Think Small

How a Micro-transformation Strategy Can Yield Big Results

By:

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Executive Summary

As the impacts of the global pandemic continue to linger, financial institutions of all sizes are looking for opportunities to cut costs while continuously enhancing their digital capabilities to meet the changing needs and preferences of consumers and employees. As we prepare for a potentially lengthy period of economic uncertainty, a growing number of organizations are planning micro-transformation projects to keep the fires stoked for their long-term digital evolution.

These quick technology upgrades allow institutions to remain competitive and customer-focused in a financial services marketplace that rapidly shifted to the virtual world. Digital capabilities are no longer a "nice to have," but are increasingly table-stakes, a case that was bolstered by broad business shutdowns and stay-at-home orders during the depths of the pandemic crisis. Banks and credit unions must balance the cost and scale of new technology implementation projects with the imperatives of growing deposits, managing and monitoring their portfolios and associated risk, serving their customers and members where they are and also meeting the needs of employees working remotely.

The digital transformation show must go on and is needed now more than ever. How can banks and credit unions reconcile these competing priorities?

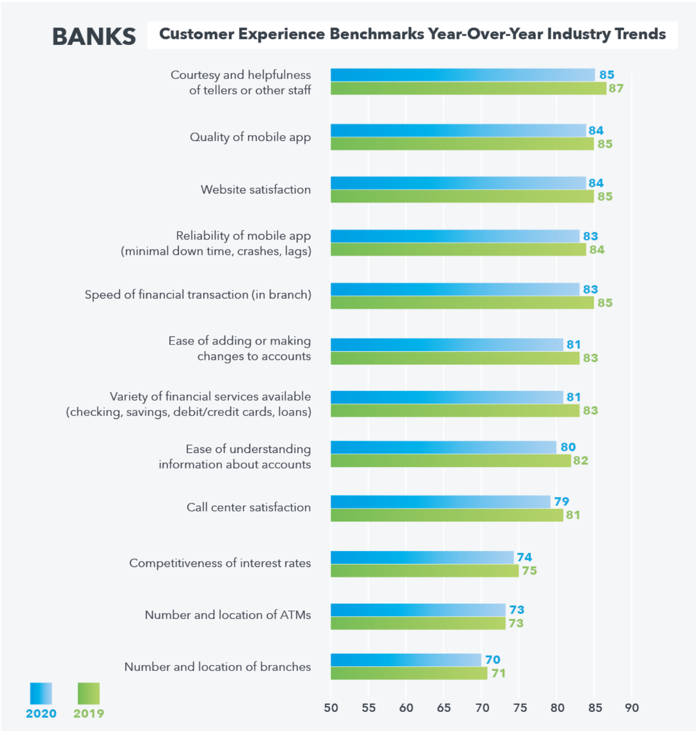
A Future Marked by Uncertainty

The COVID-19 pandemic has produced waves of uncertainty and doubt across the financial services industry. As families have been forced to adjust to working and schooling from home, and consumers have shifted to online commerce for almost every need, the long-term drive toward remote, online and mobile banking has accelerated dramatically.

At the same time, customer satisfaction with financial services providers is declining across the entire sector. According to a recent American Customer Satisfaction Index survey of over 44,000 consumers, satisfaction in the Finance and Insurance sector decreased by 2.3% compared to the prior year and stands at just 76.0 on the ACSI's 100-point scale[1]. This is the second year in a row the financial services sector has experienced a downward trend in overall satisfaction.

This decline in satisfaction has impacted all types and sizes of institutions, including national, super-regional, regional and community banks. Credit union satisfaction scores have also suffered, dropping 2.5% year over year. For the first time in the history of ACSI's survey, credit unions have ranked below banks in satisfaction for two consecutive years.

The decline in satisfaction is being broadly felt across all customer experience channels, from "the courtesy and helpfulness of tellers or other staff," to call centers, and with the number and location of ATMs and branches[2].



Despite these across-the-board drops, all digital channels maintain significantly higher satisfaction levels than branches, call centers and ATMs. Moreover, roughly 60% of respondents to the ACSI survey reported visiting a branch within the last six months, while about 70% had made use of mobile banking within the past three months[3].

It is clear that the digital channel represents the future of customer engagement, and financial institutions must put their full focus on enhancing and improving this critical method of engagement. Furthermore, research from Cornerstone Advisors lists Digital Account Opening as the #1 Hottest Technology in Banking[4].

> *"Nearly half–44%–of banks and a quarter of credit unions expect to add a new or replacement consumer digital account opening system in 2021."*

Even in the best of times keeping up with the latest technology is an expensive proposition for any organization, and it's only getting more expensive. A survey of global banks by McKinsey & Co. showed that technology costs as a percentage of overall operating expense rose from 16.5% in 2014 to 18.5% in 2017. Most of this increase was due to technology change spend, which increased by 40% over that period[5].

Yet, during the present crisis many FIs are choosing to be selective in their technology investments and plan to delay implementing major IT projects.

Micro-transformation Projects Are a Way In

Micro-transformations represent an opportunity for financial institutions to address their most urgent needs while building their digital capabilities over time. It's all about getting some "quick wins" under the belt, by implementing smaller, bite-size technology projects that can have a narrow but measurable impact on the organization.

It's also about fostering rapid user adoption by not overwhelming end users with massive, multi-faceted transformational projects all at once, which may cause them to revert to old habits. Micro-transformations allow the culture to catch up with the change, by establishing the building blocks—foundational knowledge at the user level – that can be slowly built upon over time. Staff are given the time and incentive to learn new processes and systems and will express enthusiasm if the changes demonstrate direct and immediate value in terms of time savings, increased efficiency, a better user experience or improved customer engagement and satisfaction.

Micro-transformations allow institutions to accelerate time to value, by tackling the highest ROI, least disruptive changes first, then layering on additional features over time. They steadily move the enterprise toward full-fledged digital transformation, in manageable, cost-effective chunks. Micro-transformations are analogous to the Agile method of software development, where the developer commits to releasing a minimally viable product – "MVP" – on a regular, rapid cadence, with continual, iterative improvements over time.

Ultimately, organizations can use this approach to keep up with changes in customer behavior, while staying relevant in an increasingly crowded and highly competitive marketplace without geographic borders. For example, a survey done by Aite Group shows over 60% of consumers surveyed did their transactional banking online, while utilizing a branch mainly for advice or fraud issues[6].

All this – at a lower cost than a full-fledged, top-to-bottom technology overhaul. In fact, COVID has reinforced the benefits of building flexibility into all technology implementation projects. When deployed via cloud-based solutions, many micro-transformations can be done relatively rapidly and entirely remotely.

Look Before You Leap

Financial institutions should consider a number of factors before deciding to undertake one or a series of micro-transformations. The size of the institution, the number of business units or divisions impacted by the change and the geography or region in which the organization operates are all important. Regulatory factors also play a role; if your examiners have communicated a heightened focus on certain hot compliance topics, it may make sense to invest your time and effort in implementing technology to help manage such areas.

In addition, in the current COVID-impacted environment, factors like industry concentrations take on an outsized importance. Institutions with heavy retail, commercial real estate and hospitality portfolios are projected to suffer greater impact in the short- to mid-term, and lenders must consider these risks when assessing the comparative ROI of any technology investment. For example, banks with high concentrations in such sectors may wish to address any shortfalls in their portfolio data analysis capabilities first before seeking improvements in their digital customer engagement interfaces.

Select Your "Choicest Cuts"

There are numerous examples of worthy micro-transformation projects you can tackle before going "whole hog" with your digital transformation. The key is to select those that will make the biggest impact most quickly. Here are five steps to take as you embark on your micro-transformation journey:

The logical place to start is with a clear-eyed view of your organization's most pressing challenges, coupled with an exploration of the solutions to best address those needs. Are you struggling to manage rising delinquency in your commercial portfolio? A portfolio analytics solution that offers deep data insights may be the right solution. Is customer engagement in the digital channel falling short? Then implementing deposit account opening or a customer portal may provide the biggest return. Are back office inefficiencies causing you headaches? A full electronic document management and filing system may be just the ticket.

Once you've created your wish list based on the most urgent challenges, it's time to prioritize those projects that can provide the greatest and quickest return on investment. Apply metrics like increased revenue, account or loan growth, and time saved when calculating which projects will have the greatest impact.

In tough economic times, excess budget for technology changes is hard to come by. Be realistic about what your organization can handle, and what your Board will approve. In the short term, don't bite off more than you can chew, and focus initially on the projects that will deliver clear wins.

Once you've narrowed your list down to those mini projects that can be successfully implemented and deployed over the next year, work with your chosen vendor and (if appropriate) implementation partner to come up with a realistic project plan that will meet all your project goals, timeframes and budgets. Make sure to include some wiggle room for extra training time, integration with existing systems, cost overruns and other factors.

Don't delay! Digital transformation is a marathon, but it can be accomplished as a series of shorter races. Organizations that focus on continuous evolution will be the most successful and resilient over time. The payoffs, even from small change projects, will rapidly accumulate and result in massive improvements.

Conclusion

The continued economic turmoil associated with the pandemic is making a strong case for more data-driven decisions, an increased focus on portfolio and credit risk and the accelerated implementation of digital technology solutions in this virtual-first world. Micro-transformations present banks and credit unions with a path forward in starting or continuing their digital transformation journey, even during these times of great uncertainty and fiscal restraint.

About The Author

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Paul Clarkson leads the nCino team responsible for account management and customer success for financial institutions in the U.S. Prior to assuming his current role at nCino, Paul managed the community and regional financial institutions in the U.S. as well as business development globally for nCino, and has also managed strategic accounts for an engineering software company. Before his career in software, Paul was a Marine Corps helicopter pilot and has deployed to Afghanistan, Africa and Haiti. He is a graduate of the U.S. Naval Academy.

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About nCino

nCino (NASDAQ: NCNO) is the worldwide leader in cloud banking. The nCino Bank Operating System® empowers financial institutions with scalable technology to help them achieve revenue growth, greater efficiency, cost savings and regulatory compliance. In a digital-first world, nCino's single digital platform enhances the employee and client experience to enable financial institutions to more effectively onboard new clients, make loans and manage the entire loan life cycle, and open deposit and other accounts across lines of business and channels. Transforming how financial institutions operate through innovation, reputation and speed, nCino works with more than 1,200 financial institutions globally, whose assets range in size from $30 million to more than $2 trillion. For more information, visit: www.ncino.com.

Endnotes

1 *American Customer Satisfaction Index Finance Insurance and Health Care Report 2019-20*

2 *American Customer Satisfaction Index Finance Insurance and Health Care Report 2019-20*

3 *American Customer Satisfaction Index Finance Insurance and Health Care Report 2019-20*

4 *https://www.forbes.com/sites/ronshevlin/2021/01/18/the-5-hottest-technologies-in-banking-for-2021/?sh=2a8e680b35c4*

5 *"Next-gen Technology transformation in Financial services," April 2020, "Reinvent technology delivery to drive a step change in productivity and speed," McKinsey & Co., p. 46.*

6 *Aite Group's Survey of 2,413 US consumers, Q1 2020*