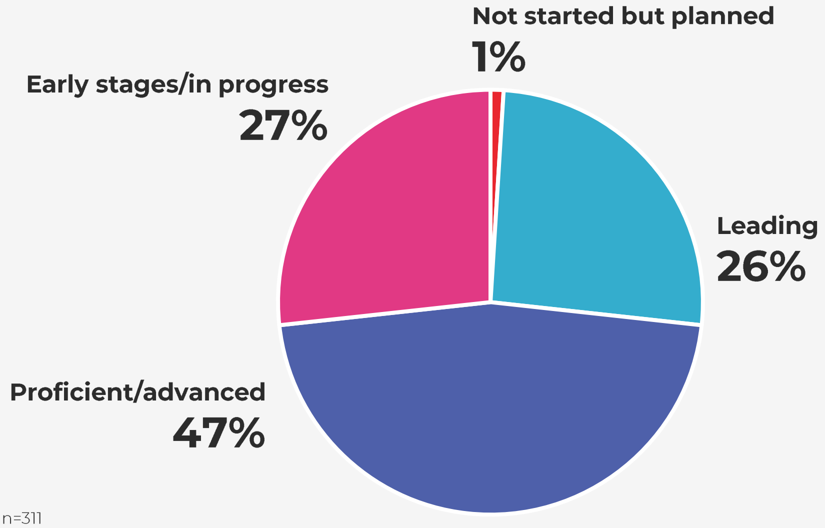
© 2021 Omdia

## Traditional firms slow to become digital first risk losing customers to online firms

When rating their progress toward enterprise-wide digital omnichannel customer engagement since the onset of the pandemic, 26% reported they are leading, 47% say they are proficient, 27% remain in early stages, and only 1% have not yet started (see Figure 3). A look across sectors shows little variation in those statistics. These percentages only shifted slightly from 2020, most likely because firms have been primarily focused on the urgent mandates over the past year including branch closures, employee and customer safety, and reduced revenue and margins.

**3. Figure 3: Only 26% of firms report they are "leading" in digital, omnichannel engagement**

**How would you rate your progress toward enterprise-wide digital, omnichannel customer engagement since the onset of COVID-19?**




Note: n=311

© 2021 Omdia

Finally, the percentage of digital leaders soars among B2C digital-only banks compared to the other distribution models, with 41% saying they are leading. Compare that to 17% of those that operate both digital and traditional models, 20% of B2B2C advisors and brokers, and 23% of B2B wholesalers. Such a lead for the digital-only banks in becoming digital first raises the question of whether traditional firms can keep up with the demands of customers. The gap could also expose them to fierce competition with large tech giants and fintech startups as firms emerge from the current crisis and as customer expectations for a digital-first experience continue to rise.

# Market Dynamics

## Firms are positioning themselves to respond to the shift in digital CX

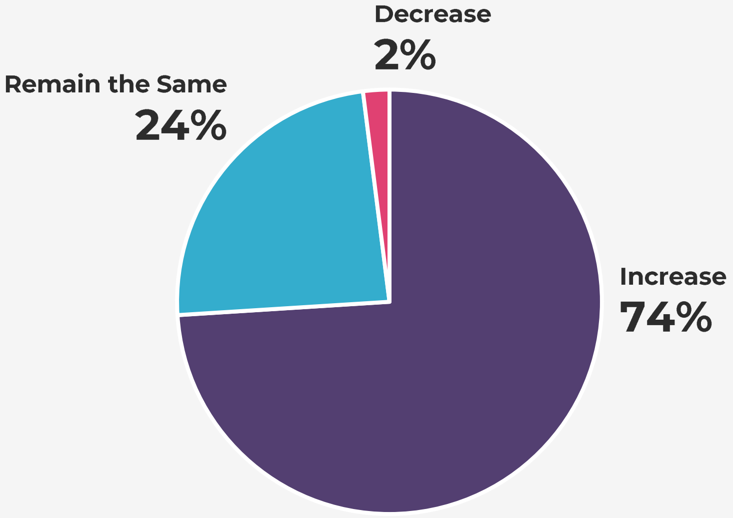
Financial services firms must aggressively embrace the ability to provide the best digital experiences by reducing friction and improving the customer experience. At the same time, they must use data, advanced analytics, and emerging technology to deliver products and services with the highest level of personalization and contextualization.

The survey results reveal that many firms plan to focus on digital customer engagement, with 52% saying they will launch new digital and mobile offerings focused on this area, 48% planning to enhance self-service functionalities, 47% planning to develop deep customer insights to understand customers' needs, and 43% planning to improve attribution of digital interaction to sales.

These top priorities are echoed across the three subsectors. An astounding 74% said they plan to increase digital marketing/CX spend this year (see Figure 4), with Asia & Oceania leading with a soaring 82% that plan to invest in digital CX. The goal is to shift sales to digital and mobile channels with expectations of digital sales at between 41% and 60% of the total seeing a 9% jump, of 61–80% digital sales seeing a 15% increase, and of 81–100% digital sales jumping 6%. By 2024, firms that expect 81–100% digital sales jump to 25%.

4**. Figure 4: Seventy-four percent of respondents plan to increase digital marketing/CX spend**

**Are you planning to increase or decrease your digital marketing / customer experience management spend in 2021?**




Note: n=311

© 2021 Omdia

## Firms will give organizational restructuring serious focus, but it must become foundational

Establishing an organizational structure, including creating a digital strategy, communications plan, training employees, and hiring more digitally capable ones, is arguably the most important step in digital transformation. It is the foundational element to technology investments and the catalyst to digital investments seeing rapid returns. While an ample number of firms (43%) plan organizational change, the percentage of those that will digitize employee collaboration (41%), hire people with advanced skill sets (41%) and align sales and marketing (34%), remains relatively low.

Organizational alignment around the customer is important for engaging all customer-facing employees at key moments at every touchpoint. Firms must operationalize the customer journeys by aligning them to employee processes. This often entails an internal journey-mapping exercise and initial discovery workshops. Get employee feedback first, and decipher exactly how they interact with customers.

## Firms intend to shift from customer acquisition to customer retention efforts

The big marketing challenge for 2021 may not be customer acquisition. The crisis has shifted the focus from acquisition to retention as firms will prioritize efforts to increase loyalty and tailor interactions across the customer journey and lifecycle.

Accordingly, 47% of respondents said they plan to shift this year from prioritizing customer acquisition efforts to customer retention. Across sectors the emphasis varies, with 52% of retail banks saying they plan to prioritize acquisition, while 52% in insurance will focus on retention strategies.

Globally, the rate of branch reductions has decreased over the past decade, signaling growing customer willingness to purchase products and services via mobile and online. The shift, coupled with the current crisis-led disruptions, further emphasizes the need for firms to retain current customers who may leave for more digitally leading firms such as the B2C digital-only firms.

# Market Outlook

## The crisis has forever altered the course of customers' actions

Offering a digital customer experience is vital in keeping up with the digital age, which poses a challenge for firms still operating with traditional models, legacy systems, and a culture unwilling to evolve.

While financial services face myriad disruptive factors, responding to heightened customer expectations serves as the primary disruptive force. In fact, 64% of respondents in 2020 cited changing customer expectations versus 68% who said the same in 2021. The increase points to the changing concerns financial services firms have faced since the onset of the pandemic.

Additionally, 48% cited an inability to meet customers as a major disruptive force since the onset of COVID- 19, 26% said they have no access to holistic customer data and journeys, and 42% cannot identify customers across different channels and devices. Of the technologies currently in use, 49% still do not have customer journey orchestration.

The current evolving experience economy requires firms to become proactive and to personalize experiences at every step of the customer journey. This requires enterprises to pursue a customer-first, digital-first approach to experience delivery. Consequently, firms need the ability to continuously recalculate the next best action for each customer and each moment. Such capabilities require a shift to a holistic and actionable approach to customer journey management that enables firms to track, map, visualize, and act on customer journeys.

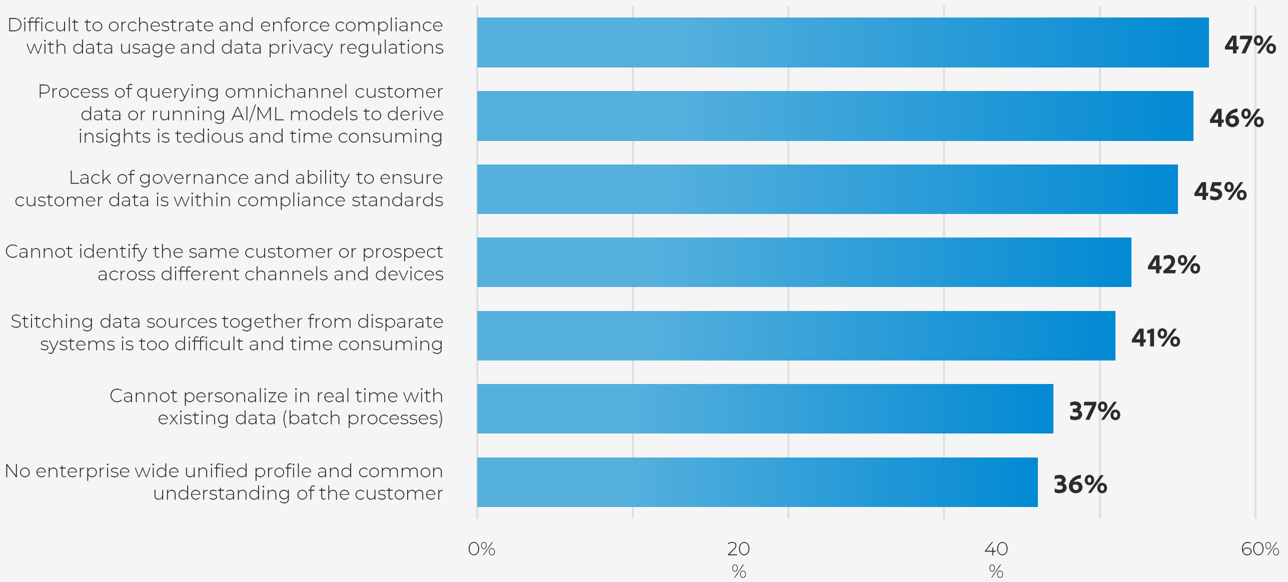
## A lack of integrated, holistic, and accessible data may hinder further digital CX efforts

Many financial services firms are behind in their data unification efforts. Only 38% said they have access to shared data across business units and enable cross-collaboration, and a surprising 26% said they do not have access to holistic customer data and journeys. Additionally, 42% said they cannot identify the same customer or prospect across different channels and devices, and 41% said they are unable to connect data sources together from disparate systems, making it difficult to create unified customer profiles (36%). Most concerning is the inability to ensure customer data falls within compliance standards, with 45% reporting this lack of governance.

With such a lack of data and accessibility, it is not surprising that 37% said they are unable to personalize data in real time, 46% said processing omnichannel data is time consuming, and 47% said orchestrating data usage and data privacy regulation is challenging (see Figure 5). Integrated data is not only essential for achieving connected customer experiences, it serves as the foundation for hyperpersonalized communications and allows for proactive and engaging experiences. More importantly, firms must realize how essential it is to manage data to establish enterprise-wide data programs and governance organizations to stay in compliance with industry regulations.

5**. Figure 5: Data personalization and orchestration remain challenging**

**What are your current challenges with leveraging the data within your organization today?**




Note: n=311

© 2021 Omdia

Integrating customer data also remains a business-critical challenge for respondents, with an astounding 74% reporting that accessing an integrated and shared view of data across the enterprise has been one of the greatest challenges since the onset of COVID-19, one that prevents them from understanding customers' needs and expectations. And 70% of the digital leaders reported the same challenges. This suggests that fundamental data management remains problematic for many respondents. Interestingly, 66% of respondents said they currently have a CDP in place, but 34% plan to invest in one over

the next year and a half. Additionally, 72% in the insurance sector already have one. Such high percentages of CDP ownership do not correlate with the reported failures surrounding data-driven initiatives such as the inability to identify customers across channels or to access holistic data. This disparity points to a potential breakdown in technology deployments and to the complexity of legacy systems and lack of integration

between new technology and existing systems.

However, the issue could also stem from the CDPs themselves: only 36% of the respondents that currently have CDPs said they are driving significant value. This signals a potential shortfall in some of their CDP deployments in terms of a lack of orchestration capabilities such as next best action and personalization engines.

# Conclusion

Shifts are reshaping the global financial services landscape to the point where firms need to fundamentally rethink what it takes to compete and win. To stay relevant, firms across all sectors must fundamentally rethink their traditional operating models, business models, and customer value propositions. While the immediate and long-term priorities seem clear, the path to achieving them may appear long and winding.

Firms must establish a digital-first approach as an urgent priority, because the pace of change will likely accelerate.

To achieve long-term growth, they must understand customers' expectations and preferences, such as the convenience of online shopping, a desire for personalized experiences, the need for information availability, and the preference for self-service. They must respond to key moments in real time, anticipate customers' journeys, understand which channels they intend to use, and orchestrate relevant content, offers, and solutions. This level of intelligence and agility requires innovation and investment in emerging technologies and organizational realignment around the customer. In doing this, firms will become adaptive and agile, accelerating short-term goals and enhancing their long-term success.

# Appendix

## Methodology

Adobe commissioned a quantitative survey program that aims to highlight the new digital transformation challenges resulting from COVID-19 across the FSI sector. The intent of the survey was to uncover firms' pain points, investment plans, and personalization strategies as well as the impact of COVID-19 on their digital transformation. The resulting research highlights the digital leaders and compares the capabilities and strategies that have led to digital successes.

Omdia surveyed 311 respondents in January 2021 across firms globally in the insurance, retail banking, and investment sectors. Respondents represent functional areas including customer/user experience, sales, technology, product development, digital channels/strategy, marketing, and creative. Of those respondents, 46% make investment decisions, 35% influence decisions, and 19% provide research for investment decisions.

## Author

Mila D'Antonio, Principal Analyst, Customer Engagement

mila.dantonio@omdia.com

## Citation policy

Request external citation and usage of Omdia research and data via citations@omdia.com.

## Omdia consulting

We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Omdia's consulting team may be able to help you. For more information about Omdia's consulting capabilities, please contact us directly at consulting@omdia.com.

## Copyright notice and disclaimer

The Omdia research, data and information referenced herein (the "Omdia Materials") are the copyrighted property of Informa Tech and its subsidiaries or affiliates (together "Informa Tech") or its third party data providers and represent data, research, opinions, or viewpoints published by Informa Tech, and are not representations of fact.

The Omdia Materials reflect information and opinions from the original publication date and not from the date of this document. The information and opinions expressed in the Omdia Materials are subject to change without notice and Informa Tech does not have any duty or responsibility to update the Omdia Materials or this publication as a result.

Omdia Materials are delivered on an "as-is" and "as-available" basis. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness, or correctness of the information, opinions, and conclusions contained in Omdia Materials.

To the maximum extent permitted by law, Informa Tech and its affiliates, officers, directors, employees, agents, and third party data providers disclaim any liability (including, without limitation, any liability arising from fault or negligence) as to the accuracy or completeness or use of the Omdia Materials. Informa Tech will not, under any circumstance whatsoever, be liable for any trading, investment, commercial, or other decisions based on or made in reliance of the Omdia Materials.

## Contact Us

omdia.com
askananalyst@omdia.com

OMDIA