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WHITE PAPER

Digital Transformation and the Customer Experience:

Challenges and Opportunities for the Financial Services Industry

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Mamta Rodrigues

President, Banking, Financial Services, and Insurance

Teleperformance

Even before 2020, the financial services industry was in the midst of profound disruption caused by the introduction of digital natives and new, tech-first business models. So, when the Covid-19 pandemic led to worldwide shutdowns, all financial services providers were forced to offer remote engagement options to their consumers not only in direct-to-consumer payments but also in small-business customers for business-to-business payments—whether or not they were prepared to do so. In parallel, an industry that has traditionally been leery of virtual work environments due to data privacy and regulatory concerns was left with no choice but to make the transition.

These dramatic, market-driven imperatives demanded the adoption of new tools and processes for both businesses and consumers. Transactions shifted to the digital realm, customers sought self-service options, and automation-driven tools helped customer experience teams scale to address soaring contact volumes. Financial institutions—especially those still largely dependent on a brick-and-mortar model—were forced to pivot dramatically in order to adapt to a fully virtual marketplace. Speed to market, without compromising data security and fraud mitigation measures, became business critical. Then longer-term resilience required the agility to scale in response to repeated closures and fluctuating contact rates.

Already tech-savvy and nimble, fintechs were better equipped to weather the global storm, growing faster than their more traditional peers. However, many established financial institutions were able to pivot quickly by implementing new cloud-based services and leveraging a scaled, agile approach to drive efficiency and speed. As a result, they've discovered new synergies between tech-led tools and human-centric service delivery.

What does all of this mean for the future?

That despite the many challenges faced while navigating the Covid-19 crisis, all financial institutions will emerge with a better understanding of what their customers want and need. Also, the pandemic helped push digital payments to the forefront, and while those capabilities have been in the market for years, it was during this time that digital payments and commerce became mainstays.

Fintechs have learned that even their core Millennial, Gen X, and Gen Z customers want the ability to interact with a live human at times of financial distress. Established financial institutions have learned that today's more digitally savvy consumers want a broader variety in contact channels, digitally driven processes, automated tools, and the ability to engage with their financial institution wherever and whenever they want. We've all completed a crash course in customer evolution and business transformation so, at the end of the day, we recognize that future success will come down to three things.

First, long-term business resilience will require a more dynamic model designed for agility—most commonly, this will involve a hybrid model that maintains some remote service delivery. Second, we must make it intuitive for customers to access their financial services, products, and plans by offering simple, digitally led tools along with a variety of support options. Third, we must never forget the importance of balancing technology with live care when a human touch is needed. Though our industry is mostly transactional in nature, there is a person at each end of every deposit, transfer of funds, automated payment, service charge, investment, and fraud claim. Our financial well-being drives our day-to-day experiences, and as the digital realm and payments continue to overlap, frictionless banking interactions with best-in-class customer experiences are essential for establishing lasting customer engagement and loyalty.

Financial issues have a very personal and profound impact on people's lives. These moments of impact offer providers an opportunity to establish more human connections with their customers by delivering the right level of personalized support at the right time every time.

Digital Transformation and the Customer Experience:
Challenges and Opportunities for the Financial Services Industry

As the financial services industry begins to transition out of Covid-19 pandemic mode, it is increasingly clear that the world to which it returns will not be the one it left behind. Some of the on-the-fly changes undertaken in order to survive will become permanent, having demonstrated their efficiency and effectiveness. New digital ways of doing business embraced by consumers are now the norm. Indeed, customer expectations for digital experiences have only escalated, and firms that fail to keep the momentum going risk alienating those they seek to serve.

"Digital is here. Customers expect to be able to do their banking when and how they want," says Debbie Bianucci, president and chief executive officer of the Bank Administration Institute (BAI), a nonprofit organization that provides research, training, and thought leadership events for the financial services industry. "Customer expectations have gone up, and they're not coming back down."

In a March 2021 BAI survey of 600 consumers, 72% of Millennials said they would change their primary financial services organization if they found one with better digital capabilities. So did 61% of Gen Z and 51% of Gen X. Among the digital resources consumers would use if available in a bank branch are video ATMs, interactive teller machines with remote tellers, and digital advocates who could help customers with questions.[1]

To keep pace with consumers' rising expectations, financial services firms will need to continue building out and coordinating digital delivery channels and customer self-service tools. These organizations also will have to drive their

HIGHLIGHTS

The pandemic has confirmed that **reliability, resilience, and speed** are critical capabilities in a world where business conditions can change virtually overnight.

To keep pace with consumers' rising expectations, financial services firms will need to **continue building out and coordinating digital delivery channels** and customer self-service tools.

Operationally, firms will need to be able to scale their operations quickly, which means they'll have to **continue migrating their information systems** to the cloud.

> “Digital is here. Customers expect to be able to do their banking when and how they want,” says Debbie Bianucci, president and chief executive officer of the Bank Administration Institute.

operating systems deeper into the cloud, enabling the agility and scalability required when fast change is forced upon them.

These messages are already resonating with banks. In the BAI survey, which also polled 200 leaders of financial services organizations, nearly all those executives said their organization would be boosting its investment in digital in 2021, with 46% saying they would increase it more than 10%. The top area targeted, cited by 30% of respondents, was promoting digital banking to customers to increase adoption, followed by connecting digital products across the organization (20%) and enhancing current products (18%). **FIGURE 1** Executives indicated that their top digital improvement priorities are delivering better product and service recommendations, providing 24/7 customer service, and improving online account opening. Additionally, consumers said that offering stellar 24/7 customer service was one of the best ways financial services firms could enhance their digital capabilities, but they also mentioned giving them the ability to turn credit and debit cards on and off and offering a user-friendly app that would allow them to easily check deposits and pay bills.

To adequately deal with the new digital realities involving their customers, financial services organizations also will need to keep pace with employee expectations and leverage technology and digital assets to improve the employee experience. Many firms, for example, will need to offer flexible work-from-home policies and ensure that employees have the digital tools they need both to access data and to collaborate and communicate with one another so they can contribute to better customer experiences. Robotic process automation and other artificial intelligence tools can eliminate redundant tasks and take over repetitive manual ones, allowing employees to focus exclusively on driving the customer experience.

Amid all this change, financial services firms must ensure that their increasingly digital and far-flung operations remain secure against cyberthreats. At the same time, they’ll have to guard against overcompensating on the security front to the extent that it compromises the customer experience.

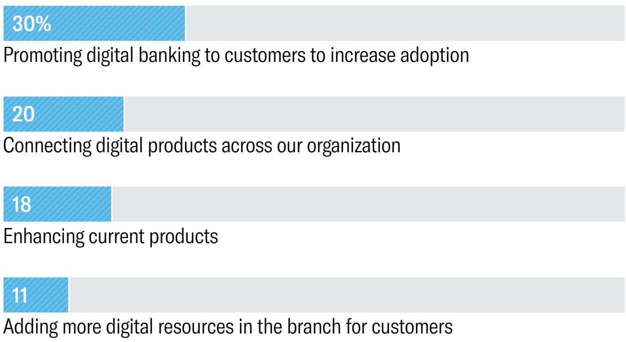
This report explores the customer service, data security, and fraud protection challenges financial services firms face in a world reshaped by the Covid-19 pandemic. It also looks at what these firms have learned during the pandemic and what they can do to ensure an optimal customer experience as they continue to pursue their digital transformation agendas.

FIGURE 1

Banks Investing in Digital Across a Wide Front

Promoting digital banking and connecting digital products are top priorities

What is your organization’s top digital banking investment in 2021 (excluding cybersecurity)?



Source: Bank Administration Institute survey, March 2021

A Changing Landscape

Amid the pandemic, more people worked, shopped, and banked from home or via mobile devices, forcing businesses and consumers to rely more on digital technology. Where personal interactions remained necessary, health and safety became a bigger part of the customer experience.

In the financial services sector, much was changing behind the scenes, too. Contact center volumes soared, straining staffs that were thinned because people were unable to work remotely and uncomfortable working in the office. At the majority of banks, digital account openings grew more than 20%, BAI’s Bianucci reports, but traditional banks saw even larger increases in deposits than their digital counterparts did, a trend she attributes to consumers trying to create financial liquidity by keeping more money in their personal checking accounts rather than in direct-banking savings accounts. And even though the financial services industry is highly competitive, Bianucci says, banks also became more collaborative—more willing to share ideas and solutions with one another—as senior executives strove to ensure that their organizations were able to keep pace with all the changes taking place around them.

> "The pandemic helped break down the barriers to implementing some of the product enhancements we've always been excited about, because our partners had to figure out how to make themselves more digital," says Janelle Sallenave, senior vice president for operations and member services, Chime.

For Chime, a San Francisco-based financial technology company that provides fee-free mobile banking services in partnership with traditional banks and other partners, the shift toward digital made it easier to pursue its agenda.

"The pandemic helped break down the barriers to implementing some of the product enhancements we've always been excited about, because our partners had to figure out how to make themselves more digital," says Janelle Sallenave, Chime's senior vice president for operations and member services. "We're seeing more flexibility and more openness around some of our ideas and our processes, and I believe that mindset is going to persist."

Customer expectations are expected to remain permanently changed, too. As digital adoption accelerated across age groups, says Lance Gruner, executive vice president for global customer care at Mastercard, a multinational financial services company headquartered in Purchase, N.Y., customers became smarter about what digital could do for them in terms of allowing them to easily shop and bank virtually, and it conditioned them to expect state-of-the-art capabilities from all the organizations they do business with.

"Customers today expect to be able to self-serve," Gruner says. "And they expect to be able to move between channels seamlessly—starting on chat and then switching to voice, for example—without having to restart the engagement."

The swift shift to more digital activity did have some drawbacks. Firms that weren't digitally native sometimes had trouble keeping up with consumers' growing expectations, says Daniel Wing, director of operations and customer excellence for a stealth-mode fintech startup and previously global vendor manager for risk, trust, and safety at Stripe, a financial services and software-as-a-service company with dual headquarters in San Francisco and Dublin. And Jerry Silva, vice president for financial insights at market research firm International Data Corp. (IDC), notes that the FBI reported a surge in fraudulent transactions when more payments went digital early in the pandemic. Banks responded by beefing up their fraud protection systems, but because those systems are susceptible to false positives, banks sometimes wound up frustrating legitimate customers—shutting down their online purchases, for example, in cases where the customer didn't have a history of doing much online shopping.

"Banks had to learn to follow where the consumer was going," Silva says. "In this case, they were doing more digital transactions online and via mobile devices."

To be sure, some financial services firms were better prepared than others to meet changing expectations. Big banks tended to be better prepared than small ones, says Silva. In the U.S., credit unions fared reasonably well because, without big branch networks, they didn't have to worry about managing a lot of branch closures. Financial institutions in Europe also tended to fare well, he says, as they had been closing branches anyway and were already heavily invested in digital payment technologies. Institutions in the Asia-Pacific region also benefited from their early adoption of digital payments.

Harder hit were community banks in the U.S. that didn't have the latest generation of mobile and contactless payment systems, didn't have the digital capacity to handle new loan demand generated by the federal government's Paycheck Protection Program, and weren't cloud-native. The insurance sector, Silva adds, was helped by the fact that many firms already had agents accustomed to working from home and had already been transitioning to a cloud-computing environment; the latter trend helped them quickly scale capacity to handle an influx of claims. Securities and investment banking firms also were reasonably prepared to manage through the pandemic, Silva says. They had invested heavily in digital technology to handle large trading volumes, and many of their employees on the wealth management side of the business were accustomed to working remotely.

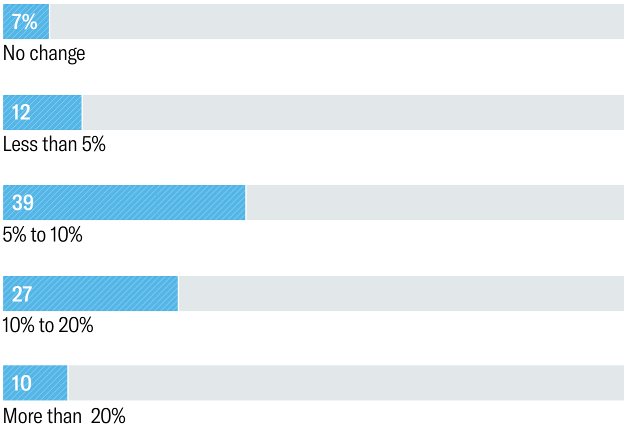
In general, the financial services industry's biggest challenges during the pandemic revolved around managing office and bank branch closings, maintaining channel consistency as customer expectations rose, and successfully managing the increase in fraud incidents. It also became increasingly important, Chime's Sallenave says, for financial institutions to understand their customers' unique and evolving needs, especially for those who lost their jobs when the economy locked down. Increasing contact center capabilities, too, proved particularly critical, with 39% of industry leaders surveyed by BAI reporting that contact center volumes rose between 5% and 10%, and 27% saying activity rose between 10% and 20%. **FIGURE 2**

FIGURE 2

Contact Center Volumes Surge During Pandemic

Most banks saw call center volume jump amid shift toward digital banking

Percentage increase in call center volume over the prior year



Source: Bank Administration Institute survey, March 2021

More Contactless Customer Engagement

Financial services firms seized on several ways to meet the challenges imposed or exposed by the pandemic. Of necessity, they shifted to remote work where possible, pivoted to digital onboarding and training of employees, and developed more contactless ways to engage with customers. Many firms accelerated their shift to cloud computing—part of an overall acceleration of their digital transformation efforts—and developed more self-service delivery channels.

On the contact center front, nearly three-quarters of the executives surveyed by BAI said their organization invested in new technology to keep up with demand. Consumers polled in that survey said contact centers at traditional financial services organizations were most likely to be able to meet their needs. **FIGURE 3**

To be sure, adjustments and accommodations varied from one organization to another, depending on the specific challenges they faced. Mastercard, for example, when challenged to continue serving a global multilingual customer audience even as the availability of contact center agents became limited due to fallout from the pandemic, introduced automated language translation capabilities in its contact centers. This capability allows a caller speaking in one language to be heard in another language by an agent. The company also accelerated the deployment of new text and speech analytics tools that could provide insights into customer sentiment on a real-time basis. “That allowed us to directly influence how we needed to adjust on a day-to-day basis to maintain our performance, maintain the customer experience, and identify opportunities to improve,” Mastercard’s Gruner says.

Mastercard also boosted its self-service capabilities for customers by employing artificial intelligence technologies. In its interactive voice response systems, for example, it introduced natural language understanding capabilities that allowed the systems to respond directly to customer input rather than forcing the customer to work through a decision tree. It also leaned on robotic process automation to automate processes in ways that would deliver simpler, easier customer experiences.

Chime responded to shifting customer needs by reorienting some of its product features, including giving account holders more leeway. The company already had a feature called Spot Me, which allowed customers—it calls them members—to overdraw their account with debit card purchases up to specified limits without incurring any overdraft fees, for example. But the company boosted those limits when it saw that many of its members were bumping up against them. It also invested in providing members with more self-service capabilities and introduced 24/7 telephone support.

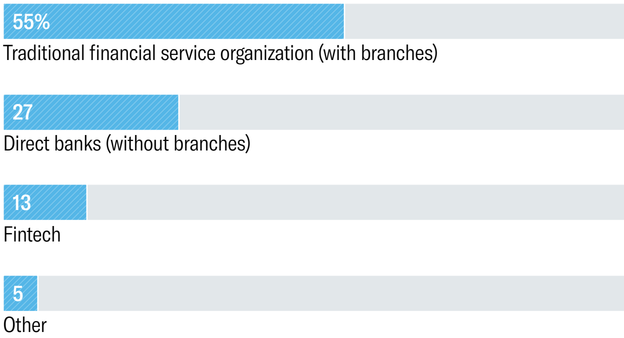
Meanwhile, to help its employees, Chime began scheduling explicit downtime for workers tempted to log overly long hours working from home. It also provided education on coping with asynchronous work schedules, in which members on the same team work at different times of the day. Operationally, Chime began expanding its network of business process outsourcing

FIGURE 3

Traditional Banks’ Contact Centers Performed Best During Covid-19

Consumers were twice as likely to rate them ahead of direct banks

What type of organization has the most helpful contact centers?



Source: Bank Administration Institute survey, March 2021

> "Customers aren't going to wait for you to get it right. They have immediate needs. There's no going back to the way things were prior to the pandemic," says Lance Gruner, executive vice president for global customer care at Mastercard.

vendors to build a truly global and more resilient network of service providers and began taking advantage of the remote work paradigm to recruit new employees from a larger, more geographically diverse talent pool.

Reliability, Resilience, and Speed Ahead

The pandemic has confirmed that reliability, resilience, and speed are critical capabilities in a world where business conditions can change virtually overnight, sometimes because of external factors beyond the business community's control. The global health crisis and its economic fallout also demonstrated that customers are quick to raise their expectations for how companies respond during trying times. Now that consumers have seen what is possible from the most technologically advanced organizations, second-rate efforts may be judged harshly moving forward.

"Customers aren't going to wait for you to get it right," says Gruner. "They have immediate needs. There's no going back to the way things were prior to the pandemic."

Even so, the most sophisticated digital technologies must be deployed with a customer-first, customer-centric focus instead of using technology for technology's sake.

"The pandemic shone a light on how you can operate as a digital-only enterprise," says Sallenave. "But even if you have been in the digital space for a while, you are never done with the customer experience. At Chime, we recognize that we need to keep finding ways to make the digital experience more frictionless and immediate, with less effort required from the customer. There's no resting on our laurels."

In the post-pandemic world, IDC's Silva says, financial services firms will have to embrace hybrid workforce models in which some employees work remotely, some work in the office, and some move back and forth between both locations. Bank branches will have to deliver more self-service capabilities for customers and become more visual, digital, and contactless. Operationally, firms will need to be able to scale their operations quickly, which means they'll have to continue migrating their information systems to the cloud.

It won't always be easy. One challenge older and more established financial services firms continue to face is integrating their core legacy information systems with new cloud-based applications until they're ready to move those legacy systems to the cloud, which for most will be a massive lift.

"For many institutions, the mainframe is not going away anytime soon," says Silva. "So, you've got this modernization movement happening where you now have systems operating on-premises, in private clouds, and in public clouds, creating a hugely challenging environment in which a single workload may stand on multiple systems."

In all these instances, financial services firms also will want to make sure they don't lose sight of the customer. They'll need to ensure that customers are able to seamlessly conduct business when and where they want through whichever channels they prefer, with the confidence that their personal information and their money are being protected against fraud.

Seventy-one percent of the financial services executives surveyed by BAI said their organizations were investing in new technologies to better serve customers from contact centers in 2021, with call and text automation the most common investment. **FIGURE 4**

Finding the Right Partners

Few financial institutions will have the in-house expertise to address all these challenges without the help of expert outside partners. Most have already outsourced contact center operations, and demand for experts in fast-growing fields like artificial intelligence and data science outpaces supply. This realization raises significant concern in the critical area of contact center operations, since customer service representatives meet the customer at the very moment they need support and become, to a large degree, the face of the organization.

To find the right contact center partners, Bianucci advises that firms be clear on their own customer experience goals and strategies so they can set clear expectations for what those partners will deliver. "While banks A, B, and C may all be trying to lead through digital transformation, they could have very different customer bases, very different approaches to serving those customers, and very different capabilities," Bianucci explains. "So, clarifying goals and expectations upfront is crucial."

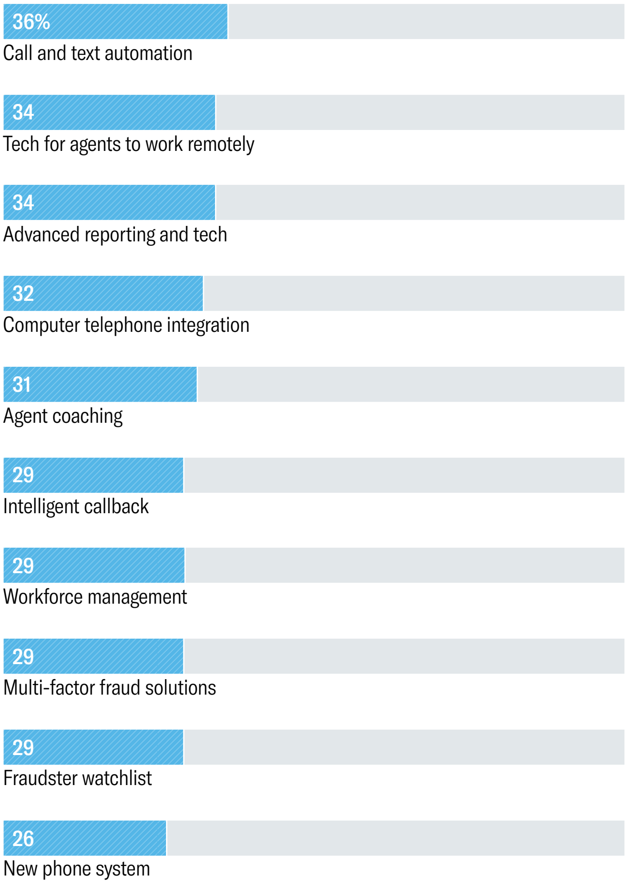
If a bank wants to prioritize the fastest-possible response to customer inquiries, for example, it may wish to focus on

FIGURE 4

Automation Is Top Contact Center Investment

Firms want to boost the efficiency and effectiveness of their contact centers

What type of technology do you plan to invest in for your contact center in the next year?



Source: Bank Administration Institute survey, March 2021

technologies that facilitate automated responses directly to the customer. If it wants to prioritize personal responses by human employees, by contrast, it may want to focus on technologies that allow those employees to quickly assess the customer's needs and access the information required to solve that person's problems.

"Without planning, you're more than likely going to end up with horrible customer service for years," agrees Stripe's Wing. "And it will be extremely expensive to fix it."

Gruner adds that firms should seek partners that demonstrate a willingness to learn about and understand their clients' businesses, have a customer-centric culture of their own, and show an eagerness to find new ways to help their clients run their own businesses better.

"Our best partners act as if they are part of our team," Gruner says, adding Mastercard outsources about 50% of its contact center operations to third parties. "Their mindset is that they are Mastercard. I don't want partners I have to lead. I want partners who are proactive, always thinking ahead, and invested in our business."

Sallenave concurs. "I think of our business process outsourcing partners as an extension of the Chime family," Sallenave says, noting that the fintech engages partners to handle contact center operations. "For our members, they are in many ways the voice—almost the face—of our company, and they are fulfilling that role in moments that really matter. For me, it is critical to have partners whose approach fits with ours and can be an extension of our organization."

Sallenave adds that she looks for partners that are not interested in copying and pasting what they've done on other accounts or in maintaining the status quo. Rather, they should be willing to reimagine how work gets done and, drawing on their unique view of the customer, push Chime on where it needs to be more assertive or move faster to enable a better customer experience.

Getting New Technology Initiatives—and Partnerships—Right

To ensure that new partnerships and technology initiatives go as smoothly as possible, Wing encourages organizations to have a plan for what they want to accomplish—is speed a priority with that new customer experience initiative, for example, or is personalization more important?—and how they're going to get there. And part of that plan, he adds, must address any potential risks that could jeopardize outcomes. For financial services firms, those risks revolve largely around data integrity and cybersecurity.

"Too often, risk is forgotten," Wing says. "I'm referring to any kind of risk for your users, your company, or even your vendors. Because in the financial services industry, we're talking about people's money, their livelihoods, their businesses. So, you want to know how your partners will protect your organization and your users against fraud. This requires some effort on your part, as well. You need to make sure you're giving your vendors the guardrails they need to manage and use your customers' data safely and securely."

In a similar vein, Sallenave recommends considering potentially negative unintended consequences when introducing new technologies, applications, or services or onboarding a new service provider. One way to do that is to make sure representatives from a broad and diverse cross-section of the organization are involved in planning

71%

of the financial services executives surveyed by BAI said their organizations were investing in new technologies to better serve customers from contact centers in 2021, with call and text automation the most common investment.

"It's important to fail fast and fail forward—to experiment, gather feedback, and then iterate. You will iterate many, many times. That's progress," says Sallenave at Chime.

the initiative and understand exactly how their part of the business will be impacted.

Finally, Bianucci recommends that firms adopt a test-and-learn mentality that will allow them to get to market quickly. "If you wait for something to be perfect, you'll be sitting here four years from now still trying to tweak it—and by then it will be too late to do you any good," she says.

That approach is the same as the one Sallenave takes at Chime. "It's important to fail fast and fail forward—to experiment, gather feedback, and then iterate," she explains. "You will iterate many, many times. That's progress."

By way of example, she points to a new approach to the queuing experience for members—determining in what order members' inquiries are addressed—that her team is rolling out after just months of development.

"It's a complicated project," she says. "I'm already at peace with the idea that it's going to be a bit of a mess—that there's going to be some portion of the experience where we designed it perfectly and another portion where we totally swung and missed. And that's OK. All we're looking for is forward progress."

Moving in the Right Direction

The pandemic irrevocably changed the expectations of consumers. Having seen how the best organizations were able to pivot and adapt to a massive disruption of business as usual, they now expect nothing less from every organization they do business with. Financial services firms that aren't able to keep pace with these new expectations—while still delivering the safety and security customers expect—risk falling irreversibly behind their nimbler peers.

All this heightened pressure to keep changing seamlessly on behalf of customers while safeguarding them places new demands on financial institutions, which must continue to press forward with their digital agendas to achieve the scalability, flexibility, and resilience needed to rise to new challenges and grow their businesses.

Bianucci believes many are already moving in the right direction.

"I've been in this business for a long time and have never seen the speed of decision making that I saw when banks had so many new customer service and operating constraints thrust upon them in March 2020," Bianucci says. "That experience is going to forever change the way innovation happens in our industry and give organizations the confidence they need to make decisions in a more agile way moving forward."

Endnote

1 Bank Administration Institute, "BAI Banking Outlook Special Report: The Impact of Digital Acceleration on Banking," May 2021.

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