The Role of IT
in Banking's Digital Transformation

Insights from over 130 IT
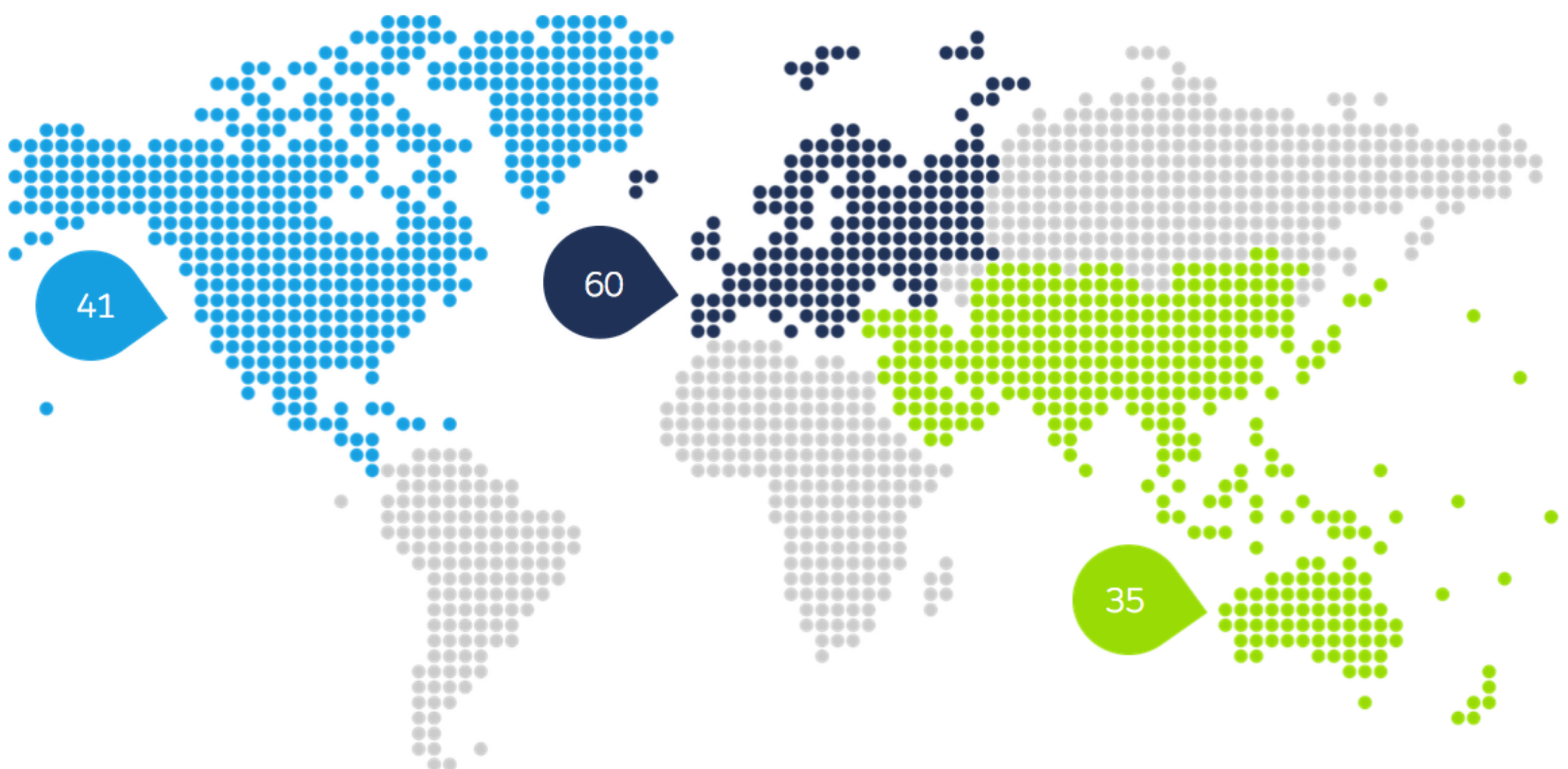leaders in banking worldwide

salesforce research

About This Report

Salesforce Research surveyed 136 banking IT leaders worldwide to discover:

- The changing role of IT in a customer-driven era
- How emerging technologies like artificial intelligence (AI) are transforming the banking landscape
- Which strategies banking IT leaders are using to adapt, and how they stack up to counterparts in other industries

Data in this report is a subset of the second annual "State of IT" report, a blind survey fielded January–February 2017 that generated responses from 2,263 full-time IT leaders (not limited to Salesforce customers) in the U.S., Canada, U.K./Ireland, France, Germany, Netherlands, Japan, and Australia/New Zealand. All respondents are third-party panelists. Due to rounding, not all percentage totals in this report equal 100%. All comparison calculations are made from total numbers (not rounded numbers).

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Introduction
IT Is the Key to Digital Banking

Perhaps more than any other industry, banking faces unique challenges in keeping up with the constantly evolving pace of technology. Banks' regulatory context and siloed organizational structure have historically slowed progress compared to other industries. Banks have often seen innovation as a risk they can't afford to take.

But times have changed, and customer loyalty is at stake. A generation raised on mobile will seek out new fintechs that offer smarter, faster service, and engaging digital experiences. To compete, banks must graduate from a disconnected and siloed model to a more seamless system with real-time insights, cross-departmental collaboration, and customer experience emphasis. Wherever the customer goes, the bank must be there.

Who leads the charge in this new competitive landscape? Banking's IT leaders. As technologies like mobile devices, AI, and the Internet of Things consolidate consumers in a digital space, IT increasingly becomes central to banking's business performance.

This research reveals the groundswells of evolving technology and customer expectations that are changing banking for IT leaders around the world. We hope this report provides helpful insights on what it takes to innovate in a hypercompetitive landscape.

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01 The Customer Is in the Driver's Seat, and Stakes Are High for Banks

What element is driving banks' need for technological innovation more than any other? The customer. The effectiveness of sales, marketing, service, and IT are measured by how the customer interfaces with the bank.

And the customer experience is no longer limited to the branch environment, where banks have historically centered their business. Customer preferences have come a long way: Customers expect digital tools – especially mobile banking – to be at the front line of that experience.

The majority of banking IT leaders are now aware that their institutions' customer experience will determine the future of their business.

IT and Customer Satisfaction Are More Connected Than Ever

76%

of IT leaders in banking believe IT is entering a new era driven by customer expectations

01 The Customer Is in the Driver's Seat, and Stakes Are High for Banks

Consumers are already aware of how technology transforms the relationship between bank and customer. Fifty-eight percent of consumers say that technology has significantly changed their expectations of how companies should interact with them, while 70% of consumers say technology has made it easier than ever to take their business elsewhere.

That might suggest that consumers will have a more volatile relationship with banks, but research shows the opposite – innovation benefits the industry and its customers. **Seventy-two percent of Millennial consumers believe advancements in technology will positively impact their relationships with banks by 2020, while 65% of consumers in older generations say the same.**

To meet these expectations, banks will need to seize every opportunity to deepen relationships with their customers.

Consumer Optimism Is High When It Comes to Banking and Technology

Top Industries Where Consumers Expect Positive Impacts from Technology by 2020*

1 Online retailers

2 Banks**

3 Travel and transportation

* Partial list.
** Includes banks, insurance providers, venture capitalists, and asset managers.

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02 IT Leaders Must Transform Tech to Meet Elevated Customer Expectations

Banking's customer experience has always been the domain of sales, marketing, and service. Now that technology is crucial for delivering that experience, IT has become the essential player.

As such, **74% of banking tech leaders say that IT now functions as an extension/partner of business units rather than as a separate function**. Eighty-two percent also say that IT is in the midst of its biggest historical shift ever.

This integration comes in response to consumers' expectations that experiences be consistent and seamless. For banks, this means transforming business processes so that employees have a single view of customers and their needs across lines of business – retail, mortgage, insurance, wealth, or even commercial.

Banking IT Leaders Will Determine the Future of Customer Experiences

84 %

of IT leaders in banking
believe IT is the
primary enabler of customer
experience initiatives
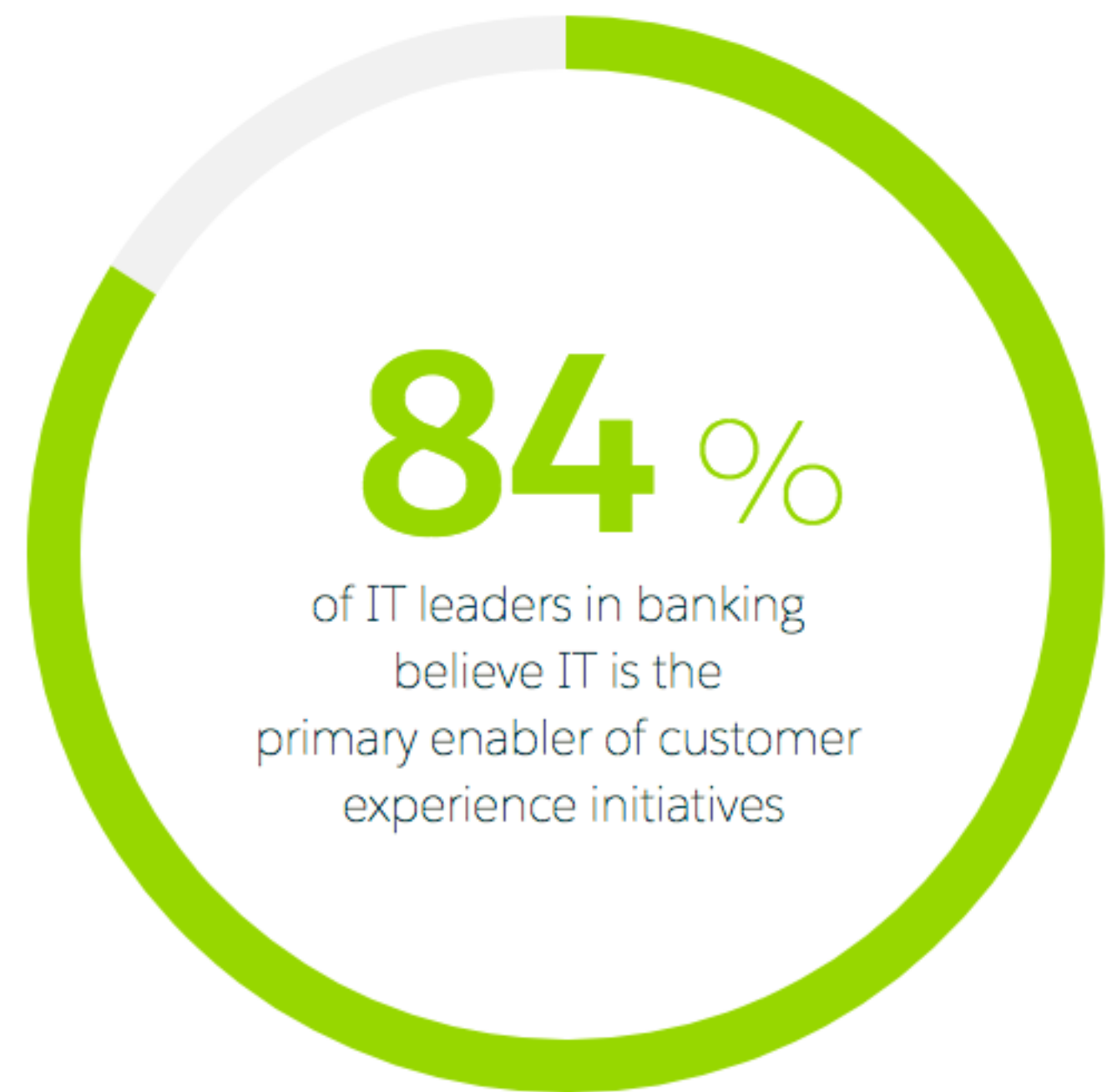
02 IT Leaders Must Transform Tech to Meet Elevated Customer Expectations

Yet, change happens slowly. Despite the fact that having a shared, single view of the customer is a high priority for so many banking IT leaders, less than a third (32%) say they've integrated 75% or more of their data sources.

What's holding them back? **Half of banking IT leaders say the biggest obstacle to integrating data sources for a single customer view is lack of a data unification system.**

If banks hope to meet consumers' expectations for connected experiences, they'll need to start by finding new data solutions.

Lack of Data Visibility Inhibits Banking IT Teams

Top Inhibitors IT Banking Organizations Face When Trying to Integrate Data Sources for a Shared, Single View of Customer Data*

1 Lack of an ideal place/system in which to unify data

2 Hard-to-integrate legacy systems/ Lack of expertise in legacy systems

3 Security/privacy concerns/ Lack of clarity around business requirements

* Partial list.

03 Banking IT Leaders Are Turning Up the Dial on Innovation

Seventy-two percent of banking IT leaders say they are transitioning from being a tech-providing cost center to a value-based service brokerage over the next 12–18 months. In other words, these teams are moving away from their old role of "keeping the lights on" to one that has a direct role in deepening customer relationships and driving net new value.

Prospective customers reflect similar values. **Fifty-seven percent of consumers say it is absolutely critical or very important for companies they purchase from to be innovative** (for example, developing new products/services or leading trends).*

It's no wonder, then, that there is a robust crop of new fintechs disrupting the banking landscape with innovations like robo-advisors, peer-to-peer lending, and digital mortgage applications. With these developments, speed and efficiency are the coin of the realm.

Banking IT Leaders Will Use Tech to Focus on the Customer

Percentage of Banking IT Leaders Who Consider the Following a Critical or High Priority over the Next 12–18 Months

Transforming customer-facing tech

72%

Enhancing customer-facing tech

65%

Providing a single view of the customer

65%

04 Banking IT Accelerates Development

Perhaps even more incredible than the scope of change within banking IT departments is the dizzying pace at which it is happening. Unsurprisingly, banking IT leaders' top challenge in meeting strategic objectives is the speed at which they can complete projects.

Development speed is especially important in the context of emerging fintechs, which move rapidly from idea to app, quickly provide new experiences customers want, and seize market share.

Only 45% of banking IT departments are currently able to design and prototype an app up to business requirements in under a month. This warrants significant improvement given the frenzied pace of change for today's connected customers.

Speed Isn't Optional

Percentage of Banking IT Leaders Who Rate the Following a Critically or Very Important KPI

Speed of application/project delivery

75%

Percentage of Banking IT Leaders Who Rate the Following a Critical or High Priority over the Next 12–18 Months

Improving speed of development cycles

73%

04 Banking IT Accelerates Development

Many IT teams use component-based architecture, also known as low-code development, to speed up their development cycles.

Increasingly, banking IT teams will look to the business units with which they are partnered to democratize application development. Over the next 12–18 months, **81% of banking IT leaders say that IT will increasingly shift some application-building responsibilities to business users, or "citizen developers."**

Development speed is crucial, so low-code development tools will keep the IT department from being a bottleneck while allowing other departments to design exactly what they need, when they need it.

Banking's Low-Code Revolution Is in Full Swing

91%
of banking IT leaders
use or plan to use
low-code development
in the next 12–18 months

05 Three Technologies Are Shaping the Future of Banking

Recent trends show that customers are relying on newer tech to fulfill their banking needs; 55% of Millennials use fintechs for basic banking services. And among Millennials who have switched banks in the past five years, 13% have gone to digital banks.*

To keep pace, banks are navigating the shift from old systems to new. According to banking IT leaders, the technologies making the biggest impact on their business in the near term are cloud, AI, and mobile.

While IT leaders once eyed cloud computing warily, 85% of banking IT leaders say they feel more comfortable with their knowledge of cloud security now than they did five years ago. In fact, **71% say that increasing cloud migration is a critical or high priority for them over the next 12–18 months.**

AI advancements can help banks gain a clearer view of their customers and tailor experiences on a 1-to-1 level. This has loyalty implications, as 70% of consumers say that a company understanding their needs has a major or moderate influence on their allegiance.**

Up-and-Coming Tech Will Transform Banking

Top Technologies Banking IT Leaders Expect Will Have a Transformational Impact on Their Business by 2020***

1 Cloud computing

2 Artificial intelligence (AI)

3 Mobile technologies for customers

*** Partial list.

*   "Connected Banking Customer Report," Salesforce Research, January 2017.
** "State of the Connected Customer," Salesforce Research, October 2016.

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Spotlight on Mobile

Mobile banking capabilities have become table stakes for today's consumers – even more so for the rising Millennial generation.

Another recent study found that 31% of Millennials primarily use a mobile app for routine bank transactions – nearly twice as many as those who primarily use websites (17%).[*]

More than ever, improving satisfaction will require meeting customers where they are, and that means developing a more robust mobile experience.

Consumers Rely on Mobile for Banking

Top Three Activities Consumers Rate as Absolutely Critical or Very Important to Access on Their Mobile Devices[**]

Navigation

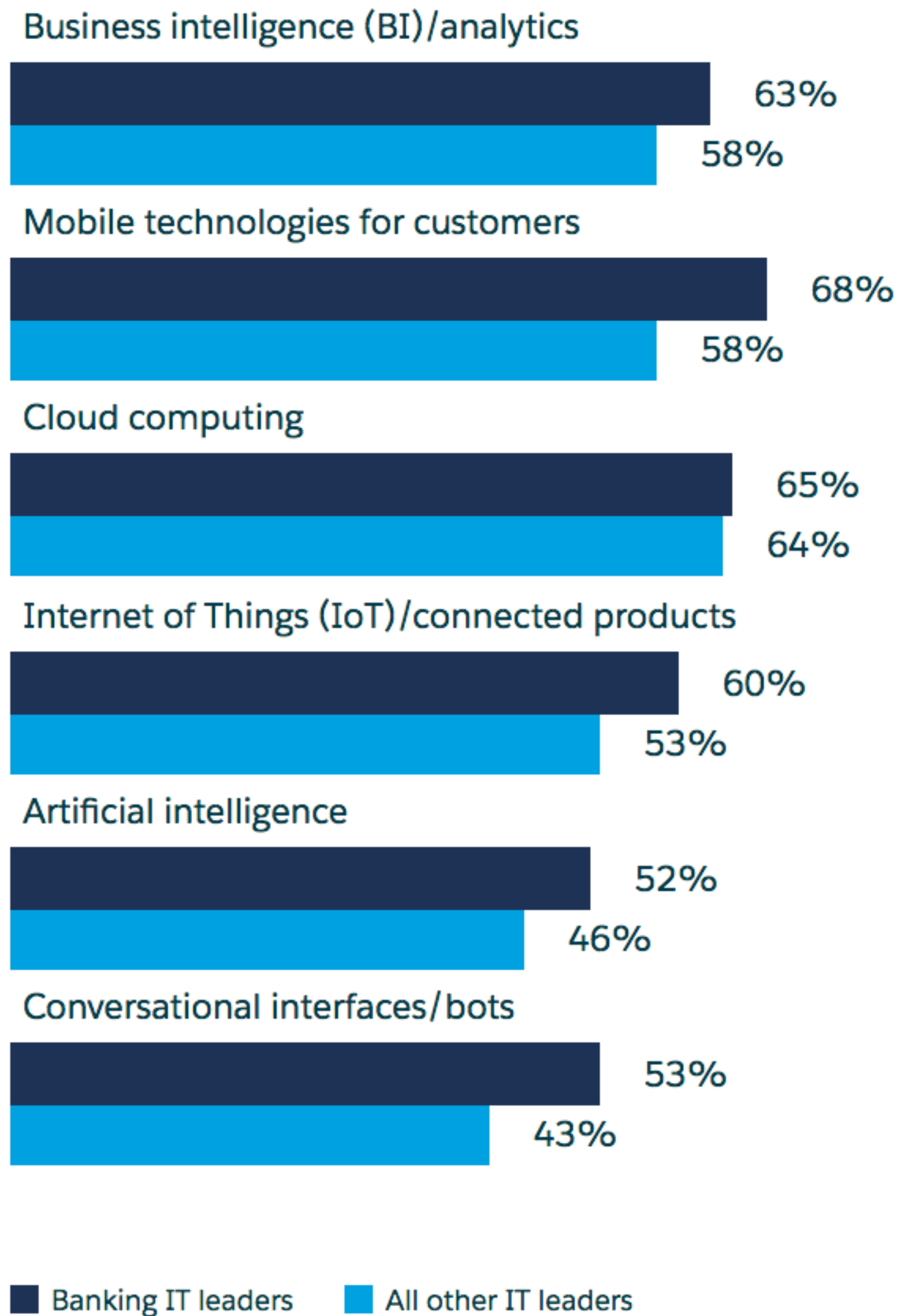| 56% |

Banking

| 54% |

News

| 54% |

06 Banks Take a Bullish Approach to Emerging Technologies

Compared to their peers in other industries, banking IT leaders are placing greater importance on the role of emerging technologies such as AI, Internet of Things (IoT), and chatbots.

In fact, banking IT leaders are more likely than other IT leaders to classify six different big-bet technologies as critical or high priorities (by six percentage points, on average).

Banking IT Leaders Value a Variety of Emerging Tech

Percentage of IT Leaders Who Say Each Technology Is a Critical or High Priority – Banking vs. All Other Industries

Business intelligence (BI)/analytics
- 63%
- 58%

Mobile technologies for customers
- 68%
- 58%

Cloud computing
- 65%
- 64%

Internet of Things (IoT)/connected products
- 60%
- 53%

Artificial intelligence
- 52%
- 46%

Conversational interfaces/bots
- 53%
- 43%

■ Banking IT leaders   ■ All other IT leaders

06 Banks Take a Bullish Approach to Emerging Technologies

Technologies that were once considered radical – such as analytics, mobile tech, and cloud computing – are quickly becoming ubiquitous.
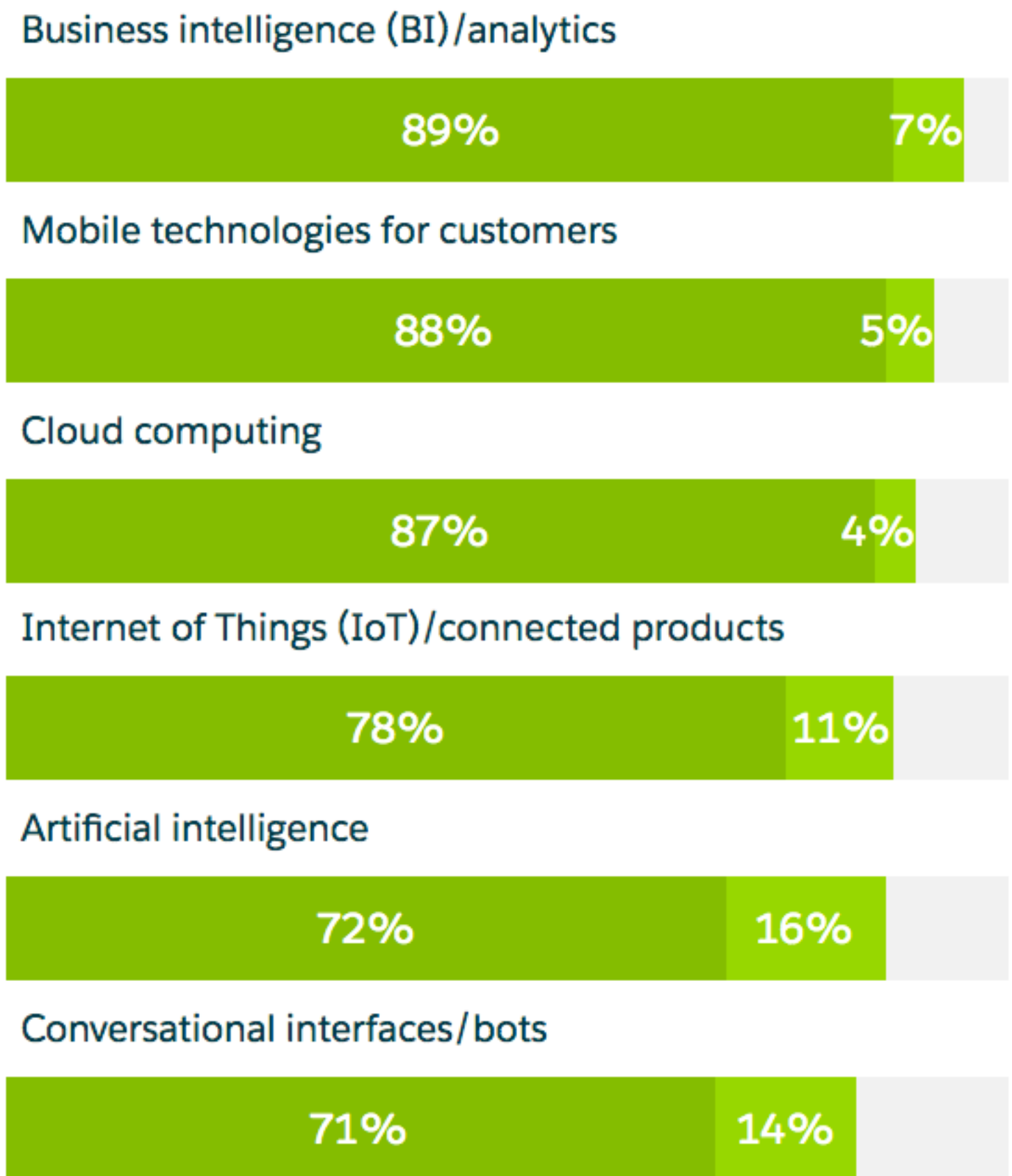
While adoption is high, incorporation into a business' overarching strategy isn't.

Only 40% of banking IT leaders strongly agree they've solidified business strategy plans for the use of emerging technologies.

Still, banking IT leaders are slightly ahead of the curve: 32% of IT leaders in other industries, on average, strongly agree they have an emerging tech business strategy.

Some Big-Bet Technology Will Have Near-Universal Adoption

Percentage of Banking IT Leaders Who Currently Use or Plan to Use the Following Big-Bet Technologies

Business intelligence (BI)/analytics

| 89% | 7% |

Mobile technologies for customers

| 88% | 5% |

Cloud computing

| 87% | 4% |

Internet of Things (IoT)/connected products

| 78% | 11% |

Artificial intelligence

| 72% | 16% |

Conversational interfaces/bots

| 71% | 14% |

■ Currently use
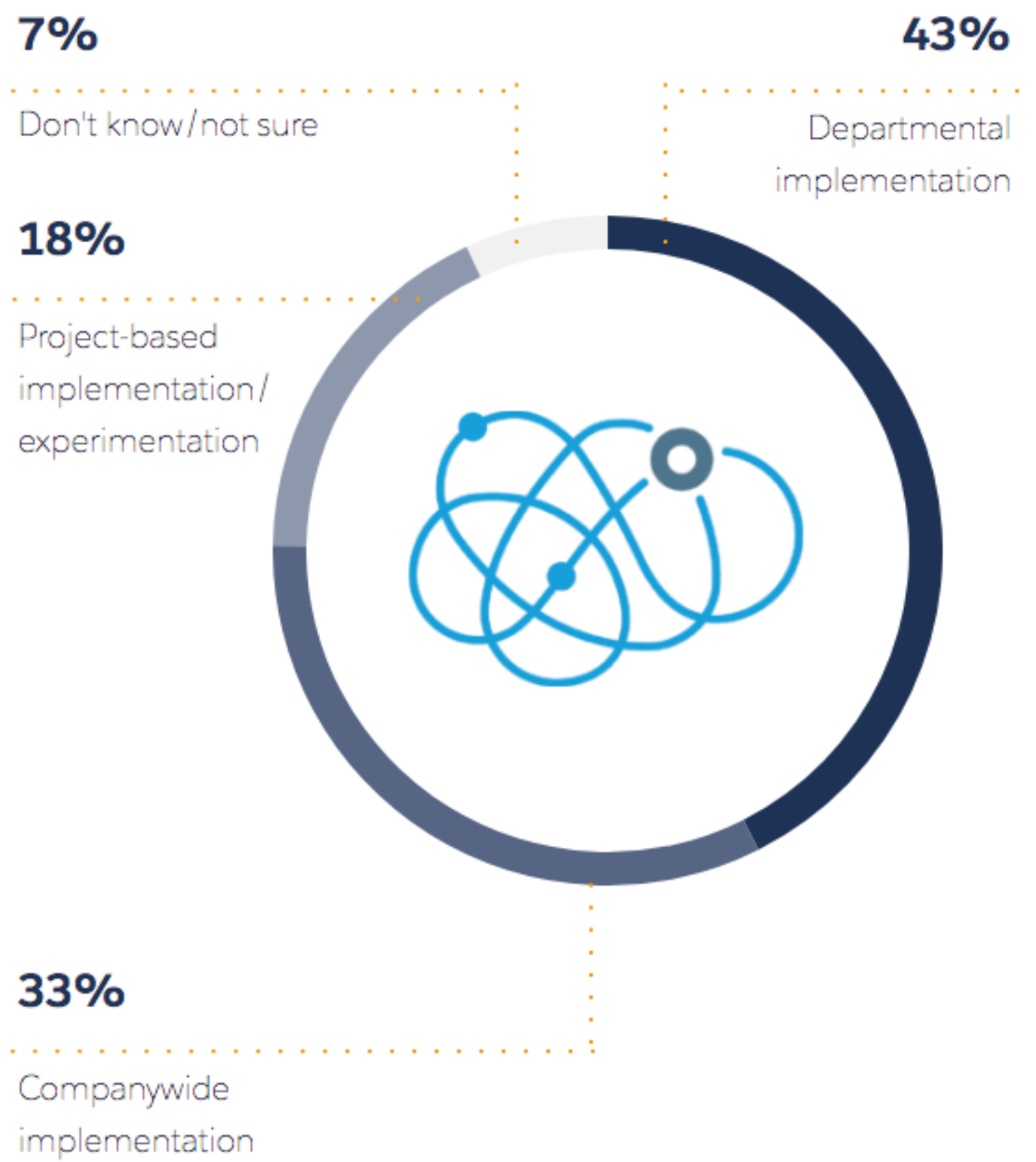
■ Plan to use in the next 12–18 months

07 Banking Steps into an Intelligent Future

Despite a complex regulatory environment and crowded competitive landscape, many banking IT leaders are willing to pioneer the adoption of big-bet technologies.

Seventy-two percent of banking IT leaders have adopted AI in some capacity (compared to only 60% of IT leaders in other industries). Among them, **one-third plan to implement AI companywide and 43% will implement at a departmental level over the next 12–18 months**.

Banks Plan to Roll Out AI Incrementally

Extent to Which Banks Are Using or Planning to Implement AI over the Next 12–18 Months

7%
Don't know/not sure

43%
Departmental implementation

18%
Project-based implementation/experimentation

33%
Companywide implementation

07 Banking Steps into an Intelligent Future

Banks are adopting AI, but the novelty of the technology and complexity of most banking organizations means there is still plenty of planning to be done.

Only 22% of banking IT leaders say their business and technology plans for AI are comprehensively defined.

IT needs to think strategically about how AI investments will fit into their road map. Most banking IT organizations using AI are taking an iterative approach by dipping their toes in project-based or departmental implementations, thereby allowing for experimentation.

Banks Are in the Early Stages of Artificial Intelligence Planning

Percentage of Banking IT Leaders Who Say Their Plans for AI Are Comprehensively Defined

Business plans for artificial intelligence

22%

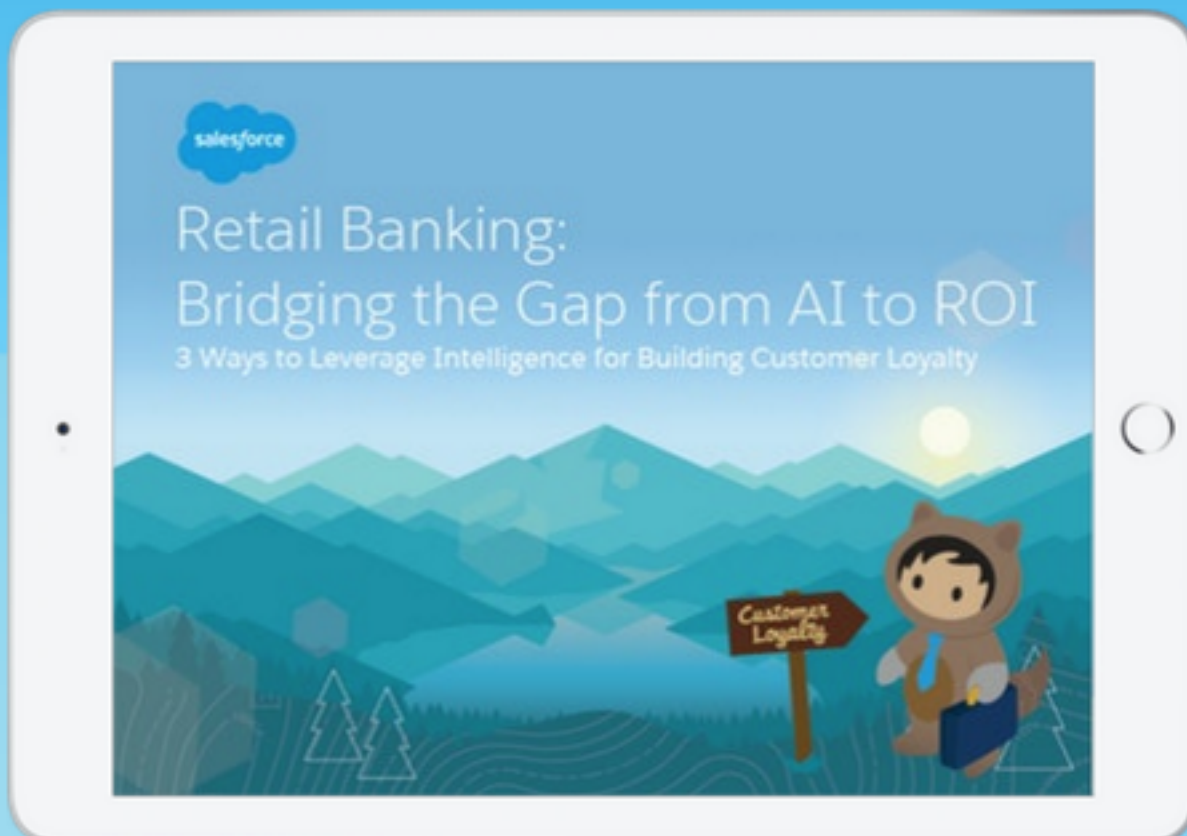Technology plans for artificial intelligence

22%

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