Why U.S. Banking has Eluded Successful Digital Transformation

by Cole Normandin-Parker

Consumers have always had a high expectation for banking, but during recent years the expectations of consumers have changed with the transformation in digital advancement. In the year 2022, one would assume that some banks would have completed their digital transformation goals, but that is not the reality. According to The Financial Brand, only 3% of banks have reported completion of their digital transformation, with the majority barely 50% of the way done. Banking has a web of financial exchange that closely matches with social webs that you would find on Facebook or Instagram, but banking has failed to provide any such service — yet alone any successful digital transformation — leaving the work towards FinTech companies and small startups to address these issues. This article will explore the reasons behind the failure in banking digital transformation.

In most cases, banks are moving towards digital technology to attract and retain clients, using technological integration to help put them a step above the competition. Even though the ultimate goal of every bank, like any business, is to have happy and satisfied customers, their faulty technological advancements have led to high dissatisfaction and anger. One 2013 study found that "customers would attribute the failure to an external source, the bank in this case," and would react with "anger as a prominent negative emotion" (Bougie et al., 2003; Weiner, 2000; Yoon, 2013). To many consumers, it may seem like banking is always behind the trend, providing services that are outdated, sometimes even feeling decades old.

Technology has always been a game of adaptation, and the rapidity at which adapting is required reached exponential rates at the end of the 20th century. For banks joining so late in the game, any progress that is made often becomes relatively obsolete in as little as a year or two. In terms of their digital transformation, most banks started around 2018-2021, with 34% of banks reporting to start in 2022, and only 9% earlier, as reported by Cornerstone. To help make up for the lost time, A large majority of banks have partnered with financial technology institutions (hereafter referred to as “fintech”) to help “speed” up the process. A majority of banks, nearly two-thirds as reported by Synctera, have a fintech partnership. Yet in most cases, this was a big mistake, as Cornerstone's report “What’s Going On In Banking 2022,” makes the argument “We can’t predict that digital transformation efforts will get reset in 2022 — but they need to. Banks and credit unions are deluding themselves into thinking they’re further along in their journey than they really are and that their efforts are having the impact they think they’re having.” With the insane demand for smooth user experiences, integrated media, and support applications, while including creating something to compete with cryptocurrencies, one would think that big banking would work on this in-house, but that is not the case. Frankly, big banking relies heavily on their partnerships with fintech, delegating the work to them. At the same time, Cornerstone Advisor reports that FinTechs have little to no dedicated staff working on the clearly necessary partnership. Partnerships with fintech could have been promising, but it is with this amalgamation of shortcomings that these endeavors have failed.

Investing in the digital transformation of big banking can mean writing a pretty hefty check. As reported by Statistica, the global investment in digital transformation reached nearly 1.3 trillion dollars in 2020. Yet, in most cases, the payoff is not as profitable as people believe. As reported by BCG, only about 30% of digital transformations are successful. So, It would make sense that most banking companies aren’t excited to get digital when the outcome of success is so low; nonetheless, through the pressure of competition and customer demand, banking has attempted to create a digital transformation towards online banking. This time would have started around 2014 when Wall Street banking was pushing for regulations to control bitcoin. This ultimately led to the validation of bitcoin, as stated by The New York Times, and led towards the New York's Department of Financial Services issuing licensor for bitcoin businesses around 2015. From there on out, it was a game of catch-up for banking.

The amount of banking apps one can have downloaded at a single time is atrocious. Banks continue to fire shots in the dark, trying to create a successful app that meets user expectations and, perhaps more importantly, user needs. The first bank that will combine all the user-demanded features into one application will monopolize the industry. Nevertheless, there is a clear lack of a single platform, or even a handful of good options that can work together. In most cases, there is an app for everything, but not an app that has everything for banking. As reported by Forrester, "one in eight U.S. online adults who opened a checking account say a financial provider's digital services (such as its app) is one of the most important factors when selecting a brand." Traditional banks have to face hard facts: the up-and-coming generations live on mobile. Most banking apps are unsuccessful as they fail at providing reliability, contextual help, plan language, and simplicity within their app (FinanTEQ).

With the constant change in technology and a disconnect between banking and fintech, there has been a lack of clear leadership vision, communication, management, and funding towards a dedicated skilled team. Banking has failed to put enough money into technology development, nor enough leadership vision, as well as a lack of single platform. The other issue was a lack of skills and reliance on IT support. Either way Banks will have to evaluate their objective and make sure they have a clear and exact play towards their digital transformation.

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