Crossing the Digital Divide on a Budget

technology digital banking

Summary: CFIs don't need to spend massive amounts of money on technology to remain competitive against the banking industry's largest players — they just need to be strategic and intentional when it comes to where they spend on technology and the steps they are taking to prepare for the future.

Global fast-food giant McDonald's has taken notice of people's love of coffee and the café experience in shops like Starbucks. The company is angling to cash in on that popularity by introducing its own take on customizable beverages. Enter CosMc's, a new restaurant format where people will be able to customize drinks and grab snacks from a limited food menu. In 2024, McDonald's plans to open and test 10 CosMc's locations in Chicago and Texas to determine whether the new format can help it siphon off some of the business of the world's coffee-loving crowd for itself.

Much like McDonald's is striving to bridge the gap between fast-food consumers and gourmet coffee lovers through its new CosMc's locations, there are steps that community financial institutions (CFIs) could be taking to bridge the growing digital divide between themselves and their bulge bracket peers.

The Need for Digital Banking

It is no secret that consumers have embraced digital channels over the past few years for everything from shopping to banking, and people's adoption of digital services around the globe continues to increase at a rapid rate. While the banking industry understands the importance of online and mobile banking services, the cost of implementing new technologies is a major determinant of what CFIs are able to do versus their largest competitors. While CFIs have more limited resources than the banking industry's largest players, there are ways they can use technology to remain relevant without having to break the bank.

Skipping technology upgrades, however, is not a viable option. According to research from Bain & Co., not only are banks with strong technology more likely to appeal to customers, particularly people within younger demographics, but they also deliver higher shareholder returns than their peers. Bain & Co. found that banks leading on the technology front yield an average of 5 percentage points higher for total shareholder returns, a cost-to-income ratio 10 percentage points lower, and a Net Promoter Score 12 points above their competitors. Yet, higher spending on technology doesn't always translate to better overall performance.

Strategic Thinking

Fortunately for CFIs, the inability to throw as much money at technology upgrades as the industry's largest banks can does not mean that all hope is lost. Instead, CFIs need to think strategically and make clever decisions when it comes to where they invest their money and time on the technology front. Bain & Co. found that there are three main ways financial institutions can create **value from technology: simplification, low-cost adaptable processes, and the creation of a strong digital experience for customers.** Furthermore, Bain & Co. found the greatest correlations between technology and higher performance lie within financial institutions where the following conditions are present:

- Technology is a priority from the top down and is bought into at the C-suite level.

- There is a cohesive technology-centered operation approach throughout the entire organization.
- Resources are devoted to in-house engineers rather than other IT staff.

Intensive Forethought

As your CFI works to enhance its technology capabilities to remain more competitive against bigger banks, here are a few things to keep in mind:

- **Plan before spending.** Ramping up technology needs to be done methodically and intentionally. Increasing spending without a well-thought-out approach — or doing it too quickly — opens the possibility of money being put into the wrong places or other unexpected problems.
- **Analyze customer data.** Enhanced data analysis and digital channels that utilize analytical capabilities for data should be a key focus and are a good way to strengthen the overall customer experience, as well as the experience of employees. Data systems that enable CFIs to mine customer information and allow for personalization should be at the top of the list, but be aware that these systems may mean an additional investment in cybersecurity to protect the data.
- **Evaluate current capability.** If your organization's legacy system is cumbersome and unable to accommodate new technologies or upgrades, it may make more sense to simply start from scratch with an entirely new technology system. One way that some financial institutions have done this is by launching new online organizations.
- **Consult the C-suite.** It is imperative to ensure IT departments and business executives are on the same page and work collaboratively when determining your organization's technology approach and where money and resources will be invested.
- **Let others test the waters.** CFIs should be selective about what they do and do not spend money on for IT. While things such as generative artificial intelligence may be the future of banking, these are the types of things that should be left for experimentation among the industry's largest financial institutions. While CFIs should keep a watch on what is being done with emerging technologies, they are better off on the sidelines until such technologies become commonplace and costs will likely decrease.
- **Plan ahead.** Even if your organization is not yet ready to invest in new technologies, it should be actively investigating, participating in demonstrations, and proactively beginning any training or cultural adjustments that will be needed when it comes time to deploy new things.
- **Form partnerships.** If you have a good relationship with a correspondent bank, like PCBB, be sure to discuss your needs with them to see if they can help you offer the additional capabilities you're looking for. Fintechs and other tech-driven financial companies can also make good partners to help fill gaps without having to invest in and maintain the technology on your own.

As the digital divide between CFIs and their bulge bracket competitors continues to widen, CFIs need to be intentional in the steps they take to remain relevant to consumers. Remaining competitive against organizations with deeper pockets doesn't necessarily require spending massive sums of money on technology you can't afford, but it does necessitate thinking strategically about how you approach technology now and for the future.

WHITEPAPER: FOUR STRATEGIES TO MANAGE CREDIT RISK

ECONOMY & RATES

Rates As Of: 03/19/2024 05:44AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.48	0.03	0.08
6M	5.39	0.09	0.13
1Y	5.05	0.06	0.28
2Y	4.69	0.08	0.45
5Y	4.33	0.09	0.48
10Y	4.32	0.07	0.44
30Y	4.46	0.08	0.43

FF Market	FF Disc	IORB
5.33	5.50	5.40
SOFR	**Prime**	**OBFR**
5.31	8.50	5.32