5 Trends Driving the Digital Banking Landscape

HOW DOES YOUR DIGITAL TRANSFORMATION JOURNEY STACK UP?

Alkami

Contents

Executive Summary

Alkami surveyed executives at 152 banks and credit unions to learn more about how they were using digital transformation to set themselves apart from the competition. Respondents revealed five main trends driving the digital banking landscape:

1. Contactless payments and cashless transactions are now the norm.
2. Leading financial institutions are slowly adopting cryptocurrencies.
3. Banks and credit unions are competing, and partnering, with fintechs.
4. There are untapped opportunities in hyper-personalization.
5. Data can help enhance the customer experience.

To adapt to the evolving digital landscape, banks and credit unions need a nimble partner that helps them grow confidently and adapt quickly amid unrelenting change.

Introduction

As the financial services industry moves to a digital-first world, banks and credit unions are quickly increasing their adoption of new technologies and processes. Alkami surveyed executives at 152 financial institutions to learn about their digital transformation efforts and what trends they were encountering. Respondents revealed that while they are moving along in their digital evolution, many face challenges in the process.

On a scale of 0 to 100 measuring how far they are along in their digital transformation journey, the average respondent ranked their progress as 58. Executives said their top three strategic priorities for digital transformation were to optimize processes and operations (41%), gain a competitive advantage (31%), and increase top-line growth (29%).

> **For many, their back-office processes can hamper their ability to digitize the customer experience. They need to refine the goal of their transformation and identify what that means across the organization.**
>
> **Allison Cerra**
> Chief Marketing Officer
> at Alkami Technology

Despite identifying digital transformation as a priority, respondents also reported several major challenges, including legacy systems (68%), organizational resistance to change (51%), and a lack of digital literacy (41%). (Figure 1) “Banks and credit unions often struggle to define their digital transformation requirements and what they need on the back end to support it,” said Allison Cerra, chief marketing officer at Alkami Technology. “For many, their back-office processes can hamper their ability to digitize the customer experience,” she said. “They need to refine the goal of their transformation and identify what that means across the organization.”

The average financial institution ranked their digital transformation progress as only 58 out of 100. These are their major challenges.

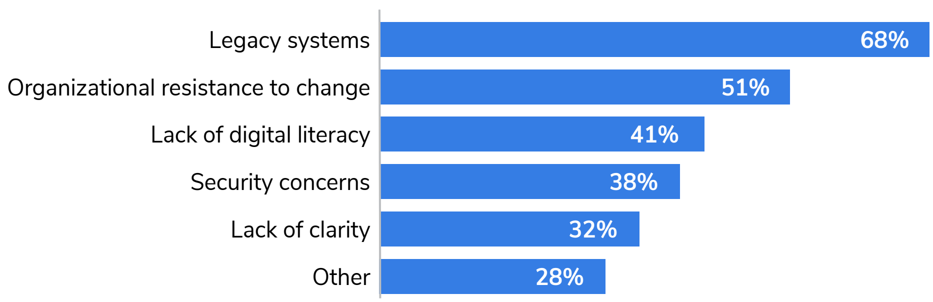

Exhibit 1 What obstacles you are facing on your digital transformation journey? (Check all that apply.)
Answered: 161 Skipped: 4

Financial institutions also reported being challenged by the rapid pace of digitization, which is continually driving new trends. Respondents revealed five major trends currently driving the digital banking landscape:

1 Cashless transactions and contactless payments are becoming the default.

2 Cryptocurrency adoption is slow, but growing.

3 Banks are competing, and partnering, with fintechs.

4 There are untapped opportunities in micro-personalization.

5 Data can help enhance the customer experience.

> **Focusing on the highest-impact digital banking journeys will improve digital new account opening and loan origination, increase customer engagement, and completely rethink digital onboarding processes.**
>
> **Jim Marous**
> Owner & CEO, Digital Banking Report
> and Host of Banking Transformed Podcast

The rapid pandemic-driven changes that began in 2020 have led digital channels to become increasingly indispensable for customers across all demographic segments. Most banks are now accelerating their digital banking transformation efforts to improve customer experience, increase digital engagement, and become partners in their customers' financial well-being. Many are now working with a goal to increase the speed and simplicity of all digital engagement while providing value add in real time.[1] "We have found that many banks and credit unions are focusing on the highest-impact digital banking journeys. This will improve digital new account opening and loan origination, increase customer engagement, and completely rethink digital onboarding processes," said Jim Marous, owner & CEO of the Digital Banking Report, and host of the Banking Transformed Podcast.

Survey respondents said the features their customers and members requested most often include: digital account opening (73%), loan applications (63%), peer-to-peer payments (59%) and financial wellness capabilities (51%). (Exhibit 2)

> **The banking leaders of the future will be those that can harness data for the best use, gain a holistic view of their relationships, and meet the rapidly-changing needs of digital consumers.**
>
> **Allison Cerra**
> Chief Marketing Officer at Alkami Technology

Now more than ever, banks must futureproof their organizations to think how they want to be perceived by their customers, and how they can leverage innovation to retain those relationships. In 2022, many banks will strive to grow through artificial intelligence (AI) and tap the power of data.[2] As they seek growth, engagement and a higher return on equity and assets, financial institutions need a way put it all together as efficiently as possible, said Cerra. "The banking leaders of the future will be those that can harness data for the best use, gain a holistic view of their relationships, and meet the rapidly-changing needs of digital consumers," she said.

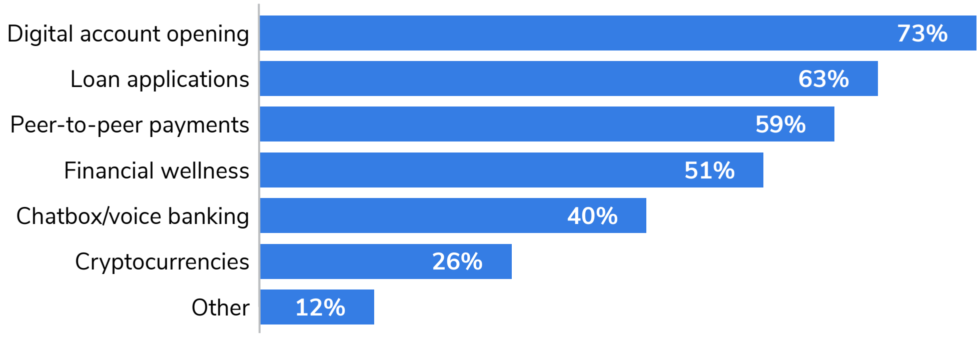

Exhibit 2 What digital and mobile banking features are your customers, or members, asking for? (Check all that apply.)
Answered: 161 Skipped: 4

1. Building Value with Exceptional Customer Experiences, Alkami
2. Future-proofing your financial institution in 2022, Alkami, December 13, 2021

Five Trends Driving the Digital Banking Landscape

For generations, financial institutions were defined by imposing physical spaces designed to convey strength, stability, and security. Even today, the word "bank" conjures images of classical architecture with symmetrical columns, a vault with heavy locks, and bankers in suits behind wide desks.

> **It's impossible to ignore the fact that 78% of consumers now prefer to do most of their banking digitally via a mobile app or website.**

But traditional perceptions are changing in sync with the evolving expectations of customers and members who increasingly conduct business digitally. Most of today's customers visit branches infrequently, if at all. A trip to the bank or credit union simply isn't necessary if they can conduct transactions remotely using their laptops, phones, or other digital interfaces such as ATMs. The branch location, for all practical purposes, is a sofa, a soccer field, or a desk—and it's open whatever time is convenient for the member or customer. While branches aren't extinct and still play an important role in some markets and with some account holders, it's impossible to ignore the fact that 78% of consumers now prefer to do most of their banking digitally via a mobile app or website.[3]

In response, financial institutions are purposefully evolving to meet the needs of modern account holders by shedding their stuffy image and repositioning themselves as providers of innovative financial solutions. As they offer more and more online and digital services, their customers and members have come to expect the same speed, accessibility, and responsiveness that they experience when they shop on Amazon or schedule medical appointments via their cell phone. The burden is on financial institutions to develop a robust end-to-end digital experience to keep pace with advances in digital technology and from nonbank innovators that are competing for their customers and members.

As they strive to position themselves and plan for their digital future, our survey respondents noted five main trends:

1 Cashless transactions and contactless payments are becoming the default

Nearly 80% of the financial institutions we surveyed said their account holders' use of cashless transactions has increased in the past two years, undoubtedly accelerated by COVID-19's shelter-in-place mandates. Of those, approximately 60% said those cashless transactions increased in volume by more than 20%. (Exhibit 3)

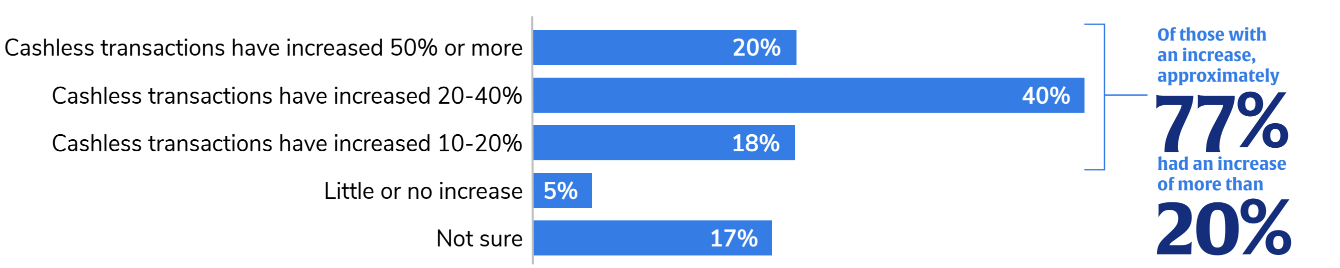

Exhibit 3 How have your customers' use of cashless transactions changed over the past two years? (Check all that apply.)
Answered: 163 Skipped: 2

3. Ipsos-Forbes Advisor U.S. Weekly Consumer Confidence Survey

While the pandemic gave a boost to cashless transactions, a steady shift in how people pay for purchases has been underway for decades, powered by innovation. A century ago, the account or "tab" was a form of cashless transaction. It was followed by the personal check, and, eventually, the credit card. Each of these transaction mechanisms replaced a traditional coin and paper currency with a stand-in form of payment: first a shop ledger, then a draft authorization, then a plastic card. Today's cashless transactions continue the payment evolution, only now the replacement is typically a laptop, tablet, or phone. As smart technology advances, we are likely to see other possible vehicles for digital money exchange.

Cashless and contactless payments are increasing bank interactions

Financial institutions and consumers alike overwhelmingly want to engage in cashless and contactless transactions, so much so that they are becoming the default in many interactions. More than 80% of consumers now use some form of digital payment.[4] The onset of the COVID pandemic further accelerated a movement that was already underway.

of consumers now use some form of digital payment

In the pre-pandemic marketplace, consumers sought cashless transactions for their convenience, while contactless transactions were something of a novelty, relying on their speed as their strongest selling point. Growing concerns around COVID in 2020 suddenly led these two features to become not just convenient, but indispensable. A report conducted by Accenture in the first year of the pandemic predicted nearly 2.7 trillion transactions worth $48 trillion would be completed via cashless transaction in the next 10 years.[5] The pandemic's unexpected longevity could end up pushing those numbers even higher.

7 in 10

executives agreed that transforming the payment industry is at the core of their larger digital programs

Accenture's report also states seven out of 10 executives agreed that transforming the payment industry is at the core of their larger digital programs. Despite this, only 13% said their institution had increased their payment revenues in the past three years by more than the average market growth rate. These numbers indicate that while banks recognize the need for innovative thinking and redesigning their payment programs, few have yet taken the steps necessary to access this changing landscape.

At many financial institutions, member and customer engagement now centers almost entirely around online features, with a dramatic decrease in ATM usage and an almost vestigial customer base still writing checks. "What we're seeing, even with our millennial users, is that they're no longer ordering checks, nor making cash withdrawals from our ATMs as we would expect. Instead, they are self-serving from home or wherever they are. They're moving money through our Digital Banking platform," said Chad Rogers, executive vice president and chief operating officer at Connexus Credit Union, a $4.9 billion-asset financial institution based in Wausau, Wisconsin.

Paradoxically, engagement has increased in the cashless environment

Concurrent with declining in-person banking, more banking experiences are being conducted via mobile or online platforms. While it may seem intuitive, a closer look at the numbers shows some surprising behavioral changes are at play. Not that long ago, most personal banking account holders interacted with their banks once or twice a month when they visited their local branch. Those interactions increased to several times per week

4. New trends in US consumer digital payments, McKinsey, October 26, 2021
5. Payments Modernization: Playing the Long Game, Accenture, November 17, 2020

when online banking took off. Although customers and members are less likely to set foot in a branch, device-based banking has led them to engage with their banks significantly more often—usually on a daily basis and often several times per day.[6]

Banks and credit unions can do several things to take advantage of increased customer and member engagement and strengthen their position in the digital economy. One suggestion is to think in terms of a unified redesign of payment architecture rather than piecemeal tweaks driven by compliance necessities. As financial institutions scramble to meet constantly evolving regulatory obligations, many of them settle for modifying or reconfiguring their legacy core processing systems. The unfortunate result of tinkering with core systems is that the user interface and product offerings may not be robust or reflect a clear vision. These systems can also end up fragmented and disorganized, with shallow support, all of which hinders the financial institution from adequately reacting to regulations or compliance mandates as they emerge.

Successful banks and credit unions embrace the digital transformation head on, investing in both the development of new technologies and the talent to keep those products current and seamless. "It requires your back office to be as transformed as the front is," said Cerra. "Many times, reconciling that and figuring out where those two meet is the biggest challenge."

2 Cryptocurrency adoption is slow, but growing

Approximately 21% of survey respondents said their account holders were requesting Bitcoin products and services while nearly 30% said they "weren't sure." Despite the relatively low volume of requests from consumers, 35% of bank respondents said that adding Bitcoin products and services to their digital menu would offer a competitive advantage. (Exhibit 4)

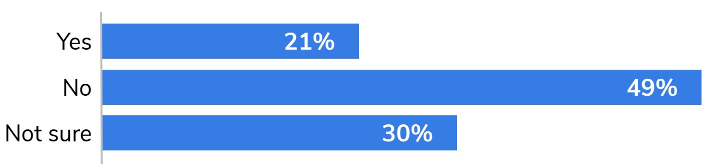

Exhibit 4 Are your customers requesting Bitcoin products and services?
Answered: 163 Skipped: 2

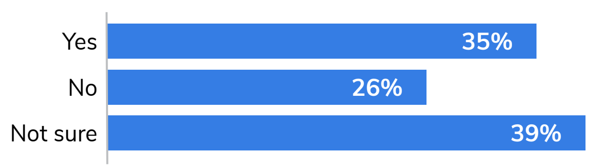

Exhibit 4 Do you think adding Bitcoin products and services to your digital menu will give you a competitive advantage?
Answered: 162 Skipped: 3

A slow but certain path to mainstream adoption

Given the ways in which digital payments have changed the way we transfer money, it is likely digital currencies will be the next step, redefining the notion of money itself. Digital currencies' decentralized operations and their use of peer-to-peer technology have the potential to rattle the foundations of traditional banking systems, which rely on a central authority for economic decisions, safeguards, and regulations.

The popularity of cryptocurrencies has grown tremendously since the introduction of Bitcoin in 2009. A decade ago, financial institutions were quick to dismiss Bitcoin and other cryptocurrencies as digital novelties. Increasingly, one-time skeptics are taking an interest. This evolution has occurred despite some unsavory

6. Platform operation model for the AI bank of the future, McKinsey, May 18, 2021

associations with hackers and ransomware and a history of price volatility. For example, when Bitcoin began, it was valued at fractions of a penny. Shares have traded in the tens of thousands of dollars, but prices continue to gyrate dramatically.

Berkshire Hathaway announced in February 2022 a $1 billion investment in a crypto-focused digital bank.

JPMorgan Chase announced a "strategic investment" in a blockchain analysis company.

Most of the world's top 100 banks are now investing in some way in crypto or blockchain companies.

Because cryptocurrency enables users to transfer funds anonymously without the intermediation of a bank, some digital currency companies have been marred by their association with illegal activity. In addition, digital currencies have also been the target of outspoken public business leaders. Despite the criticism, financial institutions and business leaders have quickly changed course in recent months. Berkshire Hathaway announced in February 2022 a $1 billion investment in a crypto-focused digital bank, and JPMorgan Chase announced a "strategic investment" in a blockchain analysis company.[7] Most of the world's top 100 banks are now investing in some way in crypto or blockchain companies.[8]

Testing the crypto waters

Banks that are investing in cryptocurrency capabilities are taking a cautious approach. As guidance and regulations surrounding cryptocurrency are still evolving, many banks are reluctant to go all-in. Instead, they are finding ways to incorporate portions of the cryptocurrency landscape into their practices, or they are acting as go-betweens for customers entering the cryptocurrency marketplace.

For example, some banks are now offering to help bring new, less experienced individual investors into the cryptocurrency market by developing tools to help them set up their own digital wallets. Rather than leaving their cryptocurrency "off-exchange" or at an unregulated third party, account holders may find peace of mind knowing it is affiliated with a trusted financial institution.

Banks could also consider providing currency-trading services and cryptocurrency-enabled digital payments and transactions. These are essentially coin exchange operations which would allow account holders to swap one type of digital currency for another. Current models of such a program suggest offering three types of exchanges: central bank digital currencies issued from national financial authorities, private block-chain based currencies from a bank or company, or network-issued currencies such as Bitcoin, which use public blockchains.

> **Banks could also consider providing currency-trading services and cryptocurrency-enabled digital payments and transactions. These are essentially coin exchange operations which would allow account holders to swap one type of digital currency for another.**

Even as some banks question the value of cryptocurrency, others are launching their own products. And the Bank of England is joining other central banks in developing its own digital currency despite previous criticism of the concept

7. JPMorgan expands crypto footprint with investment in blockchain firm TRM Labs, Yahoo! Finance, February 28, 2022
8. Banks and Credit Unions Wade into Crypto Banking (And Why), The Financial Brand, November 18, 2021

by its governor, Andrew Bailey. These central bank digital currencies would be denominated in the same way as traditional "fiat" currencies and designed to be used alongside them rather than in their place. The UK's digital currency, which has already been dubbed "Britcoin," is designed to be used by individuals and businesses alike. In a similar development, JP Morgan Chase began offering access to six cryptocurrency funds in August 2021. Although CEO Jamie Dimon remains skeptical of cryptocurrency, he conceded that "clients are interested, and I don't tell clients what to do."[9]

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In many ways, this seems like a prudent path for some banks, as they take their cues from their clients' requests. Individual retail clients may look to cryptocurrency for a different type of rapid-growth investment to mix up their portfolio, while venture capital funds may be looking at cryptocurrency assets as a means toward raising initial capital.

3 Banks are competing, and partnering, with fintechs

We also asked an open-ended question about how banks are using fintechs to remain relevant in today's digital world and compete with companies like PayPal, Stripe, and Venmo.

Many banks said they were partnering, or interesting in partnering, with fintech companies to attain some sort of functionality:

"**We're still in the discovery phase** of deciding how to best partner with fintechs to remain relevant but we fully expect to do so."

"**We are pursuing partnerships** that offer the functionality our members want and expect in their financial institution."

"**We are open to integration** with fintechs for providing more value to our customers."

"**We are using fintech, in partnership with our core provider**, to provide digital services to our customers."

"**We are open to partnering** with fintechs when our core providers are unable to address our needs."

9. JPMorgan, led by bitcoin skeptic Jamie Dimon, quietly unveils access to a half-dozen crypto funds, CNBC.com, August 5, 2021

Others were not partnering with fintechs or had no interest in doing so:

A competitive threat

Certainly, the development of nonbank fintech operations has grown to be the greatest threat to the legacy banking model. Their focus on putting the member or customer at the forefront, lowering costs through a streamlined infrastructure and offering innovative products and services has forced traditional banks and credit unions to rethink how they operate.

> **Jamie Dimon, CEO of JPMorgan Chase, has described fintech companies as "enormous competitive threats" to the mainstream banking industry, powered in part by their agility.**

Once considered fringe outfits that captured only a small segment of personal banking clients, fintech organizations are rapidly developing products to serve small business accounts, lending, and investment services. Jamie Dimon, CEO of JPMorgan Chase, has described fintech companies as "enormous competitive threats" to the mainstream banking industry, powered in part by their agility. "From loans to payment systems to investing, they have done a great job in developing easy-to-use, intuitive, fast and smart products," he said.[10]

Investors' interest would seem to underscore Dimon's estimation. In mid-2022 the combined market value of four large fintech companies—MasterCard, PayPal, Square and Visa—topped $900 billion collectively, nearing the $1.1 trillion value of the "big six" banks, which include JPMorgan Chase, Bank of America, Wells Fargo, Citigroup, Morgan Stanley, and Goldman Sachs. (Exhibit 5)

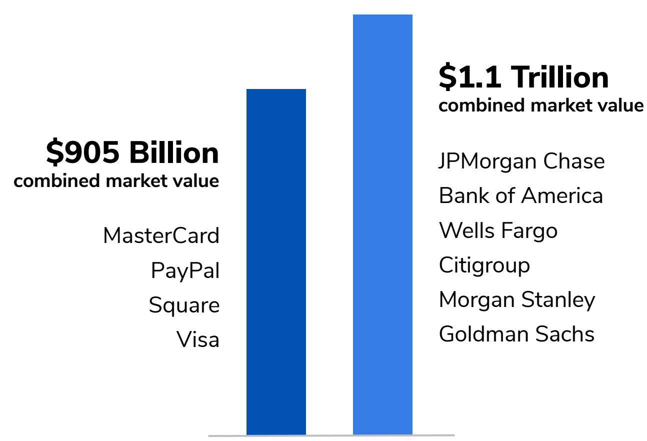
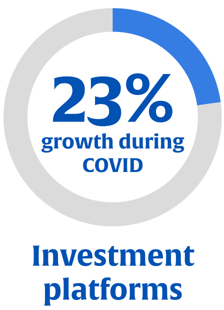
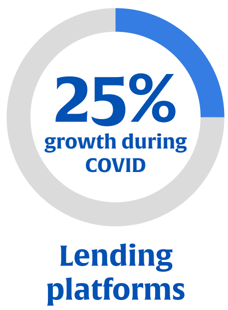


Exhibit 5 Investors' interest shows fintech companies are a serious threat to the mainstream banking industry. Fintech valuations outrun banks.

10. JPMorgan Chase CEO Jamie Dimon: Fintech is an "enormous competitive threat to banks," CNBC.com, April 7, 2021

Other indicators point to further growth in the number, scale, and influence of fintechs as more consumers rely on them as part of their financial management toolkit. A recent report from McKinsey & Company found 42% of surveyed financial decision makers have at least one fintech account. More than 6% of respondents opened their accounts after the start of the pandemic. While most of these accounts were payment platforms, the investment and lending platforms saw even stronger percentage rates of growth, with increases of 23% and 25% respectively.[11]





Following the lead of fintech

While there is no single fintech that dominates the market, their proliferation and popularity among consumers offer many lessons to established banks and credit unions. Fintechs take advantage of increased digitization, heightened member and customer expectations, and operational efficiencies. This redefinition of demand has forced banks and credit unions to consider new business models. By zeroing in on the ways their customers and members were already connecting, they have been able to provide that connected community the ability to transfer money. This has given rise to the integration of transactional technologies with social media sites, a move that bypasses traditional banking institutions.

Established financial institutions do have some competitive advantages over fintechs. For example, they still have a level of trust and familiarity with their account holders, and they retain the infrastructure to connect and distribute information to their clients

and users. One survey found that 77% of the overall population trusts financial institutions with their information, compared to only 63% for fintech companies.[12] Banks and credit unions also have well-established relationships and history with consumers. Nevertheless, the success of fintech companies indicates the trust advantage alone is not enough to remain competitive in the evolving market.

Partnering with and acquiring fintech capabilities

Rather than trying to go head-to-head with fintechs in an environment where they already have an established advantage, some banks are partnering with fintech players. One survey found competitive pressures have led half of banks and two out of five credit unions to partner with fintechs within the past three years.[13]

Banks: **50%**
Credit unions: **40%**

have partnered with fintechs due to competitive pressures within the past three years

Some financial institutions are profitably white labeling fintech products on their application program interfaces (APIs) to let third-party developers build their own financial products with existing architecture. Others are skipping that process altogether, allowing fintech apps like PayPal or Venmo to establish digital wallets on their site. In doing so, they can maintain a relationship with those

11. How US customers' attitudes to fintech are shifting during the pandemic, McKinsey & Company, December 17, 2020
12. Millennials Now Trust Fintech as Much as Banks, The Financial Brand, November 23, 2021
13. Competitive Pressure Forcing More Bank+Fintech Partnerships, The Financial Brand, November 2, 2021

account holders even as they leverage what might seem like a competitive product. The assumption is that by embedding the fintech product on their website or app, the account holder will be open to other opportunities presented by the hosting financial institution.

Some banks and credit unions with the resources to do so are buying fintech properties outright. While this option is relatively costly, it presents some attractive opportunities. For example, the purchase of a fintech gives a financial institution access to an existing customer base, the user experience, the advanced capabilities of the technology, and the experience of the fintech's employees. Those not in a position to acquire a fintech company are creating their own fintechs or attempting to transform internal operations to align with fintech advantages. While both options require investment in innovation and talent, a bank that combines the speed and responsiveness of a fintech with the existing assets and trust of an incumbent institution could be well positioned to succeed.

4 There are untapped opportunities in hyper-personalization

Only about a quarter of survey respondents reported using hyper-personalization to attain a competitive advantage, while two-thirds said they did not. (Exhibit 6) Given consumers' growing interest in recommendations and customized offerings, this suggests many banks could be leaving opportunities on the table. "When you think about how digital banking looks today and how it will look in the future, I think a lot will revolve around personalized experiences," said Jeff Chen, vice president of product management at Alkami.

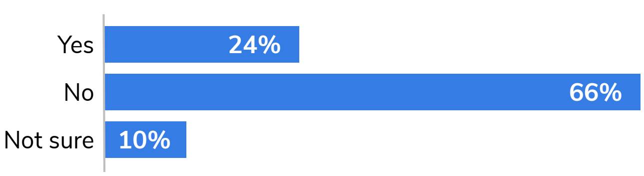


Exhibit 6 Are you leveraging hyper-personalization to give you a competitive advantage? Answered: 165 Skipped: 0

Retail personalization is driving expectations in banking

By now, customers have come to expect personalized interaction with their online retail experiences. Amazon tracks its customers' browsing and recommends future purchases. Netflix records customers' viewing history and suggests their next movie. Spotify notes what customers are listening to and creates playlists just for them. These models are highly successful in the retail market, each reflecting a consumer-centered model of service that creates a relationship with the customer by recognizing their past interactions and predicting future needs.

> **Tailored attention based on behavior can be a gateway to increase revenue and engagement provided account holders don't feel inundated by marketing pitches.**

Financial institutions are capable of making proactive recommendations based on the contextual behaviors of customers and members. Tailored attention based on behavior can be a gateway to increase revenue and engagement provided account holders don't feel inundated by marketing pitches. Customers and members are likely to be more receptive if offers are timely and immediately useful. For example, an account holder's activity on the website may indicate they are in the market for a new home, presenting an opportunity for the financial institution to introduce mortgage options. One way to do that would be to guide the member or customer toward an online tool that they can use immediately to get interest rate comparisons. This provides something useful, timely, and informative while supporting interaction and brand loyalty.

Many banks are already using a sort of personalization in their fraud detection efforts. For example, a bank might know from an account holder's transaction history that they typically conduct business within the metro Atlanta area. Suddenly seeing an outlier transaction for an unusual product or service in Los Angeles might trigger concern, leading an automated system to flag the transaction for the account holder's review.

> **Rather than solely focusing on wealth growth, financial institutions can also provide their members and customers with the information and capabilities needed to manage their money, contain their costs, and invest and save in a way that leads to sustainable financial futures.**

Supporting financial well-being

Hyper-personalization can also enable a financial institution to strengthen the financial well-being of its customers and members. Rather than solely focusing on wealth growth, financial institutions can also provide their members and customers with the information and capabilities needed to manage their money, contain their costs, and invest and save in a way that leads to sustainable financial futures. For example, financial institutions have long offered "life-event" savings plans in the form of specialized savings accounts designated for large purchases, such as a house or a car. But many of these initiatives are now focusing on smaller decisions that can impact account holders on a day-to-day basis, such as saving regularly and reducing unnecessary expenses. What customers and members ultimately want is to develop and maintain a sense of confidence and control with their finances. Providing fast and accurate access to the information and services account holders need allows banks and credit unions to meet that demand.

Strengthening user interface and user experience

As banks strive to take advantage of hyper-personalization, concepts like user interface (UI) and user experience (UX) must remain at the forefront. While these two terms are often used interchangeably, they describe two distinct facets of member and customer interaction.

UI

The physical space where the account holder meets the banking product, which in digital interactions is the website or mobile app. These spaces need to reflect clean, uncluttered design, with clear visual cues that guide the user to those features most useful to them.

UX

The quality of the user's participation with the product, including whether the member or customer can quickly access funds and balances and whether the tools are intuitive and responsive. Customers and members often value features like quick and easy identity verification or the ability to use DocuSign technology on mobile devices.

Clearly, UI and UX are interrelated. While a well-designed UI can help support the functionality of UX, careful consideration of an account holder's UX can inform the design of a product's UI. Optimizing both can enable a bank or credit union to make the most of hyper-personalization.

5 Mature data can help enhance the member and customer experience

Most banks are now using some form of data analysis in their digital transformation to optimize their performance or tap new markets. Respondents said they were using data to deliver a better member and customer experience (86%), guide decision-making (72%), and reduce development time and costs (23%). (Exhibit 7)

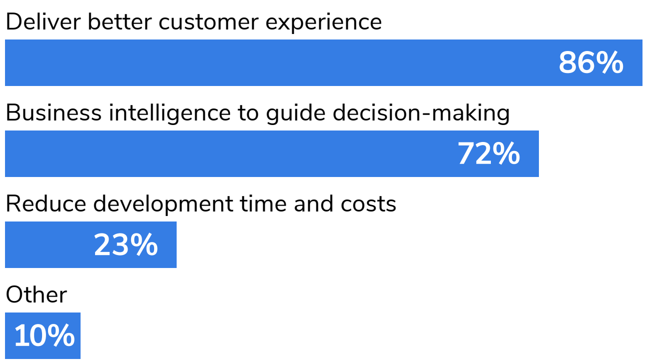


Exhibit 7 How are you leveraging data to achieve your digital transformation goals? (Check all that apply.) Answered: 159 Skipped: 6

Growing importance of mature data

In recent years, security and ownership of data have become top concerns as the European Union's General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA) have created frameworks whereby financial institutions must take responsibility for the privacy and usage of their account holders' data. While these regulations have sent some institutions on a mad scramble for compliance, others have been able to balance data collection with data protection to find new opportunities.

In this respect, traditional financial institutions may hold an advantage over their challengers. Unlike most fintech users, many financial institution account holders have been using their services for a long period of time. "They have mature data. It can inform the understanding of what the member or customer is trying to do, what their goals are, and how they can be in service to those goals," said Cerra.

> **Banks and credit unions need to unlock the information embedded in their customer data to get a clearer picture of clients' future needs so they can prepare an array of diverse and timely solutions.**

In years past, financial institutions have limited their use of this data to diagnose or describe client behavior, said Cerra. Yet many financial institutions are now harnessing that data for predictive and prescriptive ends. Banks and credit unions need to unlock the information embedded in this data to get a clearer picture of clients' future needs so they can prepare an array of diverse and timely solutions.

Uncovering opportunities with artificial intelligence

As financial institutions recognize the need to do more than just capture and manage account holder data, many are now using AI to enhance processing and extract insights to improve interactions. In order to remain competitive, that data must inform decisions around hyper-relevant content, end-to-end efficiencies, and products, said Cerra.

While AI can support a customized consumer experience through micro-personalization, it can also help dissolve points of friction and streamline slow task-related activities that may otherwise lead account holders to look elsewhere for a solution. For example, some banks are using AI capabilities to ease account holder identification and authentication, including voice recognition abilities. In addition, rapid AI analysis of transaction histories allows banks to help consumers save money. For example, these programs may highlight duplicate services, or offer ways to negotiate lower costs with a mobile carrier. AI can also assist customers and members who are grappling with multiple credit card payments to simplify their debt. Also, with predictions based on forecasts of their monthly income and expenses, these programs can advise customers and members which card to pay first, when to pay, and how much to pay, all while keeping a guarded eye on their credit score.

> **We are now at a place where technology has democratized financial advice and counsel. It is no longer just the privileged upper class who can afford to get financially fit and prepare for the future.**
>
> **Allison Cerra**
> Chief Marketing Officer
> at Alkami Technology

Cerra likens AI-enabled services to the financial advisers that in years past were only available to the very wealthy. "We are now at a place where technology has democratized financial advice and counsel. It is no longer just the privileged upper class who can afford to get financially fit and prepare for the future. AI feeds the ability for those who have typically been marginalized or underrepresented to understand how financially fit they are and engage in their own economic futures," she said.

In addition to improving account holder customer experience and engagement, AI technologies can also help lower the bank or credit union's costs through increased automation. Many processes within a financial institution's system involve highly repetitive operations based on associated data such as monthly client communications and portfolio activity. Automating these processes with AI not only enhances processes but offers the potential to reduce human error and fraud.

Conclusion

Despite the opportunities that lie ahead, banks and credit unions still have further progress to make in their digital transformation. To capitalize on the current trends in the financial services landscape, financial institutions need digital banking solutions that enable them to leverage analytics, support third-party integrations, and enhance the member and customer experience.

Alkami Technology, Inc., can be a critical partner to banks and credit unions searching for a nimble, forward-leaning solution. Alkami is a leading cloud-based digital banking solutions provider for financial institutions in the United States that enables clients to grow confidently, adapt quickly and build thriving digital communities. Alkami helps clients transform through retail and business banking, digital account opening and loan origination, multi-payment fraud prevention, and data analytics and engagement solutions. To learn more, visit www.alkami.com.