



Solving the Community Bank Digital Gap

Community banks are facing tremendous competitive pressures from regional, national, and global banks

By Raphaël Bord and Harrison Ahluwalia

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Community banks are facing tremendous competitive pressures from regional, national, and global banks, especially as these firms have focused investment in digital banking experiences. Up until now, community banks that have succeeded in this environment have been able to capitalize on their value proposition of relationship-driven and personalized service. But in order to survive and grow, they will need to modernize and digitize their business to meet consumer needs and drive greater efficiency.

While the sheer amount of this investment by larger banks in the digital space is impossible for community banks to compete with, one way to level the playing field is by partnering with the right fintech vendors. In today's market, there are a lot of new opportunities that community banks can leverage and take advantage of to build a cost-effective digital experience.

Face the Reality: Large Financial Institutions (FIs) Have More to Spend on Bank Technology

Recent research from UBS found that 'super national banks' will be increasing their IT spending budget in 2019. JP Morgan Chase and Bank of America will be leading the dance, with JP Morgan Chase's total spend for 2019 coming in at \$11.4 billion – a 5.6% increase from 2018 – and Bank of America's total spend at \$10 billion – a 30% increase dedicated to its technology initiative spend. According to a study by Cornerstone Advisors, these numbers respectively represent 0.44% and 0.43% of JP Morgan Chase and Bank of America's total assets, while mid-size banks (\$500 million to \$50 billion in assets) on average spent 0.22% of their total assets on IT in 2017.

Smaller FIs Lag in Digital Offerings

Recent research from S&P Global Market Intelligence has shown where smaller banks fall short. S&P defined and reviewed the 15 'advanced' mobile banking features of 70 U.S. banks. Of the 15 advanced capabilities defined, the four 'super national banks' (with assets >\$1 trillion) provide, on average, 12.75 features. Banks with \$50 billion to \$1 trillion in assets offer an average of 8 features, with the banks in the \$10 billion to \$50 billion range offering an average of 4.7 features.

It's Not Just About Money Spent

"There are a lot of new capabilities like open APIs and cloud-based delivery that they [community banks] can take advantage of to build digital experience in cost-effective ways," FIS Chief Data Officer Bob Legters said when asked about 2019 fintech predictions. As the speed of technological change continues to accelerate, it has become crucial for community banks to make the most of their strategy by developing a network of partners that can quicken the pace of differentiation.

The importance of leveraging a technology partner for community banks is to expedite time to market. Legacy systems make the transformation process for banks extremely difficult and slow-progressing. However, tech companies, such as a digital banking software provider, speed up the transformation to get you to market faster.

Some key lessons learned from our experience leveraging tech companies for transformation programs include:

1. Identify your problem by focusing on customers needs: Having a fundamental understanding of customer values, expectations and behaviors will be key to providing them next level services. Always organize your effort around a specific challenge that can be demonstrated with data. A clear problem statement also needs to be attributed to a business objective that will ensure alignment with your organization strategic priorities. Ensure your initiative get the appropriate level of sponsorship within the C-suite to overcome organizational inertia that can derail a digital transformation.

2. Select the right partner: Don't spend too much time on scanning the entire ecosystem. Instead, focus on vendors that can provide appropriate answers to the following points:

- **Team & People:** how strong is the team? Do they have the capacity to execute?
- **Product and Technology:** how has the market responded to the product? How customizable is the product? Is the product technically sound and compelling? What does the product roadmap look like? What does the product roadmap look like?
- **Customers:** How many clients do they have yet? Have there been other partnerships?
- **Culture fit:** Can you work with this partner? Does the partner feel like a good fit for your company?

Collaboration is key here. Having the right mix of the right people with the right skills, deployed in an optimal way from both your Professional Services Company, Your Organization, and Technology Partners will be key to executing on your strategy.

3. Define a clear provable experiment:

- Is the problem well defined and manageable to test?

- Are dependencies understood clearly so as to prioritize and ensure timely execution of the effort (access to data, procurement and compliance requirements,...)
- Does your team have the skillset and capacity to deliver the requirements?
- Do you know what success look like? Have you identified clear success metrics?

These are all good questions to answer to make your experiment a success.

4. Embrace Rapid Prototyping development: Using agile principles (from product backlog to sprint planning to shippable product increments), a Rapid Prototyping methodology shifts the focus of deliverables to perceived value of the end user. Getting mock-ups, wireframes and prototypes into the hands of users and customers early, on a regular sprint cadence, helps to minimize risk and ensure successful product testing and delivery.

5. Scale or kill decision: At this point, there should be a clear agreement on whether the experiment was successful. Depending on the result, build a business case that clearly outlines the costs and benefits of scaling the solution for industrialized roll-out

We are looking forward to know how you and your company are dealing with this topic! Please contact us at: digitallabs@capco.com