Digital Sales & Service Maturity Model

February 2024

Alkami

DIGITAL BANKING REPORT

Boosting digital maturity involves more than buying the latest technology — it requires instilling an innovation mindset and willingness to change across the entire organization.

— Jim Marous

Owner and CEO
Digital Banking Report

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Letter from the Author

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Issue 303

Jim Marous

Standing at the forefront of a changing era, the banking sector is facing a transformative challenge; to adapt, innovate and thrive in an increasingly digital landscape. With this as a backdrop, we created this enlightening report on the **Digital Sales & Service Maturity Model** in conjunction with the **Emerald Research Group** and sponsored by **Alkami Technology.**

This report takes a deep dive into the varying levels of digital maturity across financial institutions, revealing a landscape that is both diverse and dynamic. The research and the building of the Digital Sales & Service Maturity Model, completed in December, 2023 paints a picture of the spectrum of maturity by categorizing banks and credit unions into distinct segments based on their readiness and implementation of digital strategies.

The research illustrates what separates those still digitally emerging from those who are on the forward edge of the digital and data spectrum. Here's a sample of insights our report unpacks:

- The most digitally advanced institutions saw twice as much revenue growth in 2022 as the least digitally advanced in our study.
- Top performers embrace the maxim "Digital transformation starts when legacy leadership embraces change," cultivating innovation and change-readiness into their organizational DNA to continually expand digital capabilities.
- Data-driven decisions fuel the breakaway of banks and credit unions who have democratized analytics across their institutions, leveraging data to inform most decisions.
- Yet, economic advantage provides only one motivation for prioritizing digital maturity. With customers conducting 60% of their financial interactions via digital channels today — digital experience has become the brand for banking organizations.

Letter from the Author (continued)

Can any institution genuinely claim a customer orientation — yet allocate only a fraction of investments towards advancing digitally-led engagement? Or worse, de-prioritize digital altogether by funding legacy channels ahead of mobile and web capabilities?

Our report resoundingly refutes such contradictory positions. Digital mastery increasingly mirrors business dominance. The organizations realizing this today will bank the customers of tomorrow. Their visionary efforts form the foundation for impending industry leadership.

Progress on this evolutionary path isn't always determined by organizational size, type or resources. The report profiles "David" institutions — small yet surprisingly sophisticated digital organizations exhibiting far greater advancement than their peers. What unifies these adoption leaders is their relentless, inventive culture embracing change versus fighting it.

Assessing current digital maturity clears the horizon for every banking provider to outline their own ascending journey. We guide readers on tailored pathways aligned to their positioning. Emerging institutions must walk before running, while sophisticated banks cannot rest on their laurels, but must further optimize experiential advantage.

Banking is moving rapidly from mobile moments to Artificial Intelligence (AI)-infused automation to edge computing enabled augmented realities. Digital mastery relies on anticipating this exponentially expanding technology frontier. Readers who absorb insights from these pages will not just react quicker to digital change but proactively leapfrog customer expectations.

We hope these insights launch productive — even provocative — conversations within your institution and across the industry. We look forward to hearing your perspectives as you further progress on your digital ascent.

Best regards,
Jim Marous
Owner and CEO
Digital Banking Report

Preface

Allison Cerra
Chief Marketing Officer,
Alkami

"For many people with a computer, there is now no such thing as banker's hours. They have their own 24-hour bank branch. From home, those people can check their accounts, transfer money, and pay their bills any time, all with a few clicks of the computer mouse."

The Daily Gazette (Schenectady, NY) — October 26, 1998

This, extolling the virtues of what was then known as "internet banking," came four years after the first financial institution in the United States introduced the service. At the time, a little more than four percent of US households had ventured into the convenience of banking at home over an internet connection, reserving the activity to the most technologically advanced, if not outrageously courageous. After all, who would trust pixels on a screen and a dial-up modem to manage one's precious treasure?

But trust, consumers did. Today, more than 200 million US consumers rely on digital banking[1], with nearly 80 percent of adults[2] preferring to bank via a mobile app or website. Indeed, Alkami research shows the digital banking user experience has become the top priority for consumers when choosing to do business with any financial institution, especially one that would serve as their primary.

- It ranks at the top of the list when they are asked to prioritize what is most important in their "ideal" bank or credit union — readily beating other alternatives, including convenient branch and ATM locations and the quality of customer service, to name a few.
- It is cited by more than 80 percent as among their top few requirements, if not the number one reason (41 percent), when it comes to selecting a replacement for their current primary financial institution.
- And its frequency of use is directly correlated with increased household product penetration for the financial institution.

Yet, for all the unequivocal progress, these days digital banking is largely still a channel where consumers can "check their accounts, transfer money, and pay their bills any time," albeit more often with the touch of a mobile screen than the click of a computer mouse. It remains primarily a service channel for many financial institutions — important in servicing the customer's or member's daily transactional needs, but not essential in driving revenue that is increasingly more difficult to attain.

Sources: [1]Statista and [2]Forbes Advisor: 2022 Digital Banking Survey

DIGITAL SALES & SERVICE MATURITY MODEL

To this point, US financial institutions face the most competitive market, particularly for deposits, than in many years, with more consumer alternatives than ever holding these deposits with little more than a mobile app. In June of 2023, US online banks defied market gravity by bringing in more deposits than they lost, buoyed by interest rates two to three times higher than traditional financial institutions, including megabanks.[2] Financial institutions have little alternative but to raise their competitive game, including suiting up their digital armor, to compete for today's consumers in a competitively fragmented and prolific market.

Doing so will require that the preferred way these consumers choose to bank, the digital banking channel, evolve from the primarily service channel it is today to the digital sales and service channel account holders and financial institutions deserve tomorrow.

To be equal parts sales and service, the digital banking channel must:

- deliver relevant offers and guidance at the right time (the majority of consumers want both to save time and discover options);
- acquire new account holders and/or products (the majority prefer to open a new deposit or loan account mostly or completely online);
- anticipate consumers' needs before they are conscious thoughts (the majority would be more likely to trust, respect, admire, and/or be loyal to an institution that does).

We set out to understand the current maturity of digital banking as both a digital sales and service channel to deliver on these outcomes. Since the answer relies on so much more than the technical capabilities of a bank's or credit union's digital banking platform, we also included critical attributes surrounding the culture, talent, and processes that determine an institution's success.

There are clear themes on what leaders are doing well and the mindset and toolset they employ to set the pace. Likewise, there are common areas preventing well-intentioned institutions from keeping up with their counterparts — areas that are visibly manifested in features and functionality but more deeply rooted in cultural beliefs. And the differences between leaders and followers are perhaps no more salient than in financial outcomes, with the former besting the latter in revenue attainment.

The result is a model that assesses institutional readiness in delivering digital banking that is equal parts sales and service. We hope it is instructive in snapping the proverbial chalk lines on where the market is today and provocative in shaping conversations from the boardroom to the breakroom on how a financial institution's own digital maturity compares.

Most of all, we hope it inspires financial leaders at all levels to reflect on how far the market has come from its origins more than 30 years ago and how much potential remains to help consumers and institutions achieve financial goals never more important and increasingly elusive.

Allison Cerra
Chief Marketing Officer
Alkami

[2] *Online Banks Are Winning the Deposit War*, The Wall Street Journal, June 3, 2023

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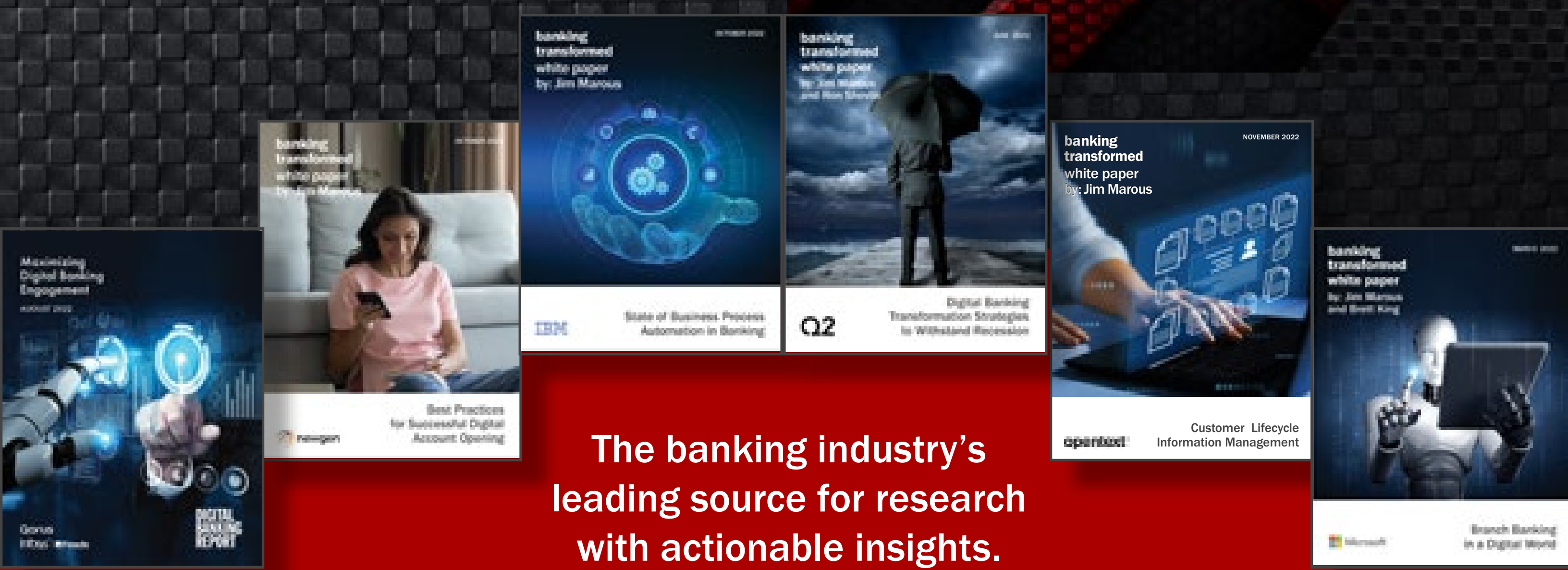

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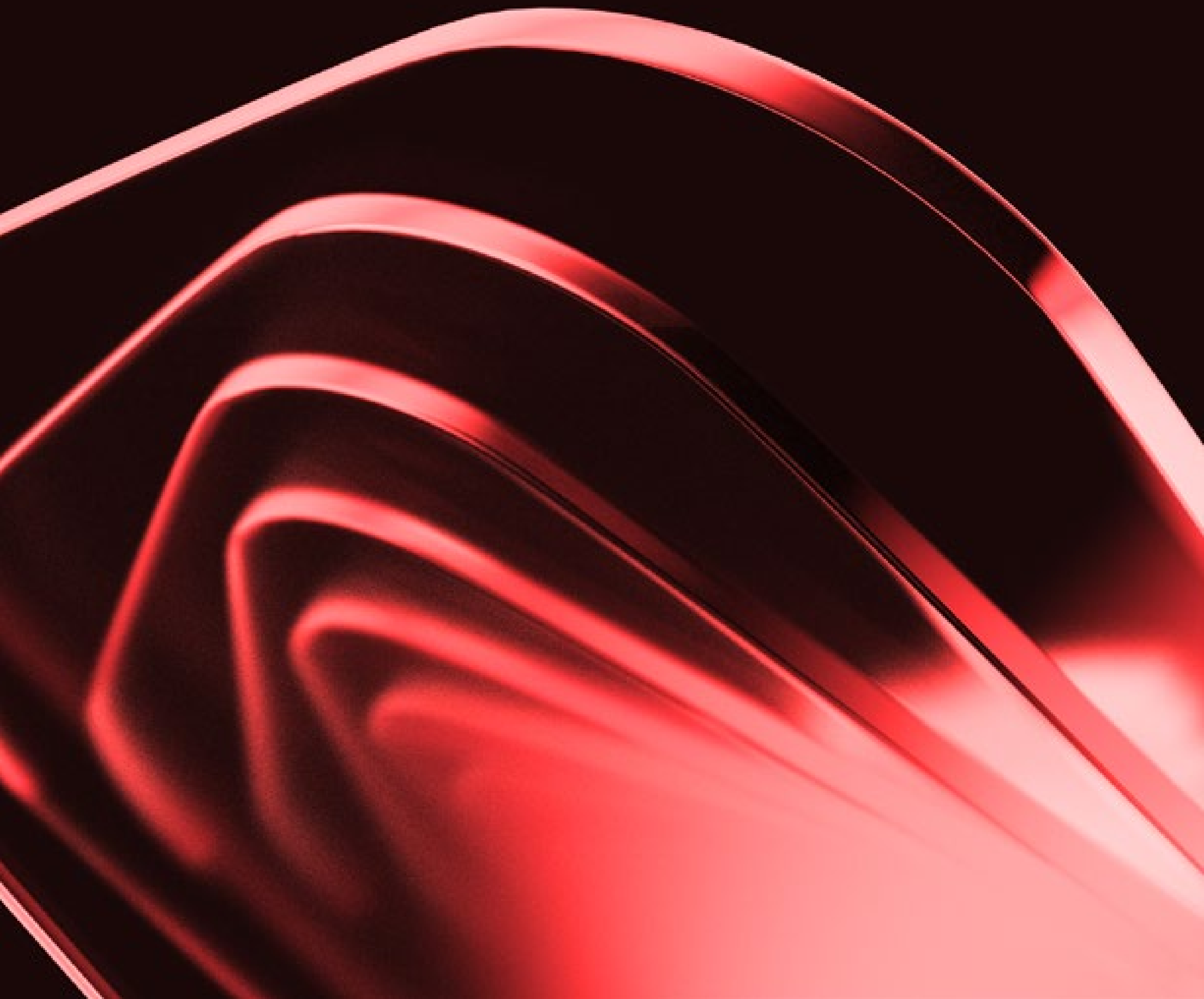
Executive Summary



"Respondents to the research represented a diverse geographic organizational type and asset size universe of financial institutions in the U.S."

Executive Summary: Assessing Digital Maturity in Banking

The banking sector is currently experiencing a shift towards digitalization. Financial institutions are embracing advancements such as leading-edge applications and data analytics to enhance customer service, improve user experiences and engagement, and maintain competitiveness.

Not all banks and credit unions are at the same level of advancement. Our study conducted by **Emerald Research Group** and the **Digital Banking Report** on behalf of **Alkami** sheds light on the state of maturity across the banking industry.

The December 2023 study utilized a survey methodology involving 215 decision makers from institutions with at least $200 million in assets. The participants included senior executives, product managers, marketers and technologists who play a role in shaping their organization's digital banking strategies. These respondents were geographically diverse across the United States providing a sample in terms of

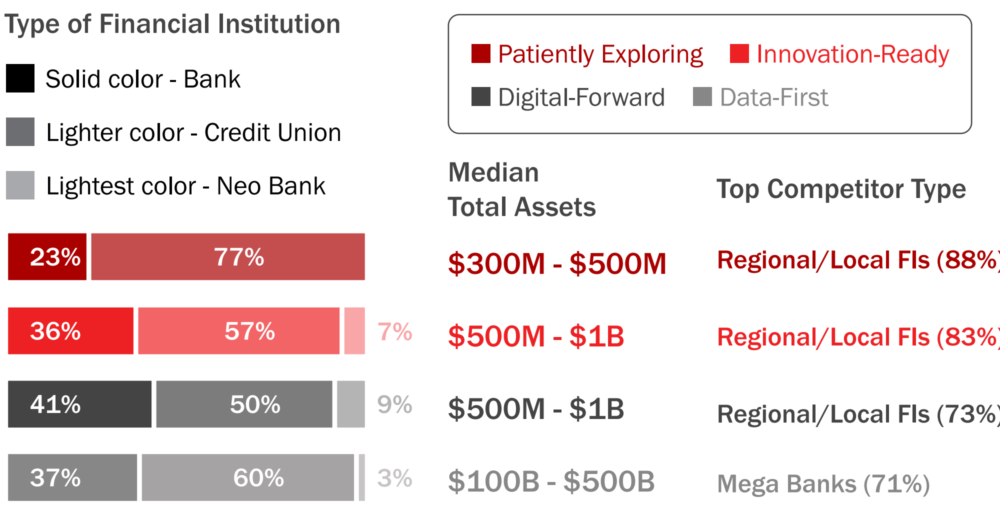
bank size, type and digital maturity. The respondents came from credit unions (57%), banks (36%) and neobanks[3] (7%).

To assess maturity within the industry, researchers utilized advanced analytics techniques to categorize respondents into four segments.

- **Patiently Exploring** (14%) – Primarily smaller institutions which place emphasis on interaction rather than technology, heavily relying on third-party digital solution providers... rather than partnering with them. Their customer-first, relationship-driven mindset often sets them apart and they strongly value high-touch, in-person experiences. This segment is slower in adopting advanced capabilities.
- **Innovation-Ready** (39%) – Mostly mid-sized organizations beginning to put significant investments into technology — prioritizing user experience over advanced functionality. Most of them strive to have great platform User Interface (UI) and usually deliver on it. Their next focus is typically the new or non-customer experience, adding more ways to shop for products and speeding up their account set-up experience.
- **Digital-Forward** (38%) – Heavily invested in digital technology and are above average in their digital maturity. Have understood the value of technology for an extended period and have automated a lot of back-end processes. Account set-up experience among the best in the business for customers and non-customers. Striving to be a truly data-driven organization leveraging modern technologies.
- **Data-First** (9%) – Fully embraces a data-driven mindset. Laser-focused on results and using data for nearly every decision. Considers technology a major advantage and pushes vendors forward if not already building things in-house. This segment tends to be larger, full-service institutions, looking beyond banking to hire the best talent. Differentiates on access to data and ability to get the most out of it.

While all segments consider themselves customer-centric, the most digitally mature players specifically focus on returns from their investments and rely on data rather than intuition for decision making.

CHART 1: MOST MATURE FINANCIAL INSTITUTIONS TEND TO BE LARGER BANKS AND NEO-BANKS



Source: Emerald Research Group and Alkami © December 2023 Digital Banking Report

[3] Neobank defined as "internet bank or credit union (retail/commercial bank or credit union without brick and mortar branches)"

"Being resistant to change hinders digital maturity progress even for technology-equipped organizations."

Priorities Differ Across Segments

Digitally mature institutions predominantly prioritize providing customers with superior digital experiences rather than relying on physical channels. That said, the 'Patiently Exploring' segment still values human interaction over digital efficiency.

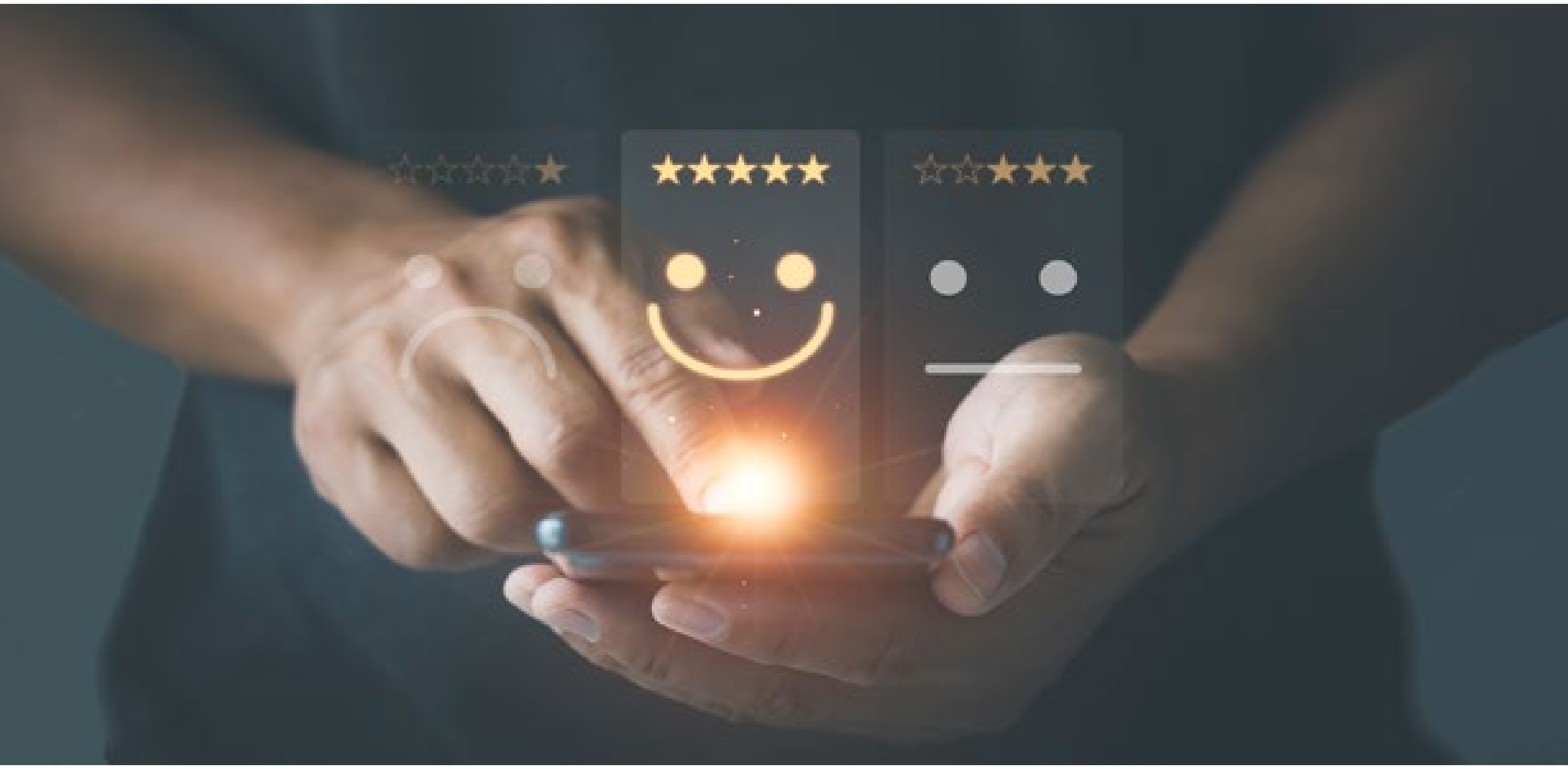
When evaluating banking platforms, early-stage companies focus primarily on aesthetics and simplicity. On the other hand, more sophisticated institutions emphasize capabilities such as personalization and process automation.

The more digitally mature sectors also actively push their technology partners to enhance their capabilities instead of relying solely on vendor-led innovation. Organizationally, the more digitally mature organizations welcome change.

Our research found that the level of digital maturity is linked to revenue growth. **Institutions that prioritize data utilization in our research experienced an annual revenue growth of 20% which is directionally higher compared to others.** They also possess a degree of automation in account opening and payment processing that has potential to drive significant efficiencies.

Not surprisingly, achieving maturity goes beyond technology investment and implementation. Companies must foster a culture that prioritizes iterative and continuous innovation. Being resistant to change hinders digital maturity progress even for technology-equipped organizations.

Nearly half of FIs with underwhelming performance admit to being cautious in adopting new technologies. Most rely entirely on third-party platforms. In contrast, their higher growth counterparts often collaborate with third-party platforms, developing some aspects of digital solutions internally.



"More than half of the Digital-Forward and Data-First groups prioritize investment in customer experience technology over all else, unlike less mature segments."

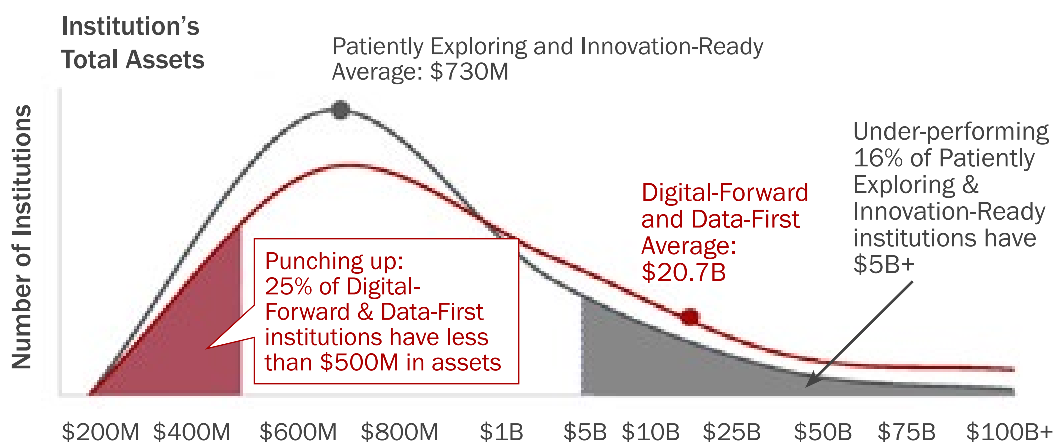
Size Does Not Determine Digital Maturity

While many of the less digitally mature organizations are from smaller asset sized institutions, **it's worth noting that digital banking sophistication is not solely determined by size. One-quarter of organizations excelling digitally have less than $500M in assets.** These more mature, smaller institutions, share several characteristics. They view change as an advantage rather than a risk. They have a mindset of being open to change, testing emerging technologies before others in their asset category. As opposed to resisting innovations from external sources, these adaptable players eagerly collaborate with third-party solution partners.

Alternatively, 16% of 'Patiently Exploring' and 'Innovation-Ready' institutions have over $5 billion in assets. Many of these organizations have not embraced change or committed to trusting data over their instinct.

CHART 2:

NOT ALL SMALL INSTITUTIONS UNDER-PERFORM AND NOT ALL LARGE ORGANIZATIONS ARE DIGITALLY MATURE



Note: There were no participants under $200M in this study.

Source: Emerald Research Group and Alkami © December 2023 Digital Banking Report

Key Areas of Investment

While some institutions have limited digital adoption, cutting-edge organizations are now focusing on frontier technologies to maintain their competitive advantage.

More than half of the Digital-Forward and Data-First groups prioritize investment in customer experience technology over all else, unlike less mature segments. In research from the Digital Banking Report we find these tools can transform experiences from reactive to predictive, enabling the delivery of personalized actions rather than just responding to customer requests.

"By combining adaptive cultures, customer-centric mindsets and collaborations with the right technology partners, organizations of all maturity levels can chart their own path to digitally-driven growth."

Recommendations for Enhancing Digital Maturity

The research found that institutions aiming to enhance their maturity should:

- Prioritize customer-facing digital channels over legacy physical infrastructure.
- Shift culture from intuition-led to data-driven decision making.
- Collaborate with third-party partners to pilot emerging technologies.

Moving Forward

Digital maturity's correlation with revenue growth underscores why technology innovation must remain a strategic priority for every financial institution, regardless of size, type or current sophistication. While the 'Data-First' institutions presently set the pace, the banking landscape will continue to evolve rapidly requiring a challenger mindset even among digital maturity leaders.

The financial services industry has become one of the most fiercely competitive industries, with customer expectations and technological capabilities evolving faster than ever. The barriers between banks, fintech firms and big tech continue blurring. To keep pace, banking providers must embed digital advancement into their institutional DNA.

Rather than chasing short-term returns, leading organizations take a longer-term perspective on digital maturity, viewing it as an ongoing journey versus a one-time initiative. They recognize today's bleeding-edge technologies will become table stakes capabilities in just a few years. More than ever, complacency breeds obsolescence.

By combining adaptive cultures, customer-centric mindsets and collaborations with the right technology partners, organizations of all maturity levels can chart their own path to digitally-driven growth.

Cultivating change-ready cultures focused on continuous improvements creates innovation from the front-lines. As processes digitize, financial institutions must hire new talent, re-skill workforces, rethink roles to attract digital talent, and democratize insights to humanize digital experiences and digitally empower human engagement.

Obsession with results further fuels technology modernization initiatives. Designing experiences around pressure points and unmet needs — versus internal constraints — delivers greater adoption and impact.

Finally, co-innovating with fintech and big tech partners via Application Programming Interfaces (APIs) and embedded services introduces next-generation capabilities that are utilized by nearly all (86%) of the most mature segment. With technology cycles accelerating, the smartest institutions combine strategic internal investments with an openness to external best-in-class solutions.

The future remains unwritten in banking. By taking proactive steps, delivered at speed and scale, incumbents and aspirants alike can thrive amidst the uncertainty. Digital dexterity will position organizations to quickly capitalize on new opportunities while weathering impending disruptions.

The Building Blocks of Digital Maturity in Banking

The Building Blocks of Digital Maturity in Banking

As consumer behavior and expectations rapidly evolve, retail banks and credit unions face immense pressure to digitally transform. However, digital maturation is not a single switch to flip but rather a continuum of people, process and capability advancement that does not have an endpoint.

Our analysis has revealed common patterns that distinguish financial institutions on a digital development spectrum. The four evolutionary stages of digital maturity in banking include Patiently Exploring, Innovation-Ready, Digital-Forward and Data-First. Each segment possesses unique strengths and weaknesses reflecting their digital priorities and willingness to challenge conventional views.

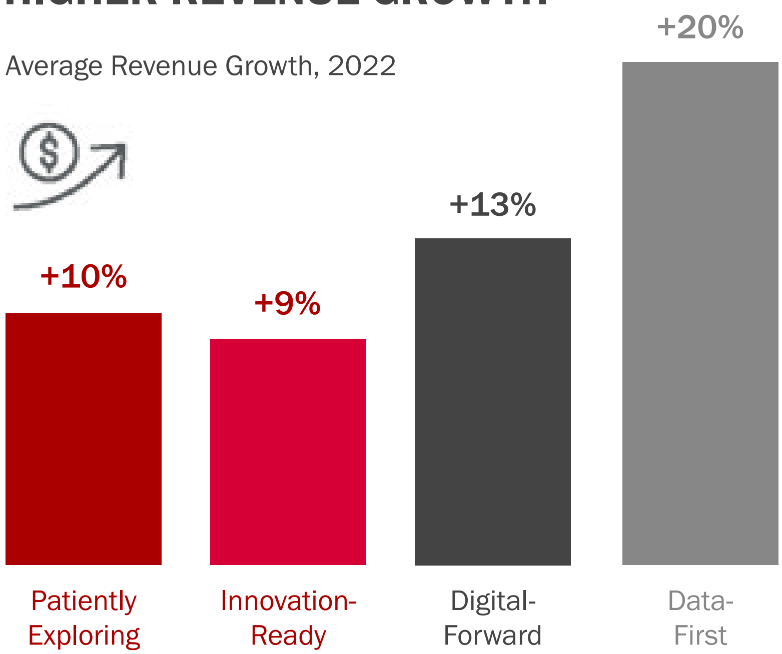
Several fundamental capabilities and beliefs drive an organization's digital dexterity. These building blocks stack together to assemble market leaders who can ultimately redefine consumers' expectations while those who wait on the sidelines progressively lose ground.

Prioritizing Digital Channels

The first developmental milestone relies on infrastructure spending prioritization. Over 70% of the most mature institutions now place greater importance on digital banking functionality over physical branch and call center networks.

Transitioning beyond human-driven high-touch service models, the more digitally mature organizations redirect investments into customer self-service and journey augmentation. Research reveals that revenue growth was higher at these digitally devout institutions the year prior to taking the survey.

CHART 3:
DIGITAL MATURE ORGANIZATIONS REPORT HIGHER REVENUE GROWTH



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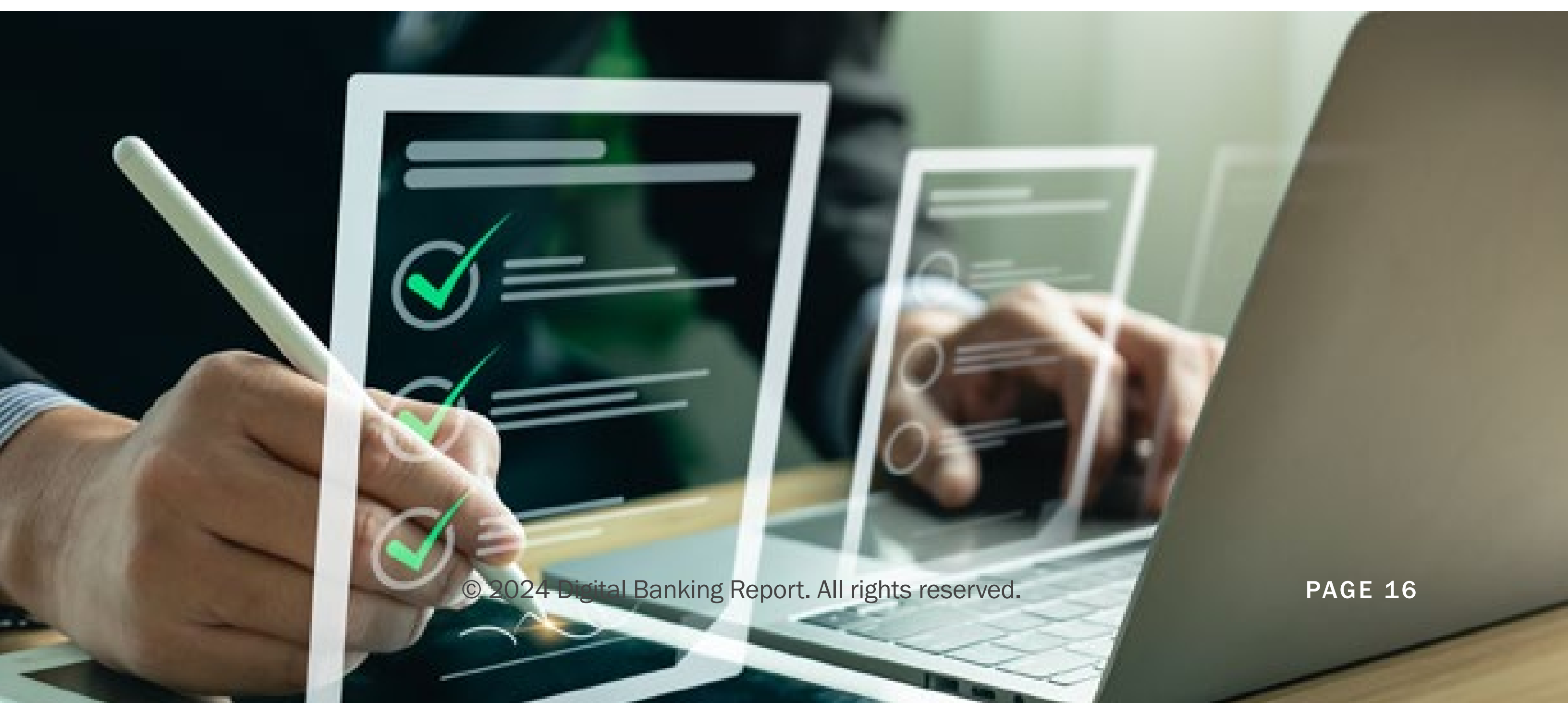
Leaders also automate more back-office operations — like identity verification and payment processing — to accelerate consumer transactions. This increasingly removes internal and external friction while providing competitive differentiation.



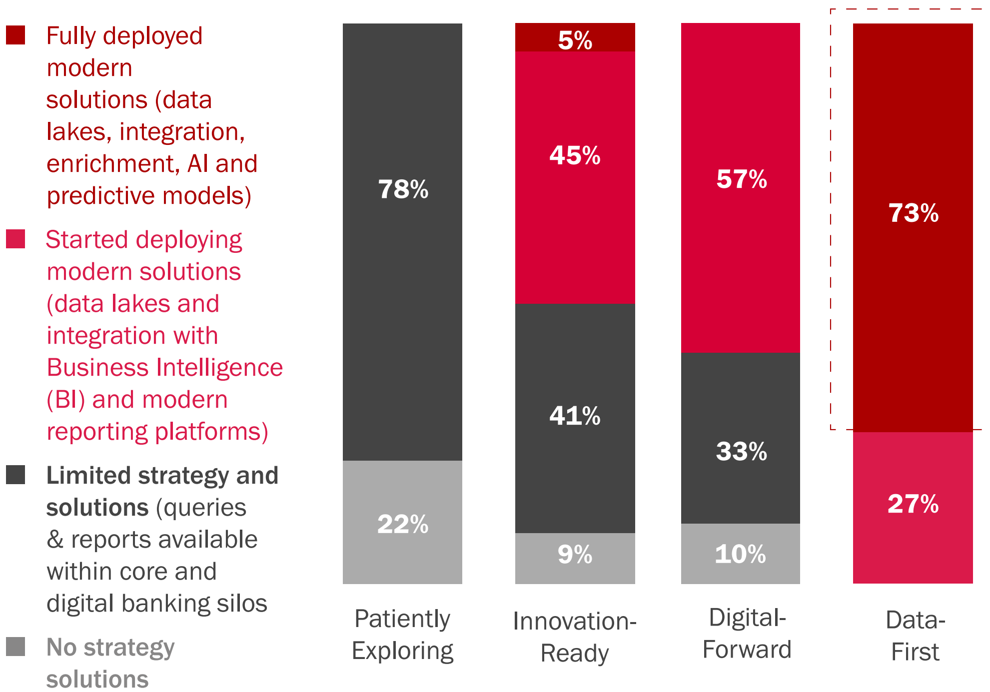
Cultivating Data Fluency

Another hallmark of sophisticated institutions is the democratization of data-fueled decisions. Over 70% of the most advanced adopters have implemented modern data infrastructure, like data integration, data enrichment, and/or predictive models/AI.

This technology permeates enterprise operations from user experiences to risk models. Leaders create audience insights to drive targeted product recommendations and marketing. Transaction analysis personalizes engagement while optimizing processes.

CHART 4:
'DATA-FIRST' ORGANIZATIONS HAVE COMMITTED TO MODERN DATA SOLUTIONS

Current Data Strategy and Technology



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In contrast, nearly all of the Patiently Exploring FIs are lacking integrated data infrastructure. They consider past experience — not predictive intelligence to guide strategic planning. Building data fluency and tools ranks among their greatest opportunities for improving digital maturity in banking.

Future Focus Over Present Success

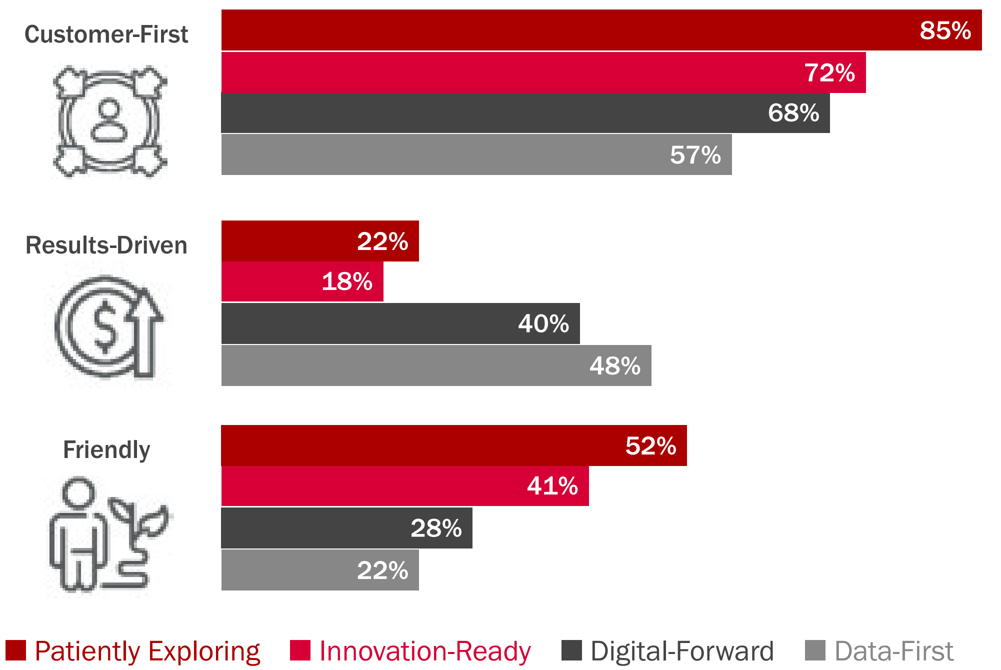
Change-friendly cultures also distinguish fast-evolving institutions from peers that build on a status-quo foundation. In research by the Digital Banking Report we have found resistant leaders rationalize the status quo by citing current — yet temporary — financial stability. Their aversion to risk-taking and iterative innovation limits advancement.

Meanwhile, more digitally mature organizations consider technological experimentation table stakes for future relevance. Having launched emerging capabilities ahead of competitors, they already reap rewards from expanded consumer access, operational excellence and increased engagement across the entire customer lifecycle.

CHART 5:

DIGITALLY MATURE ORGANIZATIONS FOCUS ON RESULTS OVER AESTHETICS

How would you describe your company culture?



What matters most in a platform: Speed, aesthetics and interface or capabilities?

Patiently Exploring - *'Aesthetics and Interface'*

Innovation-Ready - *'Aesthetics and Interface'*

Digital-Forward - *'Advanced Capabilities'*

Data-First - *'Advanced Capabilities'*

Source: Emerald Research Group and Alkami © December 2023 Digital Banking Report

Rather than fear outside disruption, more digitally mature companies proactively integrate third-party solutions, including non-financial partnerships, to complement internal development. These test-and-learn-fast cycles become enduring advantages.

Digital + Human Experiences Drive Everything

Viewpoints on the relationship between humans and technology differ sharply across maturity spectrums. Instead of positioning infrastructure investments as non-revenue generating costs, sophisticated leaders consider digital technology foundational to experience delivery and lifecycle marketing.

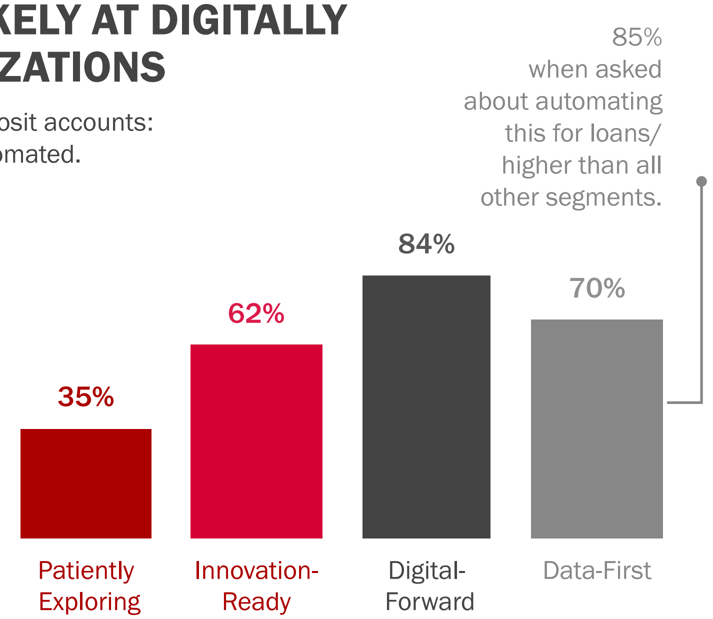
Digitally mature firms understand the need to prioritize data to allow for personalization and automate experiences to reduce friction. Most organizations just beginning the digital maturity journey focus on relationship building through human interactions but lack supporting digital infrastructure to meaningfully scale impact and make more relevant digital + human experiences.

CHART 6: DIGITALLY SUPPORTED BACK OFFICE MORE LIKELY AT DIGITALLY MATURE ORGANIZATIONS

Back-end process for new deposit accounts: Percentage mostly or fully automated.

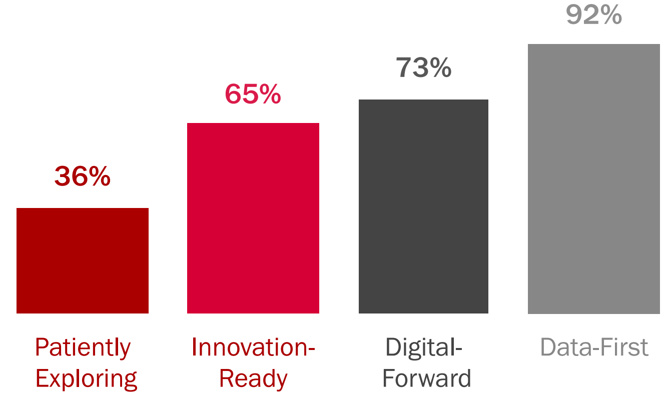
Identity Verification & Document Generation

(I.e., minimal data inputs for applicant, including the ability for e-signature collection; back office must perform 'Know Your Customer' checks or it is instantly verified.)



Payment Processing & Verification

(I.e., ACH or other digital method — plus, paper-based options if preferred.)



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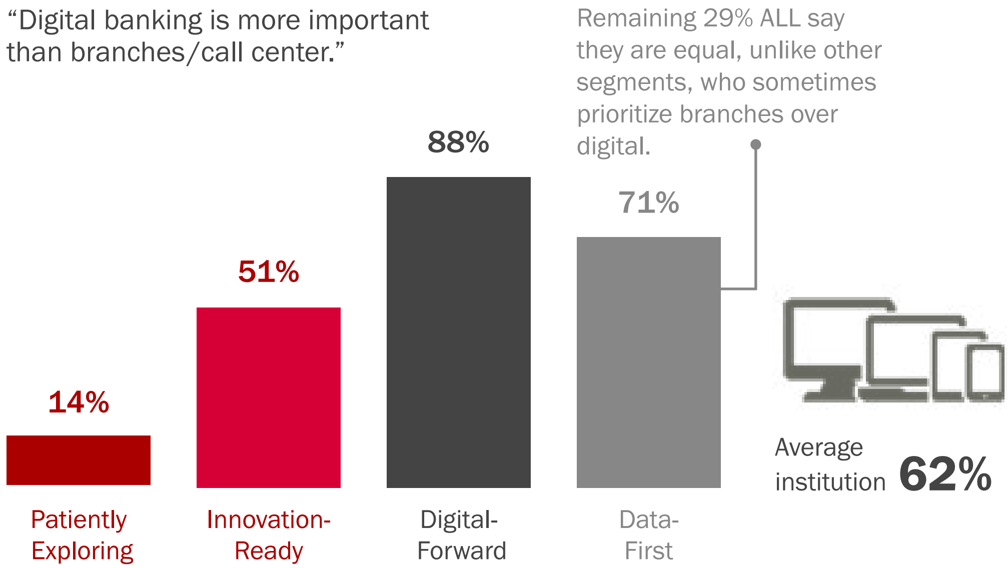
"By examining the key pillars of distinction between segments, bankers at organizations of all sizes can chart a course toward greater maturity. Prioritizing digital customer experiences, investing in predictive intelligence capabilities, and nurturing risk-tolerant cultures together build market leadership."

CHART 7:
DIGITALLY MATURE ORGANIZATIONS PRIORITIZE DIGITAL CHANNELS



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As consumers flock to mobile and online apps at ever-increasing rates, the future of retail banking appears unambiguously digital. Players rooted in physical paradigms risk significantly lower revenue and customer growth without fundamental changes in strategic direction and execution.

By examining the key pillars of distinction between segments, bankers at organizations of all sizes can chart a course toward greater maturity. Prioritizing digital customer experiences, investing in predictive intelligence capabilities, and nurturing risk-tolerant cultures together build market leadership. Players already outpacing peers on these fronts reap the rewards today but must also maintain relentless focus to continually widen their advantage and avoid disruption tomorrow.

Navigating the Digital Maturity Spectrum

A widening chasm separates the digitally dexterous from the organizations more focused on an iteration of the past. The research bifurcates retail banking providers by tech-centric strategy and execution. More mature institutions prioritize customer-facing digital capabilities over legacy infrastructure. The result is a movement towards predictive personalization and engagement as opposed to simply reacting to marketplace and customer expectation changes.

While we define segments by size, type and culture, our study cautions against oversimplification. Not all large financial institutions excel digitally, and not all smaller community financial institutions lag.

Institutional mindset and culture fuel advancement as much as wallet size.

Recommended Next Steps

Patiently Exploring

These mostly smaller institutions play a personal touch game. Though relationship-rooted in community orientation, they often have not modernized experiences or operations to match rising digital expectations.

With limited resources, they remain almost entirely dependent on third-party digital banking providers to innovate and push them forward. Three-quarters derive from credit unions — focused more on cultivating trust than maximizing efficiency.

While generally amicable (if a bit inefficient) with modest digital payment adoption, they have not widely deployed tools for customer identity authentication. Account origination and payment verification remain predominantly manual and paper-based end-to end.

To evolve, they must challenge deeply-embedded mindsets, prioritizing customer self-service — the core competency of digital — over high-touch human interaction. As consumers migrate transactions online, such personal relationships now scale digitally or deteriorate.

These players must re-examine the role of digital channels and explore process automation with partners. They should identify areas to reallocate investments from physical infrastructure to customer experience technology.

While the segment likely already has an online setup experience for current members and customers, these organizations must consider eliminating any legacy analog processes (wet signatures, in-branch funding, slow Know Your Customer [KYC} processes) providing fast mobile processes and building out truly digital processes for non-members/customers.

Innovation-Ready

This medium-sized segment represents an intermediate stage between digital indifference and dominance. While they have begun investing significantly in customer experience modernization, they still have room to grow digitally.

Innovation-Ready organizations' orientation centers around usability and aesthetics over functionality. With account opening speed and mobile card capabilities relatively competitive for existing customers, they overlook shortcomings for new clients.

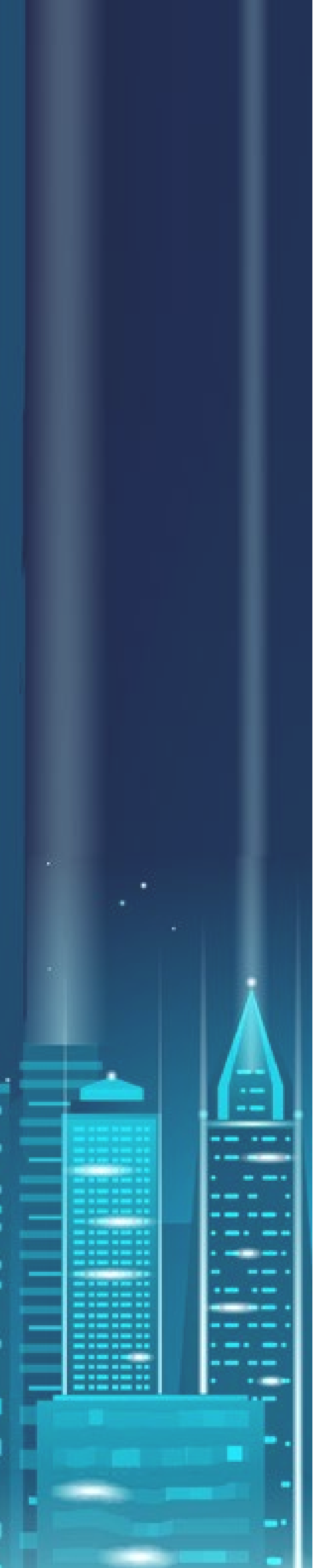
In a quest for seamless digital migration, many have outsourced technology almost entirely. But to reach the highest echelons, ownership and control now prove critical — integrating data and digital operations into strategic differentiation.

It is now imperative to cultivate a change-friendly culture, more focused on quantitative performance indicators than customer smiles. The next breakthrough relies on innovating digital sales and commerce centered on non-customer acquisition.

To progress, Innovation-Ready players must expand digital capabilities to non-customer acquisition across devices and channels.

Digital-Forward

Heavily investing in technology for several years, these typically mid-sized institutions



now possess advanced digital platforms compared to most financial institutions. They have automated extensive back-office functions from ID verification to document handling.

Achilles' heels emerge, however, around data-driven targeting and decision intelligence. As the few beginning to modernize reveal, these digital capabilities increasingly determine market leadership.

The study suggests the path forward lies in completing their maturation into full-service powerhouses, which typically accompanies larger size. Some remain product niched — a likely limiting factor for customer wallet share and lifetime value.

In 2024, these organizations must implement the data infrastructure and analytic tools that distinguish cutting-edge players. Building out audience insights for predictive personalization and marketing automation should top their priority list for additional tech investments.

Data-First

This elite cadre of retail banking and credit union organizations set the pace for customer experience, operational efficiency and financial performance. Mostly large and feature-rich, these financial institutions have ingested the gospel of data-driven decisioning deep into their organizational DNA, while actively engineering the tools to achieve it.

They have implemented advanced audience analytics into knowledge foundations, shifting models from intuition to intelligence. Top-graded operational metrics result, including nearly double the average revenue growth rates over trailing firms.

Pushing partners to continuously refine capabilities, some also build key components in-house to retain upper hands in differentiation. Setting sights beyond traditional financial services sectors, they have welcomed talent with little to no banking pedigree — but with wide digital acumen.

In 2024, these pioneers can improve further. As more advanced functions like sales process automation reach maturity in the market, opportunity emerges to implement such tools for productivity gains.

And in an environment of exponentially expanding fintech solutions, prioritizing seamless integration and API infrastructure presents another frontier for staying perpetually ahead of rising customer expectations.

While today's "Data-First" institutions set the benchmark, stagnancy poses existential threats as innovative options abound. Digital maturity demands continual evolution from within or risks disruption from beyond. By studying those presently leading alongside trailing archetypes, strategists across banking can chart their own ascent.

Essential Foundations for Digital Maturity in Banking

Essential Foundations for Digital Maturity in Banking

There are so many priorities when trying to become more digitally mature in banking. More than ever, organizations must balance the introduction of digital-forward capabilities while updating a legacy core. Financial institutions are best served when they focus on getting the basics right.

Our digital maturity index research spotlights five immediate building blocks for digital maturity in banking. The top 5 drivers are:

1. Prioritizing digital over branches for servicing account holders.
2. Prioritizing digital over branches for sales and account setup.
3. Digital account opening methods available for new customers/members (Online + mobile).
4. Target audience management for marketing (and the data available to do so).
5. Organization-wide data strategy and technology.

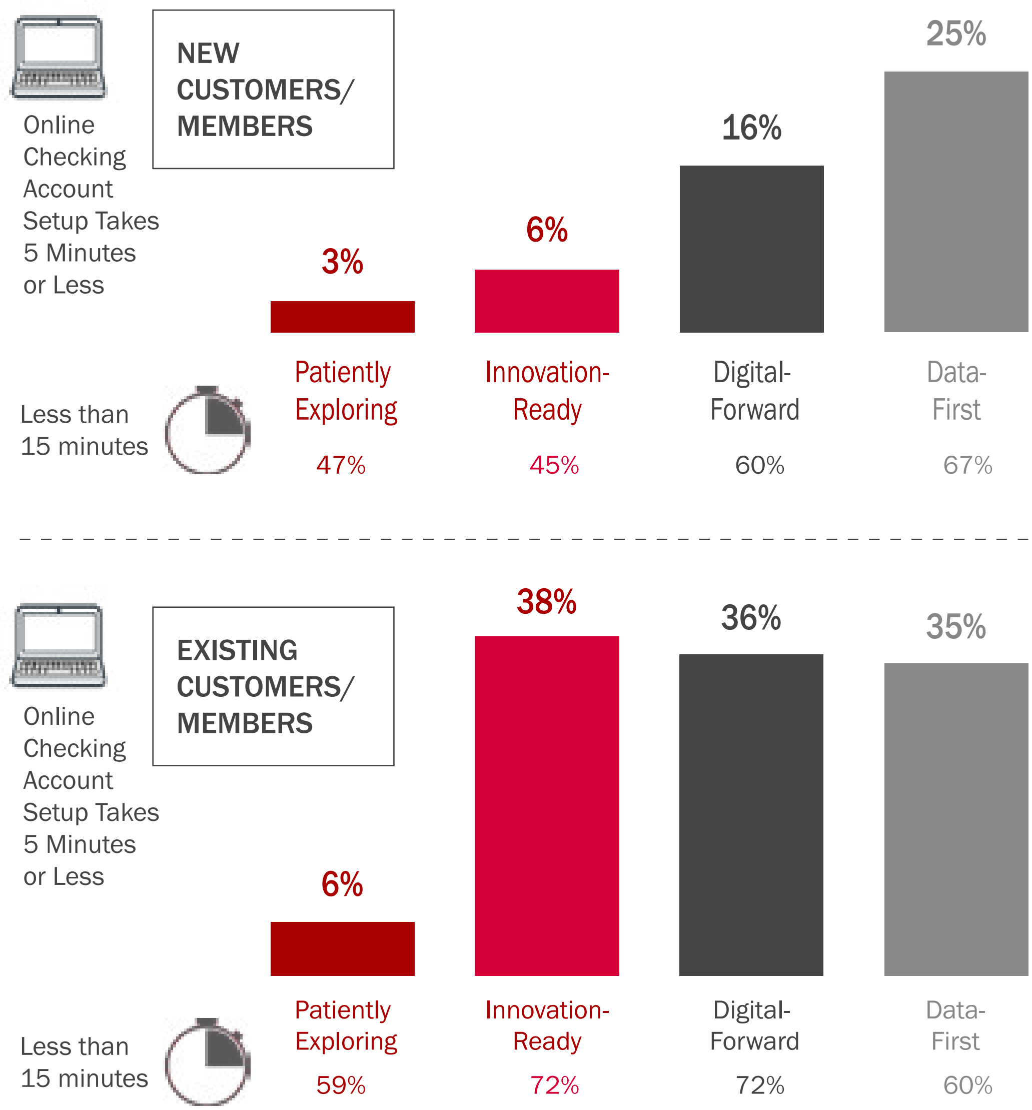
Digital Dexterity Starts with the Basics

Many banking providers tout "mobile first" strategies while continuing to allocate technology investments disproportionately to legacy channels and outdated back-office processes. Unfortunately, hybrid approaches to digital deployment poorly deliver on growing consumer expectations.

Offering digital account opening for new and prospective account holders tests an organization's digital readiness. Success in doing so earns trust and loyalty while frustration prompts exit. This foundational basic increases the value delivered from the customer or member's perspective, decreasing 'silent attrition' to alternative financial solution providers.

CHART 8:

FASTER DIGITAL ACCOUNT OPENING MORE LIKELY WITH DIGITALLY MATURE ORGANIZATIONS



Source: Emerald Research & Alkami © December 2023 Digital Banking Report

Unfortunately, seamless digital delivery remains rare at many organizations. Most visitors still are faced with reams of paper documentation alongside wet signatures — hardly the type of experience delivered by today's leaders in the technology space.

One of the biggest challenges is that behind the scenes, many institutions continue manually processing applicant info and payments using last century workflows. The resulting delays betray advertised capabilities for on-demand banking.

"A new account opening process of less than 5 minutes is expected by digital consumers."

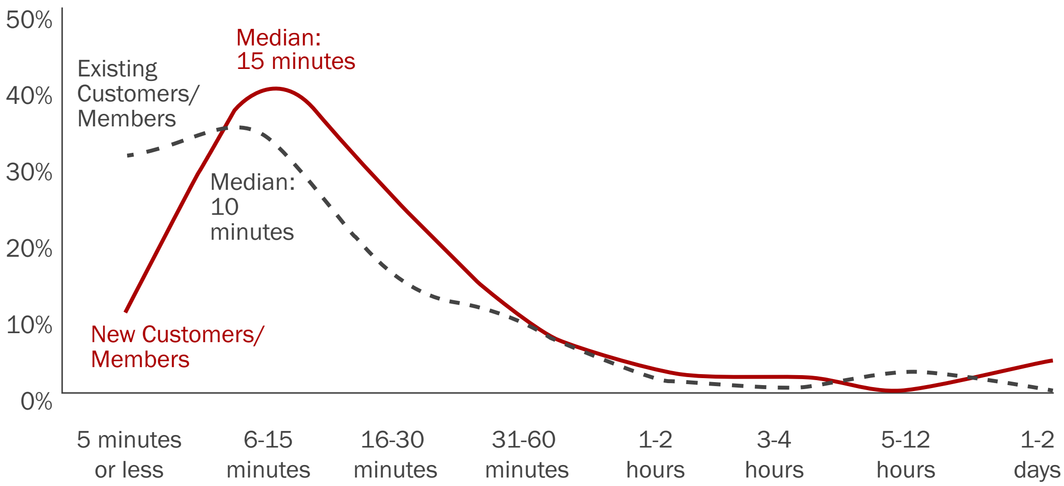
Bridging Physical Expectations Across Virtual Channels

Mature digital financial organizations demolish drudgery through automation and intelligence. With consumers intolerant of any friction, learning their preferences and pre-filling data fields removes tedious paperwork.

The most sophisticated leverage aggregated financial information and social media insights to approve new customers or members in seconds. However, many organizations are saddled with processes that exceed 15-minute account initiation at a time when under 5-minute digital account opening windows give competitive advantage today.

CHART 9:
5-MINUTE ACCOUNT OPENING REMAINS ELUSIVE

Average time to set up checking account online



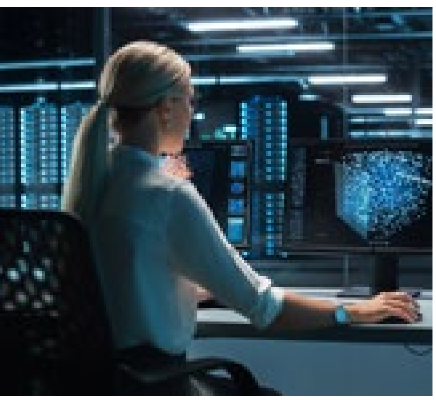
Source: Emerald Research Group and Alkami © December 2023 Digital Banking Report

The Costs of Falling Behind

Achieving these baseline capabilities rely on overhauling legacy systems and processes built for obsolete channel strategies. Institutions falling behind today do so with significant financial penalties.

The smartphone generation has only known immediacy and personalization. Patiently Exploring financial providers will see consumer appetites shift to neobanks, fintech apps, retailers and tech giants rapidly reinventing money movement customer expectations through technology.

"The good news is that many third-party solution providers enable organizations at any asset size and digital maturity level to proceed confidently in delivering the basics required."



For instance, previous Digital Banking Report research has found that those firms that reach the faster opening time threshold (<5-minutes) are rewarded with as much as a 60% increase in new account growth. And while there isn't an immediate penalty for slower payments (yet), consumers are becoming increasingly aware of what is possible with digital leaders.

Previous Digital Banking Report research and Banking Transformed interviews have also confirmed that more digitally mature banking providers grow consumer bases and deposit balances faster … thanks to frictionless user experiences spanning prospective to existing clients. They also save substantially on operating expenses as digitization drives workforce productivity.

Required Foundations for Maturity

While many organizations trumpet innovation labs and hackathons, achieving true maturity requires delivering and excelling on the basics, not just trying to wow consumers with cutting-edge concepts.

Top performers balance digital front ends with automated back offices to enable customer or member simplicity and bank efficiency simultaneously. They remove reasons for consumers to leave rather than trying to lure them from competitors.

The capabilities to deliver speed, transparency and personalization consistently across high value transactions like new account opening and payments should remain priority investment areas for most institutions still developing digital prowess.

Architecting for Speed and Scale

The challenges abound, however, for technology and business leaders to transform decades-old architectures into flexible infrastructure capable of exceeding ever-rising expectations around immediacy. Disjointed, constrained mainframes and fragmented task hand-offs, leave many banks technically incapable of matching these feats today.

The good news is that many third-party solution providers enable organizations at any asset size and digital maturity level to proceed confidently in delivering the basics required. By rebuilding around open APIs, cloud infrastructure and composable solution components — most financial institutions can deliver unified, nimble, and scalable digital platforms ready for prime time.

Developing Competency for an Unpredictable Future

Delivering the basic digital requirements well is no longer an option since the pace of change only accelerates from here. Quantum computing and AI threaten more disruptive impacts across financial services in five years, than the past decade produced.

While our "Data-First" segment is the most advanced 'tip of the spear' organizations today, they will be the norm in the future — so it's important not to be left behind. The most advanced organizations are leveraging things like data enrichment, AI predictive models, integration with business insights platforms, and automated marketing tailored to each individual customer/member. To accomplish this, it's important to start laying the bricks now (e.g. access to more data, breaking down data silos and integrating more, and starting to inform every decision with data).

Size Does Not Fully Define Digital Maturity

Size Does Not Fully Define Digital Maturity

Conventional wisdom views technology leadership as a game of resources — the deepest pockets build the best experiences. Our analysis reveals that more financial resources do not always translate to more digital maturity.

While financial services and technology behemoths overall set the pace, some far smaller players demonstrate equal or greater digital prowess. These 'David' disruptors consistently punch above their weight class through visionary leadership, scrappy cultures, innovative mindset and nimble operations.

At the other end of the spectrum, many well-resourced banking 'Goliaths' appear stuck in a former era. Despite ample budgets and much larger customer bases, they trail smaller peers in deploying capabilities to meet escalating digital age expectations.

Mindset Over Market Share

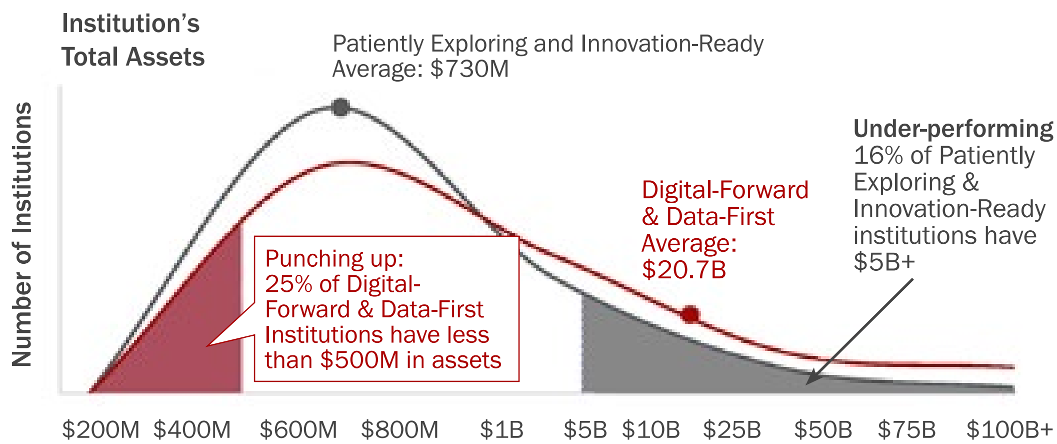
At first glance, the data confirms assumptions. The most digitally mature segment, "Data-First" adopters average a few billion in assets, handily outperform general market capabilities and benchmarks — including 20% revenue growth in 2022.

Conversely, largest "Patiently Exploring" institutions seem overwhelmed by the exponential pace of technological change. With limited investments spread thinly across priorities, a follower's adoption mindset tends to cripple competitiveness.

However, a cohort of remarkable overachievers puncture assumptions by thriving at a fraction of their mature peers' resource scale. Displaying key future success markers — like customer-centric digital account opening on mobile devices, future-ready back-office automation, and data modernity — these "David" disruptors embody how culture and philosophy can outweigh budget.

CHART 10:

NOT ALL SMALL INSTITUTIONS UNDER-PERFORM AND NOT ALL LARGE ORGANIZATIONS ARE DIGITALLY MATURE



Note: There were no participants under $200M in this study.

Source: Emerald Research Group and Alkami © December 2023 Digital Banking Report

Meanwhile, sixteen percent of leaders in the largest asset class severely under-perform expectations. Though similarly resourced as elite peers, change-resistant mindsets avoiding risk and data deficiencies keep them firmly grounded in a fading past.

Death of Distinction

Increasingly, consumers engage financial brands digitally-first across prospective and existing relationships. Patiently Exploring user experiences or outdated interfaces cripple reputation and bottom lines regardless of branch density or community longevity claims. As a result, 'silent attrition' occurs, with customers and members retaining dwindling account balances and embarking on diversified relationships with multiple alternative providers.

Customer or member satisfaction metrics from the Digital Banking Report reveal sharp drops over recent periods for banks and credit unions lacking mature digital capabilities. Complaints center around avoidable frustration from channel misalignment and untargeted offers.

Mirroring times past, when most relationships were personal and engaging, many smaller yet highly sophisticated providers earn acclaim through customer and member empathy, self-service simplicity and frictionless processes that have replaced the benefits of human interaction. Streamlined account opening and simplified account funding capabilities draw consumers through seamless experiences.

These distortionary dynamics debunk long-held precepts. Competency now outweighs legacy as disappointed customers and members increasingly review commoditized services seeking their best fit.

Over-performing Underdogs

Separating industry leaders from Patiently Exploring (regardless of size) the analysis distills distinguishing attributes that position faster movers for future success.

- **Openness to change** - With technology continuously redefining engagement models, they view business reinvention as the path to sustained distinction and embrace calculated risk-taking.
- **Data and tool obsession** - Rigorous analysis guides strategy shaped by market truths rather than internal assumptions or past experiences.
- **Customer co-dependence** - They fixate on removing friction through journey mapping empathy rather than pivoting solely around organizational constraints.
- **Test-and-learn cycles** - From partnerships to emerging capabilities, they pilot new solutions and quickly assimilate successes through agile methods.

By behaving more like aggressively expanding startups than complacent incumbents, these modest sized overachievers architect much of the digital blueprint for total market evolution.

They aggressively tackle friction-filled processes, integrating automated solutions for instant account opening, modern payments and servicing bolstered by analytics. Consumers reward their frictionless experiences with expanded share of wallet and/or reduced attrition.

Having implanted data-informed, customer-centric cultures ahead of their peers, they are already reaping multiplier effects from compounding knowledge and capability advantages that position them to lead markets for the next decade.

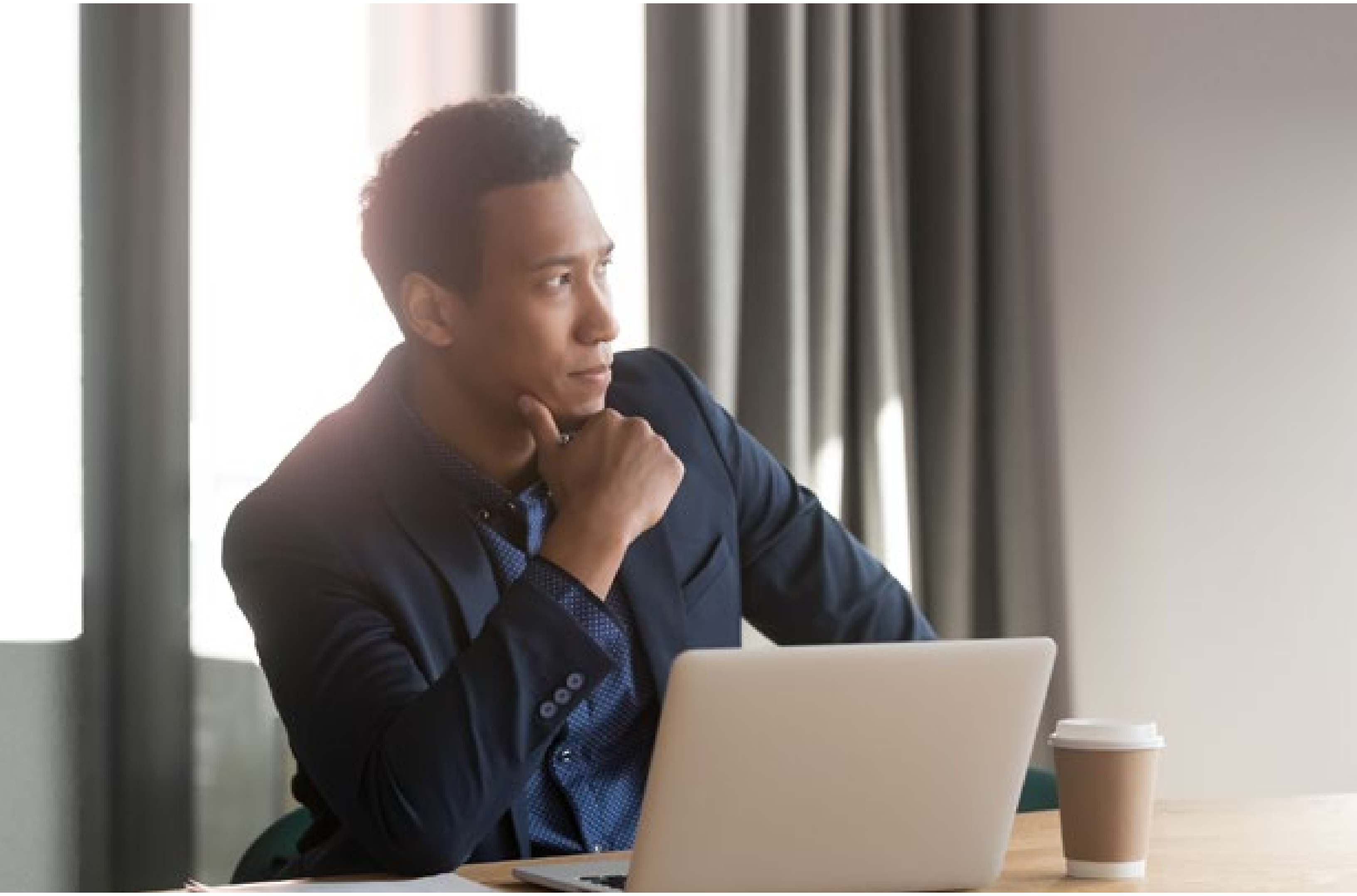
Goliaths Stuck in Yesterday

In contrast, many larger institutions seem trapped by profitable, yet fading, business models that inhibit reinvention urgency.

These under-performers primarily rely on vendors versus building customized solutions in-house or with partners. Constrained by data gaps and change-averse cultures, they are rarely first movers on emerging capabilities.

Consequently, lucrative segments like millennial shoppers exit after formative negative experiences, while zealous upstart brands entice them through channel alignment and journey focus.

Without fundamental changes that upgrade talent, modernize technology, and realign on distinctive value, these asset leaders risk being both out-innovated on digital capabilities and outworked through nimble delivery. The threats of client erosion and talent exodus grow more urgent by the quarter.



The Bottom Line

By correlating size and revenue with digital maturity markers, new analysis indicates long-held truisms don't always apply.

Those clinging to conventional relationships find poles reversing as consumer behavior evolves exponentially. To win market relevance and wallet share moving forward requires adopting long-term, results-obsessed approaches of today's overlooked overachievers.

Rather than resign themselves to diminishing competitiveness, large and small incumbents alike must reassess assumptions of their advantages — and manifest the agility to take calculated risks in transforming their companies to meet escalating digital age demands.

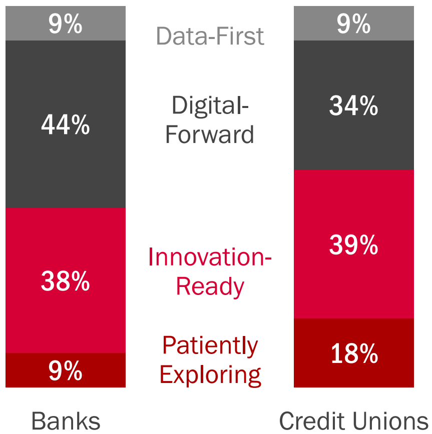
Digital Maturity Across Institution Type

CHART 11:
BANKS VERSUS CREDIT UNIONS

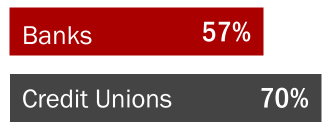
Banks and credit unions have somewhat unique digital strengths.

Digital Maturity Segment

Banks are a little more Digital-Forward, on average.

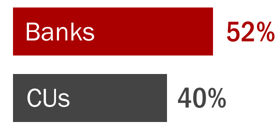


Offers Mobile Account Setup (Deposit Accounts among Existing Customers/Members)



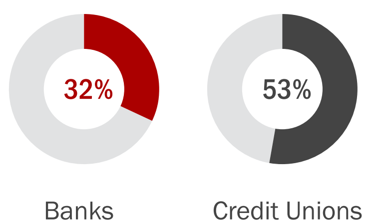
Credit unions tend to offer mobile -friendly account setup slightly more often.

Has Fully Deployed or Started Deploying Modern Data Solutions



While banks are a little more advanced when it comes to data.

"We strongly believe change is good and makes us better."



The average credit union is more open to change than the average bank.

One way credit unions embrace change is hiring talent from outside financial services.

Staffing: Invest in NEW TALENT Outside the Financial Services Sector.

Source:
Emerald Research Group and Alkami
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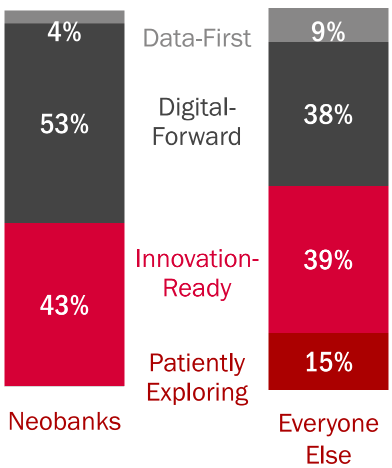
CHART 12:
NEOBANKS VERSUS EVERYONE ELSE*

(Traditional Banks and Credit Unions)

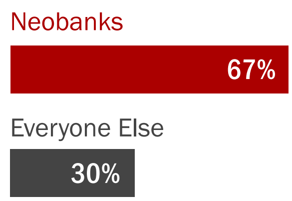
Caution: Differences below are qualitative in nature and are not statistically significant due to our sample only including n13 Neobanks.

Digital Maturity Segment

Neobanks are more likely to be **Digital-Forward** than traditional institutions.

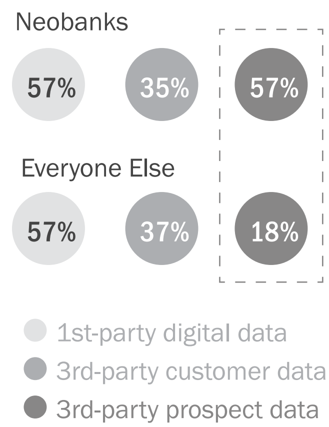


Neobanks believe their platform user experience is more advanced than other FIs.



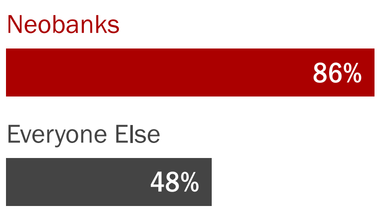
They are confident in their platform's UX, with most claiming that its better than other institutions.

Types of data used for marketing and customer targeting purposes



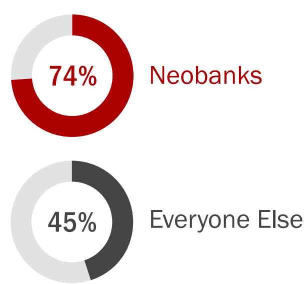
While Neobanks aren't necessarily in the Data-First segment, more often, many have purchased 3rd party data to target and market to prospective customers, unlike traditional FIs.

Account Creation is automated for digital banking.



Most Neobanks surveyed have automated their digital banking account creation.

Staffing: Invest in new talent outside the financial services sector.



Neobanks hire those with technology talent beyond those with financial services experience.

* Neobank defined as "internet bank or credit union (retail/ commercial bank or credit union without brick and mortar branches)"

Source:
Emerald Research Group and Alkami
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About the Author

Jim Marous

Named as one of the most influential people in banking and a 'Top 5 Fintech Influencer to Follow,' Jim Marous is an internationally recognized financial industry strategist, co-publisher of **The Financial Brand** and owner and publisher of the **Digital Banking Report**.

As a sought-after keynote speaker, author and recognized authority on disruption in the financial services industry, Jim has spoken to audiences worldwide. He has been featured by CNBC, CNN, Cheddar, the Wall Street Journal, the New York Times, the Financial Times, the Economist and the American Banker.

Through his podcast, **Banking Transformed**, Marous provides listeners with an opportunity to hear about the organizational impact of digital transformation. With new shows each Tuesday, Jim interviews his guests with the objective of digging deeper into the opportunities and challenges facing banking and other industries. You can download Banking Transformed on The Financial Brand podcast page or on your favorite podcast platform.

You can also follow Jim Marous on **Twitter** and **LinkedIn** or visit his professional website.