



**FINANCIAL INSTITUTIONS**

**DIGITAL  
TRANSFORMATION  
SURVEY**

INSIGHTS INTO DIGITAL TRENDS AND CHANGES  
IN THE **FINANCIAL INSTITUTIONS** INDUSTRY

## EXECUTIVE SUMMARY

*“It comes down to the convenience factor. Just as with every other industry, people want things quicker, faster and when they want them.”*

**Christina Churchill**  
RSM national financial institution lead



### Managing digital change in financial services

The financial services industry is rapidly being transformed, and nowhere is this more evident than in the digital revolution. Changes that used to take years now take months, and those that happened in months now occur within weeks. This digital transformation has been long in the making as customer expectations have steadily and inexorably evolved.

And this transformation will only accelerate as financial institutions cope with the coronavirus pandemic. Digital initiatives like providing a frictionless customer experience that were once seen as optional, or desirable but not absolutely necessary, are now essential. Financial institutions, under orders from state and local governments, closed branches in much of the country starting in March. This prompted customers to conduct business online and left financial institutions with no choice but to manage their staffs remotely.

Now, online business transactions are rapidly becoming the norm.

Think of the standard loan application. It used to take hours or days to process an application from the beginning to funding. Now, in some cases, it takes seconds.

“It comes down to the convenience factor,” said Christina Churchill, national financial institution lead at RSM US LLP. “Just as with every other industry, people want things quicker, faster and when they want them.”

That means taking a broader view of the customer experience, Churchill said.

“With financial institutions, we are focusing on how to streamline the totality of the process,” she said. “So if I’m a consumer and I want a loan, I should be able to go through an app on my phone, or through a PC, or through physically coming into a location—all depending on my preference. And if I start through any one of those channels I should be able to pick up at the same place if I change channels.”

The challenge for financial institutions: “How do we make it as seamless and simple as possible?” Churchill said.

It's not just millennials who are demanding the digital convenience. It's everyone.

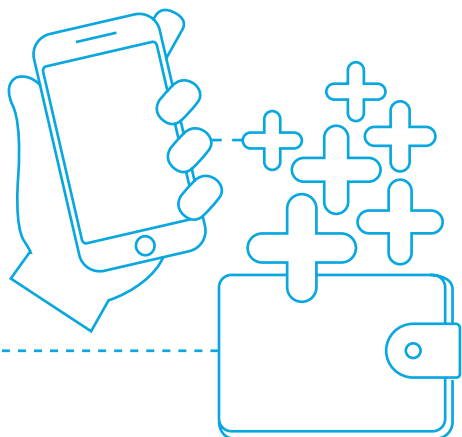
If customers don't get that kind of response, they will go to the competitor that does provide it, Churchill said. Call it the Amazon effect in that the internet retail giant has changed consumer expectations not only in retailing, but also across all industries.

All of this change is being accelerated by the extraordinary dislocation caused by the coronavirus.

"Middle market financial institutions that were unsure of embracing new digital technologies were left with no choice due to the coronavirus," said Brandon Koeser, a senior industry analyst for RSM supporting the financial services industry. "Now is the time to embrace the change to take their institution into a new era."

### **Middle Market Insight:**

If customers don't get a seamless and simple technology experience from their financial institution, they will go to the competitor that provides it.



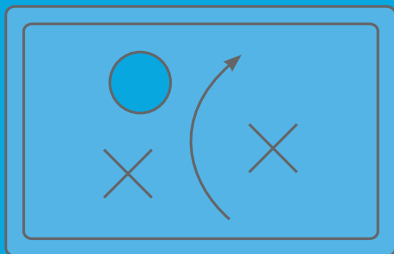
# 5 TAKEAWAYS

To get a sense of how the middle market viewed digital transformation before the onset of COVID-19, RSM asked 100 executives at middle market banks based in the United States—those with \$250 million to \$39.9 billion in assets under management—about the changing digital landscape and how it is affecting their business.

The survey sought the insights of chief executives, presidents or owners; chief financial officers; and chief information officers.

The executives' responses came in a blind quantitative survey conducted online from Sept. 17 to Oct. 2, 2019. It included four areas of focus: digital technology selection, rationale for the digital technology selection, the prioritization process for investments and decision influencers.

Among the key takeaways from the survey:

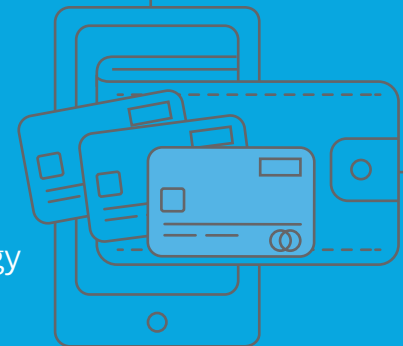


## Formulating a strategy

One hundred percent of executives said they either have or are working on a formal digital strategy. Of those, **81% acknowledged the existence of a formed digital strategy**. What is necessary for the development of such a strategy? An assessment of current capabilities and competitor functionality is critical to address evolving customer expectations and business needs.

## Focusing on payments

The evolution of digital wallets, peer-to-peer payment options and other, more convenient payment methods is a critical area of emphasis for banks. Think about it: How many college-age students write a check? **Increasing competition in the payment space** requires financial institutions to develop a payment strategy to generate revenue and retain customers.



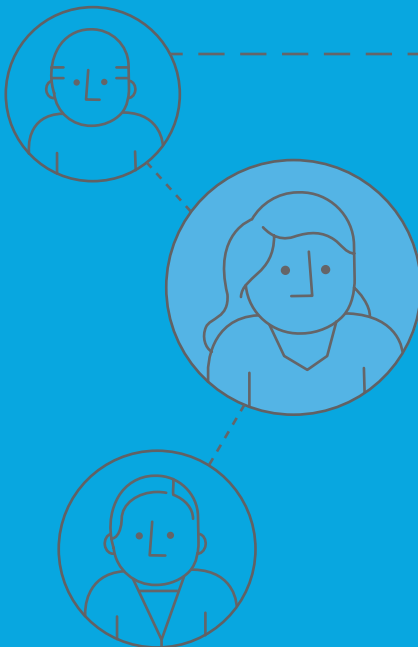
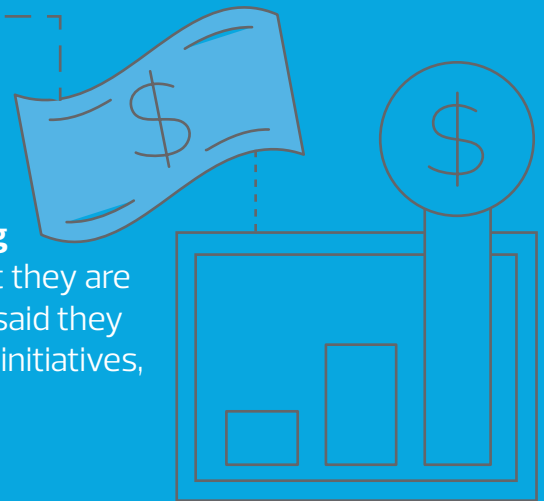


## Embracing automation

The vast back offices of the banks from a generation ago are rapidly fading. In their place, **banks are investing in artificial intelligence, blockchain technology and robotic process automation**, or RPA, to support more efficient processes in automation, compliance and risk functions.

## Committing resources

None of these changes happen without **devoting resources to them**, and executives told RSM that they are indeed doing just that. Half of all the executives said they budgeted 11% to 20% of their revenues on digital initiatives, while 12% said they budgeted from 21% to 30%.



## Starting at the top

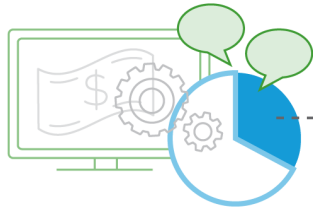
These decisions are coming from the top. When asked which executive in their organization is most responsible for leading digital projects, the **chief executive, at 61%**, was listed behind only the **chief information officer, at 74%**, and **chief digital officer, at 69%**.

This point of view was summarized in the comment of one chief administrative officer at a bank, who said in the survey, "Our CEO is an outspoken member on the committees, and if he finds an initiative interesting, then it tends to be prioritized."

# PRIORITIZING DIGITAL CHANGE

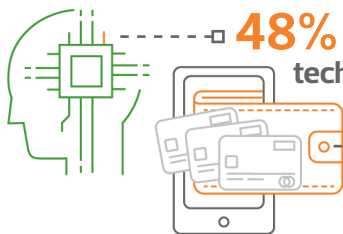
RSM recently asked middle market executives about their approach to digital transformation. What are their priorities, and where are they deploying their resources to navigate this change? Here are some of the results, and what the executives had to say:

## Frictionless customer experience



33% of executives rated this as the **top benefit for banking**.

## Artificial intelligence and digital wallets



48% of executives chose **artificial intelligence as the top digital application or technology** when asked to rate its importance to the bank's overall strategy.

53% chose **digital wallets as the top digital application or technology** when asked to what extent it was being integrated into business processes.

## Cybersecurity



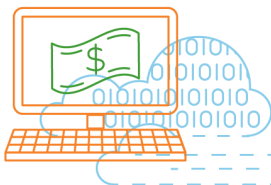
32% of executives selected **cybersecurity as the most challenging consideration** when it comes to prioritizing investments in digital solutions.

## Finding the right people



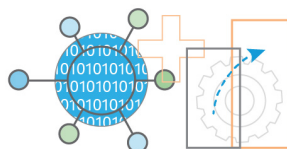
32% of executives selected **hiring skilled talent** as the most challenging consideration when it comes to prioritizing investments in digital.

## Aligning to customer needs and change management



Customers and employees need to **accept digital investments**, but executives said that's a difficult hurdle.

## Improved scalability and expanded service offerings



28% of executives cited these two areas among their top priorities.

## INSIGHTS FROM RSM



*“Community financial institutions have to be more intentional. They have to make choices on the best use of capital, time and resources to serve clients.”*

**Jeff Dunnahoo**  
RSM director of  
management consulting

### Making the customer experience frictionless

The top benefit of digital transformation **cited by banking executives was to gain a frictionless customer experience (33%)**, followed by **improved scalability (28%)** and **expanded service offerings (28%)**. Interestingly, improved customer relationships was cited the least by executives, at 10% of executives.

But providing a frictionless customer experience brings benefits that go beyond customer satisfaction.

Consider the example of a middle market bank that RSM recently worked with. The goal was to implement a significant upgrade to its member services experience.

It was a big challenge, but it also brought big rewards, said Jeff Dunnahoo, director of management consulting at RSM.

“This involved leveraging technology within the call center to better address not only incoming phone calls but also to interact through chat, social media and e-mail and have those interactions with the customers serviced through one common channel,” he said.

The result? A seamless experience for customers when they communicated with the bank, no matter what means they chose.

“That would be an example of putting emphasis on a more digital experience from the front office all the way to the back office,” Dunnahoo said.

He cited similar examples of RSM clients—online lenders, for example (please see details on page 10)—that have adopted available digital technology to make the customer experience as frictionless as possible.

Within the middle market, though, the view was not uniform. There was a subtle divide between the bigger end of the middle market and the smaller end:

**The smaller banks**, with \$250 million to \$999 million in assets, **cited the frictionless experience more often, at 37%**, than **larger middle market banks**, which had \$1 billion to \$39.9 billion of assets under management, at **31%**.

That's because the smaller organizations must be careful about where they put their limited resources, Dunnahoo said.



## Embracing artificial intelligence

The importance of artificial intelligence and digital wallets, or tokenization, is not lost on senior executives.

Artificial intelligence, which, put simply, is teaching computers to do tasks that normally require human activity, will be leveraged to further enhance the customer experience and support more efficient processes.

**An example of artificial intelligence in banking:** The ability for a computer to read text, interpret it and then take action according to a defined set of rules was leveraged extensively by financial institutions for processing Paycheck Protection Program loans more efficiently.

Then there is the digital wallet, or tokenization, which has become a primary theme in the payments space. This technology allows financial institutions to encrypt essential and sensitive information without compromising its security. The benefits, to both financial institutions and customers, are clear: Digital wallets offer convenience to the consumer, support social distancing with contactless payment options, and have been widely proven to be secure and efficient.

When asked to rate the importance of various digital applications or a specific technology to an organization's digital strategy, artificial intelligence came out on top. **Nearly half of middle market banking executives, or 48%, identified artificial intelligence as being important, followed by robotic process automation, at 39%, and 5G network adoption and digital marketing, both at 38%.**

Then, in a separate question, **more than half of banking executives, or 53%, chose digital wallets in the top box** when asked to what extent their organization is integrating digital applications or technologies into a particular business process.

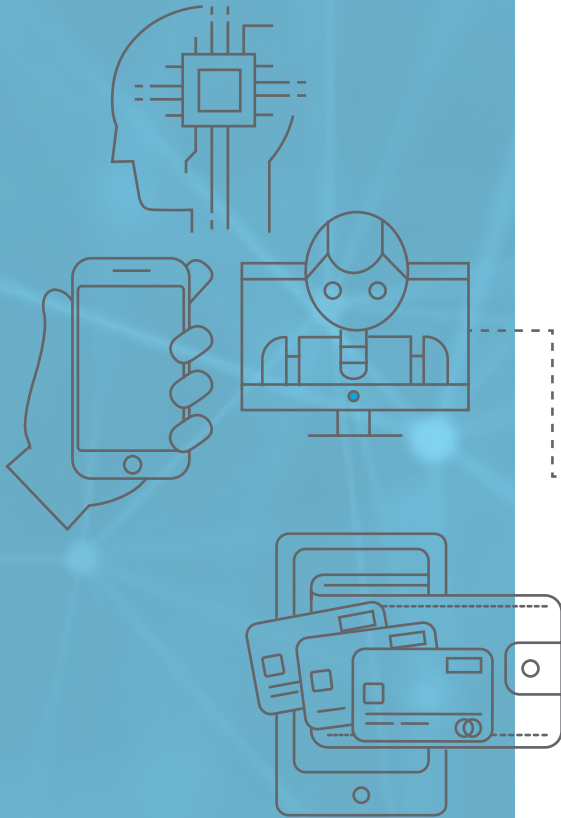
These technologies are all about driving efficiency and customer satisfaction. "We are thinking about how artificial intelligence can push our business further and continue to evolve the digital applications that we're building now," a chief financial officer of a middle market bank told RSM.

They have become all the more important as the impact of the coronavirus has set in. As Brandon Koeser, the RSM senior industry analyst, pointed out, the disruption can be viewed as a chance to embrace change.

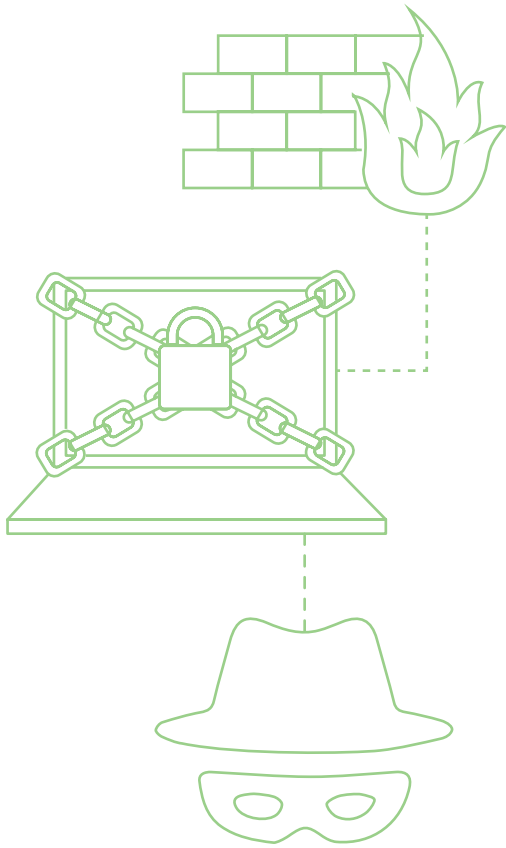
"Although the coronavirus may have forced middle market financial institutions to embrace technologies like artificial intelligence and digital wallets, the opportunity is here to take what once was thought impossible and make it possible," he said.

### Middle Market Insight:

Artificial intelligence is about driving efficiency and customer satisfaction.







*“Ransomware attacks, denial of service attacks, as well as the hacking of account information are all challenges.”*

**Jeff Dunnahoo**  
RSM director of  
management consulting

## Protecting against cyberattacks

Bank executives told RSM that they face a host of challenges, and **cybersecurity was at the top, at 32%**, along with **finding the right talent**.

Specifically, the executives were asked to name up to four prioritization challenges when it comes to making investments in digital solutions. Cybersecurity led the list—executives are focused on determining how to address cybersecurity concerns while dealing with existing legacy systems. In other words, how can banks best protect their customers' and employees' data while not having to throw money at the problem?

“As a bank, we need to worry about protecting client information,” said one chief information officer at a bank.

“Ransomware attacks, denial of service attacks, as well as the hacking of account information are all challenges for middle market banks,” Jeff Dunnahoo, the RSM director of management consulting, said.

And that doesn't include the biggest threat by far: Hackers who attach viruses through emails.

As a result, banks are investing a lot in staff training. As with other challenges, it comes down to having the right people.

### Middle Market Insight:

Attracting the new generation of technologists can be a challenge, let alone encouraging longer-term employees to embrace new technologies.

This isn't so easy, though, particularly when it comes to encouraging longer-term employees to embrace new technologies and ways of operating.

“On the employee side, it's always a challenge,” Dunnahoo said.

Even attracting the new generation can be a challenge, Christina Churchill, the RSM national financial institution lead, said.

“In general, banking doesn't tend to attract the most current of technologists simply because of the systems that we have today,” Churchill said. “It's a little bit of the mix of people you can find.”

But still, customers are demanding the change.

“If you're not able to meet your customers where they are, they are going to find another institution,” Churchill said.



## CASE STUDY: WESTLAKE FINANCIAL, LOS ANGELES

### LOOKING TO THE POWER OF DATA

In addition to the quantitative survey of banking executives conducted by RSM and the Market Strategy Group, four executives at financial institutions, beyond the banking industry, were invited to discuss their experiences in an interview, to offer more in-depth responses that could illuminate their views on digital transformation.

One of those executives was Paul Kerwin, chief financial officer of Westlake Financial, a privately held finance company that specializes in prime to sub-prime automotive retail installment contracts. Headquartered in Los Angeles, Westlake works with more than 25,000 new and used car dealers throughout the country to indirectly originate contracts.

Kerwin discussed Westlake's efforts to transform its digital operations and listed two of its challenges and successes. The interview took place on Aug. 14, 2019.

#### The challenge:

Measuring Westlake's staff through the lens of productivity and efficiency.

#### The solution:

Westlake began to use VisorBot, a proprietary, automated employee-supervision system, to track employee attendance for managers and help them assess their teams' productivity. "It made the job of managing people and their key performance indicators much easier," Kerwin said. Not only did it produce useful analytics, he said, but it also "opened peoples' minds to all the data that's out there by quantifying many tasks and processes that were not necessarily considered metrics before."

#### The takeaway:

The data is there. It just needs to be harnessed. "With proper data monitoring and reporting, there are potentially thousands of opportunities," Kerwin said. "Once you realize the power of the data, you can just point it everywhere looking to make all kinds of improvements."

#### Middle Market Insight:

The data is there. It just needs to be harnessed to improve staff efficiency.

# THE IMPACT OF CORONAVIRUS

## Accelerating the pace of transformation

The coronavirus pandemic is having a profound impact on the way businesses operate and how they interact with their customers. On the digital front, the coronavirus has taken what was a rapid pace of transformation and accelerated it.

Satya Nadella, Microsoft's chief executive, captured the dynamic in his quarterly earnings call on April 30: "We've seen two years' worth of digital transformation in two months."

The same is true for financial institutions. Those companies that were not already looking to adapt find themselves caught between trying to meet consumer expectations and serve customers in a manner that they were not prepared for.

Consider two areas where businesses can capitalize on—and cope with—the disruption caused by the coronavirus.

## Capitalizing: How online lenders seize an opportunity

Online lending businesses have been honing their products for years, and gradually gaining market share. But the dislocation created by the coronavirus has accelerated that trend as many businesses are forced to rethink their practices.

This is where fintech companies could come in and add value, by processing applications quickly, extending loans in days and not weeks, and providing additional support for business owners. The biggest perk of working with a fintech company is the ability to work with clients from anywhere as they operate in the digital world.

## Coping: How banks are helping clients

In the more traditional banking sector, financial institutions have had to determine how best to help their clients navigate a prolonged period of unemployment and liquidity constraints. RSM has identified six ways that banking organizations can help their customers navigate an economic landscape that is likely to be strained for some time:

- Understand the dynamics of how the downturn is affecting your borrowers' liquidity needs and how federal stimulus programs can alleviate near-term cash flow constraints.
- Look at which expenses must be paid to keep the businesses viable while capitalizing on the stimulus.
- Strategize about the longer-term needs of borrowers should the pandemic continue.
- Maintain communication with high or at-risk borrowers; such communication can settle the nerves of a borrower while simultaneously allowing your organization to fully understand the risks of the borrower.
- Stay current on the aid packages available as part of the CARES Act, including updates to terms and rules.
- Become keenly aware of how further stimulus may benefit customers as talks of additional stimulus begin to take shape.

### **Middle Market Insight:**

Working with online lenders in the age of coronavirus gives borrowers the ability to work from anywhere in the digital realm.

## NEXT STEPS

The transformation of the financial services industry was already well under way before the coronavirus pandemic hit. And if anything has become clear, it's that the trends that were in place before have only accelerated.

Examples are everywhere. Echoing Satya Nadella's statements about digital transformation, Dan Schulman, chief executive of PayPal, said during the company's second-quarter earnings call, "Digital payments have evolved from a nice-to-have capability to an essential service."

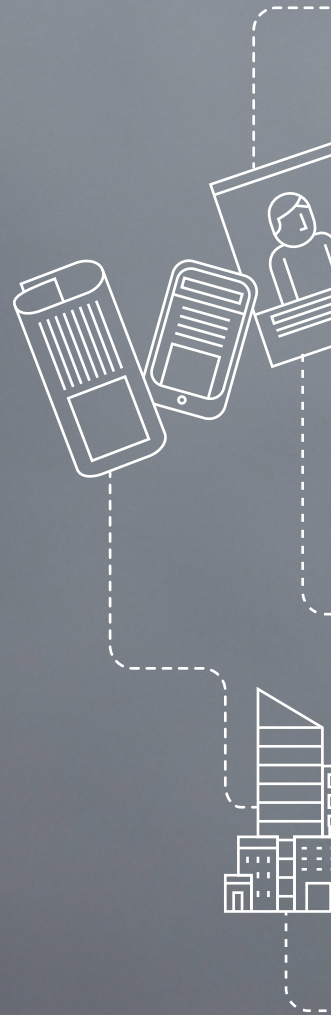
So fintech companies have an opportunity to participate on a larger scale; their mobile technology platforms, quick loan review periods and funding expediency promise to help business owners find the liquidity to cover critical expenses.

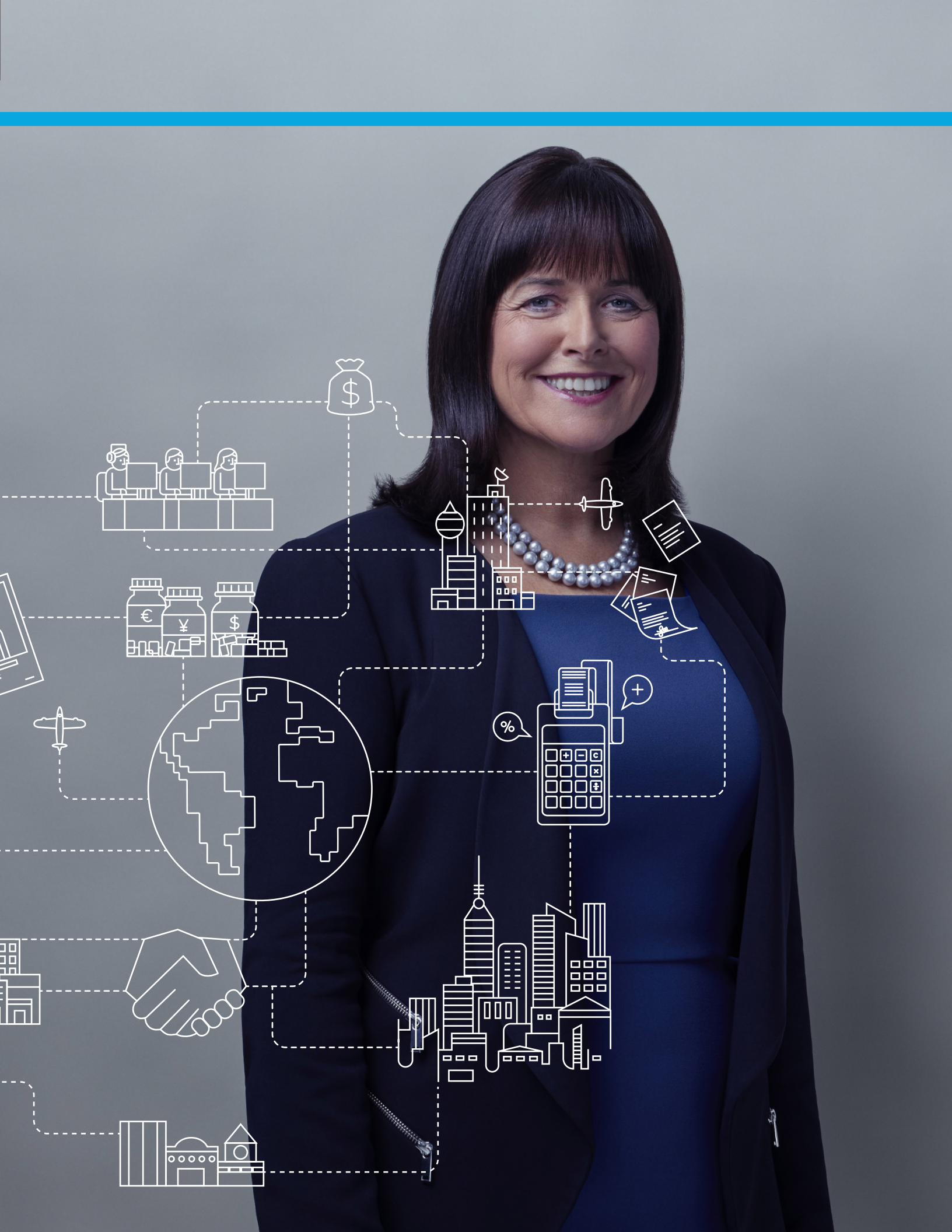
And for more traditional banks, there is an opportunity to work with clients toward solutions that improve the fortunes of their clients—and themselves.

The end result will be the same: Those companies that are innovative, and put their clients first, will thrive in a digitally transformed world.

*"Digital payments  
have evolved from a  
nice-to-have capability  
to an essential service."*

**Dan Schulman**  
Paypal CEO





**+1 800 274 3978**  
**rsmus.com**

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. Internal Revenue Service rules require us to inform you that this communication may be deemed a solicitation to provide tax services. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit [rsmus.com/aboutus](http://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International.

RSM, the RSM logo and the power of being understood are registered trademarks of RSM International Association.

