

# Digital Services: Building a Foundation for User Experience

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## WHITE PAPER

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## IN THIS WHITE PAPER

Digital services encompass the online and increasingly mobile interactions financial institutions have with their customers. The next wave of digital services are being developed and deployed by leading financial institutions, and increasingly, by start-ups offering new financial tools. The early stages of this transformation are already becoming visible as financial institutions begin to invest in next-generation digital services.

Financial Insights predicts:

- Financial institutions have a very small window that they can use to upgrade their digital services. Customer expectations are high, and they are shifting balances now due to the financial crisis. But we do not expect these movements will be permanent. Institutions that present the best digital face to their clients will acquire and retain more clients – both retail and wholesale.
- The future of digital services will be about interacting with clients, not transacting. To increase interaction, institutions will invest in improved user experience, rich online help, financial education, and product selector tools.
- Next generation digital services will continue to evolve. Financial institutions investing now must keep an open mind to future requirements and ensure that investments made now are flexible and scalable to adapt over time.

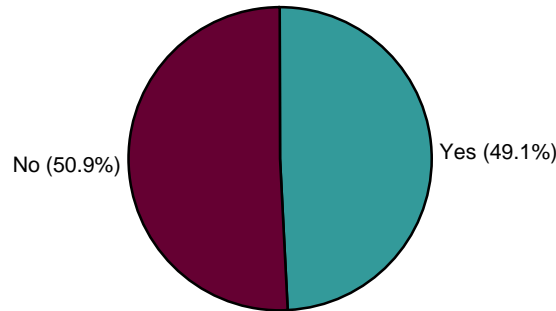
## SITUATION OVERVIEW

One of the ways financial institutions are differentiating themselves and improving client satisfaction is with investment in digital services. Financial institutions have reached a plateau with their first generation of digital services offerings. Bank offerings in particular are very standardized – on both the corporate and consumer side of the business. They are tuned well to basic information reporting, transaction initiation, product catalogs, and some basic financial guidance. However, digital experiences have evolved significantly since introduction of internet banking for consumers and cash management for businesses, and bank platforms have not kept pace with the new Internet which is characterized by communities, long tail, and interactive media. The first generation of Web technologies were used in a static manner by financial institutions employing text-heavy HTML with standard reporting - with little interaction and few tools for the end user. Second-generation Web technologies (e.g., RIA and RDA) allow collaboration and more effective information sharing -. The new Internet also encompasses technologies that allow the presentation and use of information in new ways such as social networking.

As shown in Figure 1, almost half of the banks surveyed are already investing in next generation technologies that will revolutionize the digital services they provide to clients. According to our research, banks report significant use of next generation digital services behind bank firewalls with internal applications. These are especially vital to large institutions where complex, geographically dispersed organizations impede information sharing, collaboration, and efficiency. It is these investments in internal applications that are laying the foundation for richer customer-facing applications in the future.

FIGURE 1

Current Usage of Next Generation Digital Applications



N=121

Source: Financial Insights Web 2.0 Survey Results, 2008

We know that client-facing applications that provide a richer experience enhance client relationships and increase sales opportunities. This richness, however, must be balanced with a disciplined approach to user experience – ensuring that customers can navigate effectively and take full advantage of digital services. In difficult economic conditions, keeping existing customers is as important as gaining new customers. While digital services are foundational to this effort, financial institutions are typically not the standard bearers of usability. Dell, Google, and Amazon are leading the way in this regard, and all these firms have embraced next generation digital technologies in their customer-facing applications. Our survey results reveal that it will not be long before many financial institutions enhance their customer experience and brand value with RIA and RDA. This is verified in Table 1, indicating that just about half of banks report current use of next generation digital services within their financial institutions.

TABLE 1

Next Generation Digital Services and Social Networking

Q. Which of the following are you already using within your financial institution?

Category	% of Respondents
Wikis	26.60%
Internal blogs	21.50%

TABLE 1

## Next Generation Digital Services and Social Networking

Q. Which of the following are you already using within your financial institution?

Category	% of Respondents
Business/social networking applications	16.50%
Online communities	15.20%
Rich internet applications	11.40%
Mash ups	5.10%
Shared bookmarking	3.80%

n = 79

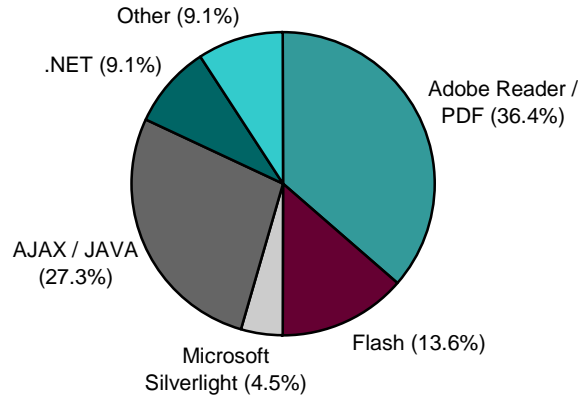
Source: Financial Insights Web 2.0 Survey Results, 2008

Table 1 shows the use of specific applications of these technologies. Not surprising is the prevalence of applications that can be implemented inside of bank firewalls, for example internal blogs and wikis. These implementations avoid some of the messy issues around social networking (security, reputational risk) and changing the customer experience (customer support, integration).. The largest groups of respondents responded that they are using online communities, business/social networking, internal blogs, and wikis.

Adoption of these applications is, in many instances, more of a generational and cultural hurdle than a technological issue. Just as financial institutions have embraced the Internet for transaction initiation, file transfer, and information reporting, they will progress quickly and will, once the value is proven and cultural acceptance is achieved, move to social networking as well. The real value though will not be in social networking as it exists -today on FaceBook and LinkedIn for example, but in creating an interactive customer experience – including interaction with bank employees, other customers, and external resources. These interactions will all be focused on providing information to customers that is in a format they can easily consume and that will increase loyalty to their financial institution. Moving to more consumable formats will mean more analytic tools, more videos, online chat capabilities, and links to external data – requiring a new technology platform to support this enhanced experience.

FIGURE 2

Supporting Technologies and Vendors



N=9

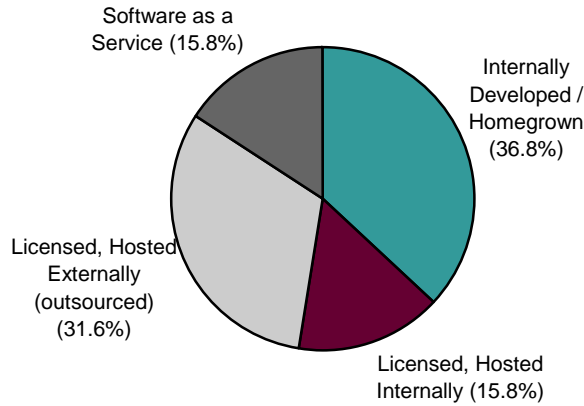
Source: Financial Insights Digital Services Satisfaction Surveys, 2009

Although improving digital interactions is not solely a technology initiative, it is underpinned by technologies to support it. To introduce the rich new functionality to employees, clients, and prospects, financial institutions are quickly adopting innovative solutions. In this new market opportunity, Adobe is a clear leader with its combination of Adobe Reader/PDF and Adobe Flash. Adobe PDF is a proven standard for safe, secure digital document delivery, and Adobe Flash provides the programming tools to create dynamic user interfaces which -are becoming the norm in digital interactions – allowing customization, widgets, and video links to pervade the online channel without sacrificing security and enterprise-class stability and scalability.

There is wide variation in deployment of this next generation of digital services. Figure 3 illustrates the responses from bankers regarding deployment of these technologies. Respondents are split fairly evenly between internally and externally deployed solutions, with most choosing one form or another of licensed software. In this survey, just over a third reported internal development, but as packaged solutions become more mature, Financial Insights expects that future deployments will lean heavily in this direction. In particular, we expect to see strong growth in software as a service offerings which will be attractive to those institutions who seek a face-lift for their digital services, but want to avoid capital investment.

FIGURE 3

Deployment of Digital Services



N=9

Source: Financial Insights Digital Services Satisfaction Surveys, 2009

So now that we understand the current state of financial institutions, the question becomes where are they heading with future investments? Investment will continue as financial institutions improve their digital service offerings. As shown in Figure 2, RIA will see steady growth in the next two years as the institutions that are ahead of their competitors will steal away market share from those institutions with aging digital services.

TABLE 2

Next Generation Investments in the Next 24 Months

Q. Which of the following do you plan to implement at your financial institution in the next 24 months?

Category	% of Respondents
Rich internet applications	28.30%
Business/social networking applications	22.50%
Online communities	14.60%
Wikis	13.60%
Internal blogs	11.90%
Mash ups	9.10%

**TABLE 2**

**Next Generation Investments in the Next 24 Months**  
*Q. Which of the following do you plan to implement at your financial institution in the next 24 months?*

Category	% of Respondents
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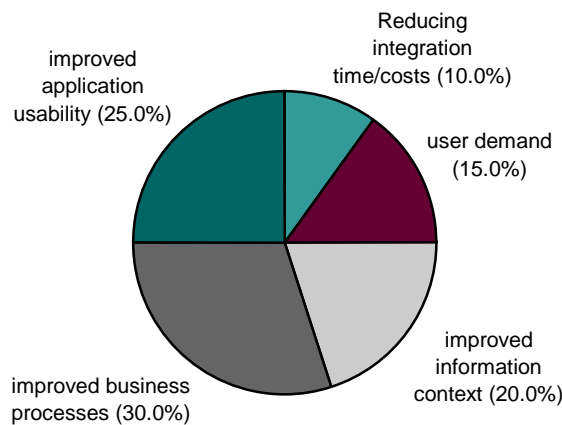
n = 121

Source: Financial Insights Web 2.0 Survey Results, 2008

It is this continued investment in digital services that will deliver real value to financial institutions. With RIA and RDA, institutions can greatly enhance their user experience, increase customization, and improve upon self-service capabilities. Some institutions such as PNC and State Street have made sweeping changes to their customer-facing applications and have created a strong digital identity that draws in new business. These vanguards are leading the way for other financial institutions that are looking for more proof before they continue investment, but our view is that it is only a matter of time before RIA and RDA become a part of most internet banking sites – for both consumers and businesses. With next generation offerings, financial institutions can provide a simulated one-to-one customer experience. With a combination of self-service, financial education offerings, user-controlled dashboards, and templating of customer types, institutions can build a personalized experience for their clients.

**FIGURE 4**

**Rich Internet Application Adoption Drivers**



N=38

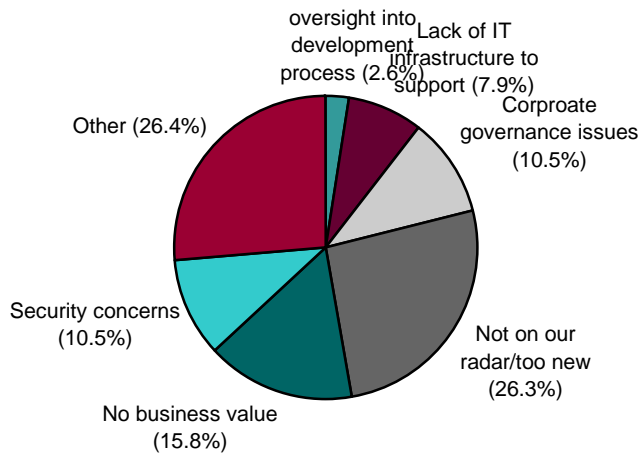
Source: Financial Insights Web 2.0 Survey Results, 2008

Of the institutions adopting RIA, what is driving that adoption? Figure 4 illustrates that institutions see various benefits, with most of the drivers relating to customer satisfaction.

Rated highly are improved application usability, improved information context, and responding to user demands. On the other side of the equation are more improvements to bank processes, with improved business processes and more efficient integration as evidence of those benefits. These results support Financial Insights assertion that RIA (and RDA) can push both levers – revenue generation and cost control – delivering real financial value to financial institutions. The revenue generation element is the one that most financial institutions think of first – improving cross-selling, attracting new customers, improving usability, but the benefits from streamlining operations and increasing efficiency can be just as compelling. Financial institutions have learned from mistakes made in first generation digital services, and are aware that integration and straight-through processing are critically important. Interactions between the client-facing front-end and the back-end – for new account opening, transaction initiation, inquiries, customer service must be as efficient as possible to keep costs in control and maintain a high level of client satisfaction.

FIGURE 5

Rich Internet Application Adoption Inhibitors



N=38

Source: Financial Insights Web 2.0 Survey Results, 2008

Although there is clear value in rich digital interactions, there are also barriers that must be acknowledged. The most interesting take-away from Figure 5 is that 42% of respondents either do not see value, or they see that RIA is too new for them to adopt. These institutions represent that great mass of bankers who are willing to be followers or laggards in their adoption of technology.

This strategy has worked well for institutions in the past, but the rules have changed post-financial crisis. We have seen that customers, both retail and wholesale, are more willing than we thought to move their business. We have seen great waves of deposit movement from institutions that are perceived as high risk to the more stable brands. When customers move, they have higher expectations when they shop their business around. So although they may be willing to accommodate an average level of service as an existing customer, they will move their business to an institution they see as a leader. They want a stable financial institution that will be there for the long haul, and having an attractive and user-friendly digital storefront is an important part of brand perception.

## CONCLUSION

Banks and credit unions are becoming familiar with the opportunities next generation digital services can provide; however, they must tread carefully as errors in strategy and execution can be damaging to the firm's reputation. This is particularly true now with social networking and the very negative public opinion towards the industry. Financial institutions should consider:

- Retaining and acquiring deposits is critical for financial institutions, and a compelling digital experience is one way to improve your brand and increase satisfaction.
- Looking for opportunities to upgrade customer-facing Web sites to enrich the user experience and increase customer satisfaction. This includes both investments in technology and a focus on improving usability and navigation.
- Developing (or identifying) experts within the organization who can lead the organization into next generation digital services while avoiding common pitfalls.
- Recognizing that benefits are not just about improving customer experience and increasing revenues. Benefits accruing to the bottom-line also include improved business processes and more straight-through processing – thereby increasing efficiency in the back office.

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