



Where the Banking Industry Is Putting Tech Dollars to Work

technology industry update management

Summary: Technology is a major factor in the financial institutions that people choose. Remaining competitive requires knowing where your peers and competitors are investing on the tech front. We review the top digital priorities financial institutions have right now.

When you think of high-priced lattes, it is unlikely that teenagers come to mind. Walk into any Starbucks location during non-school hours, however, and you will find teenagers hanging out and ordering elaborate drink concoctions. As a group with more than [\\$360B in disposable income](#), the average teen spent [\\$2,331 in 2022](#), 19% of which was on food. It is no surprise that brands like Starbucks actively work to remain trendy among teens, adding items such as its brightly colored Unicorn Frappuccino, the Pink Drink, and cake pops to keep them coming back for more.

While caffeinated drinks don't top the budget of financial institutions, technology certainly might. As such, it's good to know what specific areas within technology your peers and competitors are earmarking their budgets for this year to entice customers and remain competitive.

The Driver

Technology has become such an important part of the financial industry that digital capabilities are now one of the biggest factors that customers — especially those of a younger demographic — use to choose a financial institution. Research from BAI found that better digital capabilities would be enough to make [55% of people switch financial institutions](#), with the number rising to 75% for Gen Z customers.

As a result, digital transformation remains a top concern for financial institutions. According to a recent report from Cornerstone Advisors, [87% of credit unions and 76% of banks](#) had initiated digital transformation plans moving into 2023, with another 18% of banks planning to strategize a digital transformation this year.

Follow the Money

While customer satisfaction and keeping up with peer offerings are top priorities for all financial institutions, there are differences in the way they are approaching such efforts, including where they are spending their technology budgets.

- **Cloud computing** is among the top five spending areas for more than 40% of US financial institutions, according to a recent survey from Arizent, with [80% of bank executives planning to move 20% or more](#) of their data to the cloud this year.
- **Conversational AI** is another major priority for financial institutions, particularly as organizations struggle with ongoing staffing issues. Many financial institutions have begun using chatbots to bolster their customer service staff and offerings, which Cornerstone Advisors view as an integral part of digital transformation. *"To be successful, community institutions must focus on humanizing the digital experience through tight interconnectivity across marketing, contact centers, and digital delivery,"* states Jim Burson, a managing

director at Cornerstone Advisors. Credit unions have been more aggressive than their banking peers on this front, with 30% of credit unions having already invested in or deployed chatbots and an additional 25% planning to do so by the end of the year. Only 18% of banks have already deployed chatbots, and 12% plan to do so this year.

- **Digital account opening** apps are another investment area for both commercial and consumer, as well as digital loan originations. This year, [27% of banks plan to implement or replace commercial digital account opening apps](#), compared with 30% of credit unions. Meanwhile, 21% of banks plan to implement or replace consumer digital account opening apps, compared with 20% of credit unions. Whether such plans are realized, however, remains to be seen, as both banks and credit unions had planned to invest more significantly in both of these areas in 2022 than what actually occurred.
- **Customer relationship management (CRM)** is another big focus area for financial institutions. Once again, however, Cornerstone points out that the aspirations organizations have on this front don't always materialize. In their findings, 17% of banks and 20% of credit unions plan to replace or implement CRM apps in 2023. Comparatively, 15% of banks planned to do so in 2022, with only 13% following through, while 28% of credit unions planned to do so in 2022 with only 8% actually doing so.
- **Fraud** remains a technological concern for financial institutions, particularly Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) regulation, but there seems to be greater disparity between its importance for banks and credit unions at the moment. When it comes to replacing fraud apps, 17% of banks plan to do so in 2023, compared with only 7% of credit unions.
- **Instant payments** are, of course, a focus area for financial institutions across the board as [the FedNowSM Service becomes a reality this July](#). Yet, close to 40% of institutions are still trying to determine how they will approach instant payments, with 24% planning to wait for FedNow to begin operations. When asked to rank the most important uses for instant payments, business-to-business (B2B) payments and account-to-account transfers tied as the top two most important at 38% each for banks, with payroll wrapping up the top three spots at 26%. For credit unions, the top three uses are account-to-account transfers (40%), last-minute consumer payments (39%), and recurring bill pay (26%). As a participant in the FedNow Service's pilot program and an experienced liquidity and settlement services provider, PCBB is available to help you get started with instant payments service.

Regardless of where your institution is in its efforts to update or overhaul its technology and digital offerings, it is important to know where the competition is investing. Having a good idea of the areas where your peers are putting their money can illuminate where the greatest competition is likely to stem from, as well as help you determine if you may need to rethink your priorities and approaches to certain trends.

QUESTIONS ABOUT FEDNOW? ASK PCBB!

FedNow Service is launching soon. As part of the pilot program, and a liquidity and settlement provider for the service, [PCBB can answer your questions](#) about how to implement and manage the service for your institution. Contact [PCBB](#) to find out more.

ECONOMY & RATES

Rates As Of: 04/20/2023 05:35AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.16	0.31	0.74
6M	5.10	0.16	0.34
1Y	4.78	0.18	0.07

2Y	4.16	0.14	-0.27
5Y	3.63	0.06	-0.37
10Y	3.54	0.07	-0.33
30Y	3.75	0.10	-0.21
FF Market		FF Disc	LOBB
4.83		5.00	4.90
SOFR		Prime	QBFR
4.80		8.00	4.82

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