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3 Myths Holding Back ROI for Digital Channels

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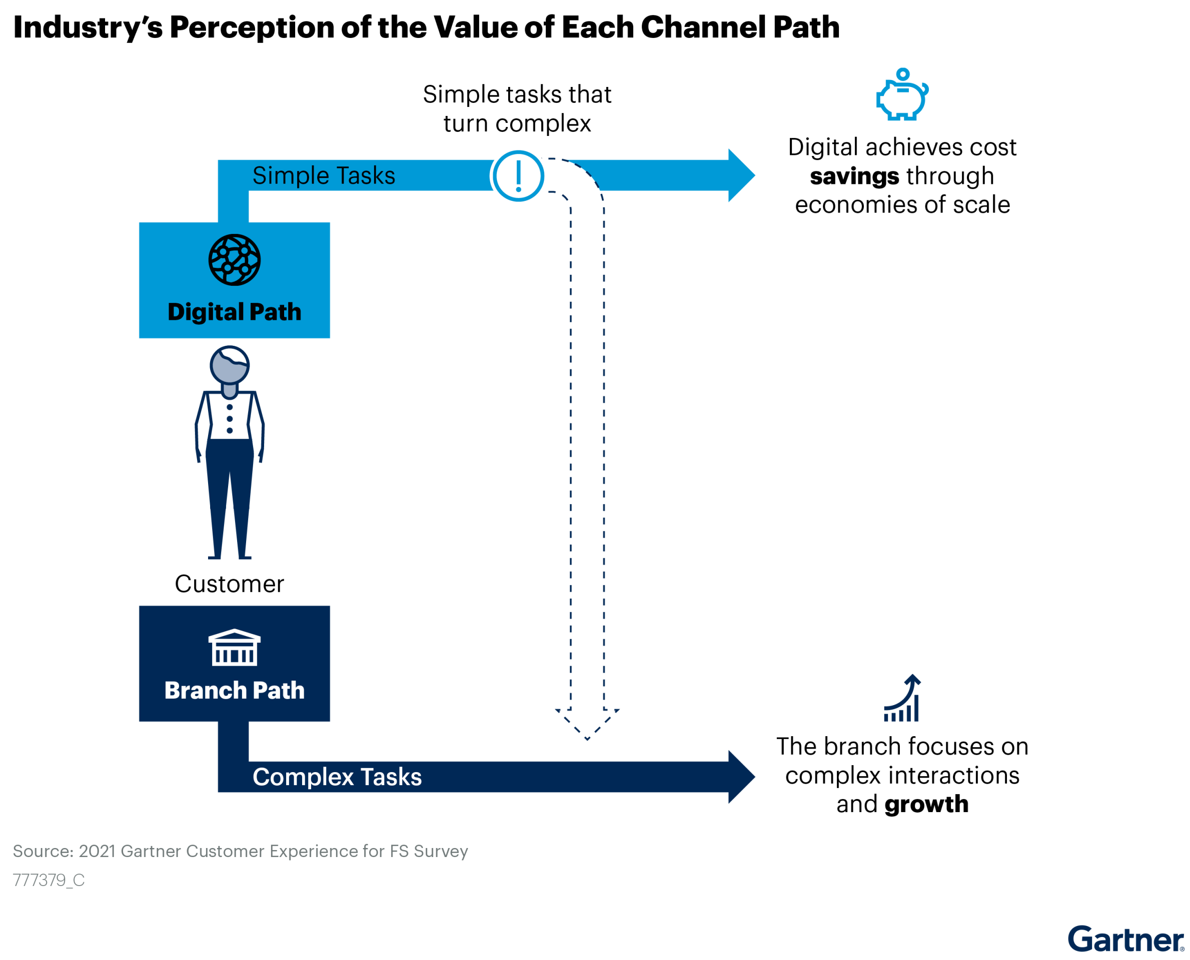
Financial services leaders have adopted a service strategy wherein digital channels focus almost exclusively on everyday interactions. But this strategy is based on outdated myths. Leaders need to dispel these myths and reorient their strategy to achieve growth from digital channels.

This document was revised on 2 November 2022. The document you are viewing is the corrected version. For more information, see the Corrections page on gartner.com.

The financial services industry is buffeted by several cost pressures, including inflation and heated competition for talent, but none are more confounding than growing technology expenditures. Most financial services institutions (FSIs) feel compelled to invest heavily in digital customer experiences, primarily to decrease cost to serve, dig out of technical debt and compete with digital competitors. Yet they have little expectations that these investments will yield significant business growth. They are running to stay in place.

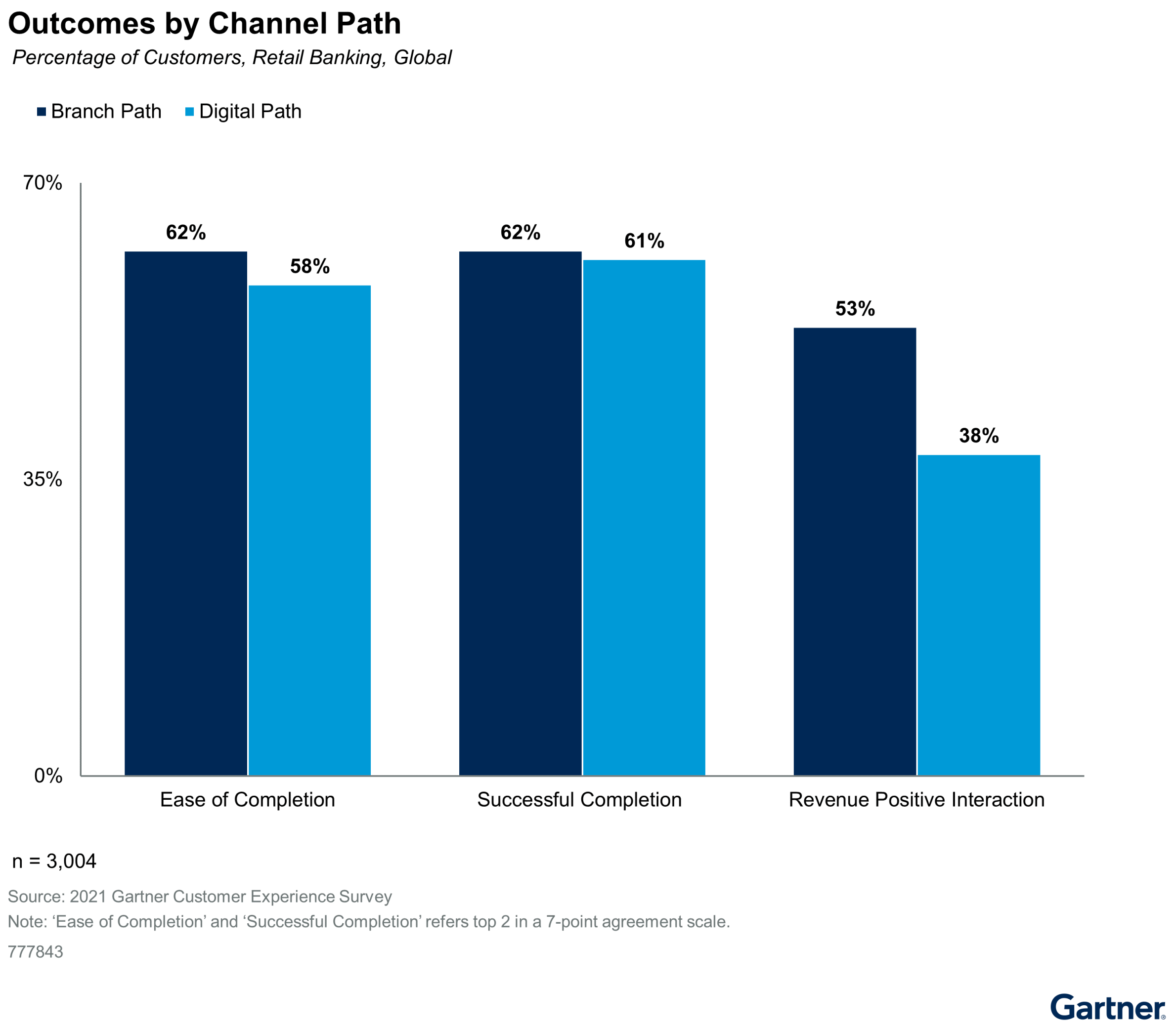
Most firms have adopted a channel strategy that has helped them survive while playing to their strengths — developing digital channels to focus on cost savings while relying on branches and in-person interactions for growth. Digital channels, in other words, have primarily been designed to solve simple, daily transactions at scale, thereby reducing costs. Branches and in-person interactions, on the other hand, are intended to drive growth by focusing on sales, complex value-added tasks, and advice and guidance during in-person customer interactions. In theory, customers who begin their interactions in digital paths and find them lacking can easily transition to branches (see Figure 1).

Figure 1. Industry's Perception of the Value of Each Channel Path



Banks have continually increased their investments throughout the last decade. And they have seen some success in creating digital paths (when a customer starts in the website or mobile app and does not use the branch) that are just as proficient and easy to use as the branch path (when a customer starts in the branch) (see Figure 2).

Figure 2. Outcomes Achieved in Branch and Digital Paths



While this traditional approach has worked in setting up an easy and efficient self-service system, it is not adding much to growth. In fact, executives are now running into a "digital wall," where increasing investments into digital channels are not generating enough returns in terms of business growth.

> **Digital channels are a commodity; every bank is the same. They are a basic offering, not a competitive advantage. The customer experience in the branch is the differentiator. In-person interactions are where we can sell additional products.**
>
> — *Banking executives (composite)*

This has progressed to the point where most executives no longer even expect their digital investments to have significant business impact:

- Over 60% of senior financial services (FS) leaders expect their digital strategy to have only a low to moderate impact on business outcomes.
- Over 60% of senior FS leaders expect their digital strategy to have only a low to moderate impact on business outcomes.
- Fifty-nine percent of senior FS leaders say their employees do not meet, or only partially meet, their goals on educating customers on the use of digital technologies. [1]

FS leaders are stuck in a cycle where they constantly have to invest more and more of their budgets into digital experience technology, but expect less and less from that investment.

Myths Driving the Traditional Digital Branch Divide

Despite this seeming contradiction, the financial services industry has its reasons for investing in digital channels, primarily as a conduit for simple interactions. This delineation is based on three major assumptions:

1. Building up transactional infrastructure will improve digital adoption, leading to increased cost savings as these channels achieve economies of scale.
2. Customers will resist choosing digital channels for complex tasks.
3. Customers who are unable to complete actions in digital will smoothly switch to in-person channels with the same bank.

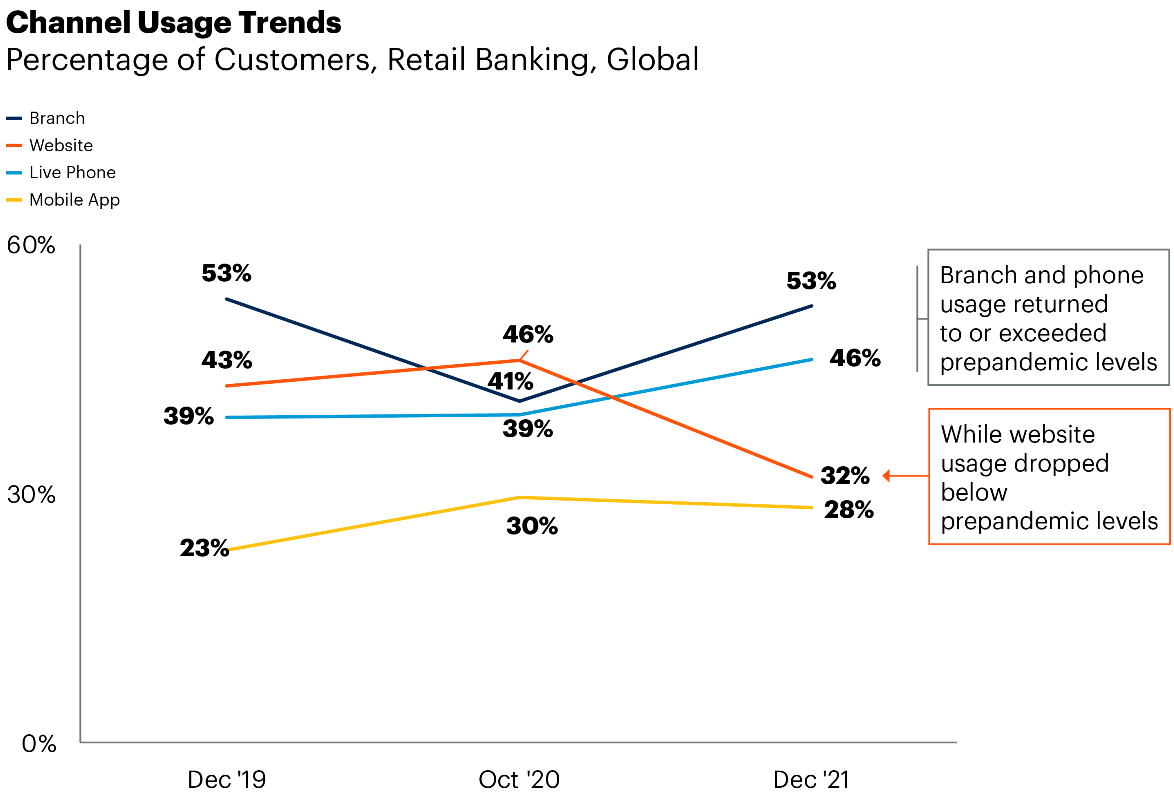
These assumptions, however, are merely persistent myths.

Myth 1: Building Up Transactional Infrastructure Will Improve Digital Adoption

Reality: The use of digital channels is backsliding.

In late 2019, over half of retail banking customers reported using the branch as part of their interaction with their provider. In October of 2020, at the height of pandemic-related lockdowns and closures, this figure dropped to 41%, while those that said they used the website increased from 43% to 46%, and those that used the mobile app jumped from 23% to 30% (see Figure 3).

Figure 3. Channel Usage Trends



n = 5,437 (Dec 2019), n = 5,502 (Oct 2020), n = 5,807 (Dec 2021) – Retail

Source: 2020 Gartner Customer Experience Survey, 2020 COVID-19 Gartner Customer Experience Survey, 2021 Gartner Customer Experience for FS Survey

Note: Revenue-positive actions include increasing amount of savings or borrowing, purchasing new products, indicating likelihood to purchase in the future and others. Revenue-positive interactions are those where positive actions outweigh negative actions.

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But by December of 2021:

- The percentage of customers using the branch during a recent interaction was back up to their prepandemic highs of 53%.
- The percentage of customers who used the mobile app during a recent interaction shrank down to 28%.
- The percentage of customers who used websites during a recent interaction plunged from close to half of customers to just under one-third in the span of 14 months.

All of this despite the fact that financial services institutions spent much of 2020 and 2021 accelerating their digital transformation. There are many potential factors at play in this backsliding, but it is clear that digital migration cannot be taken for granted.

Myth 2: Customers Will Resist Choosing Digital Channels for Complex Tasks

Reality: Customers try to use digital for all kinds of tasks.

A major component of FSIs' channel strategy, where digital channels are reserved for simple interactions, depends on customers self-selecting into the right channel based on their need. Ideally, customers undertaking everyday financial management will start their interactions in self-service digital channels, while those looking to do something more complex, like plan for a significant event or handle an unexpected situation, would sort themselves into channels that offer live, in-person interactions.

In reality, customers are using digital channels for their complex interactions, or at least trying to. One in five customers who engaged with their provider to plan for a significant event or handle an unexpected situation began their engagement in the website or mobile app and did not use the branch at any point during their interaction (i.e., took the digital path). From the channel perspective, 28% of customers who used the digital path were engaged in complex interactions. [2]

Judging by these behaviors, many customers *want* to be able to use digital channels for these complex financial tasks. While they are not a majority, they do indicate sizable demand and an opportunity that cannot be ignored.

Myth 3: Customers Unable to Complete Actions in Digital Will Smoothly Switch to In-Person Channels

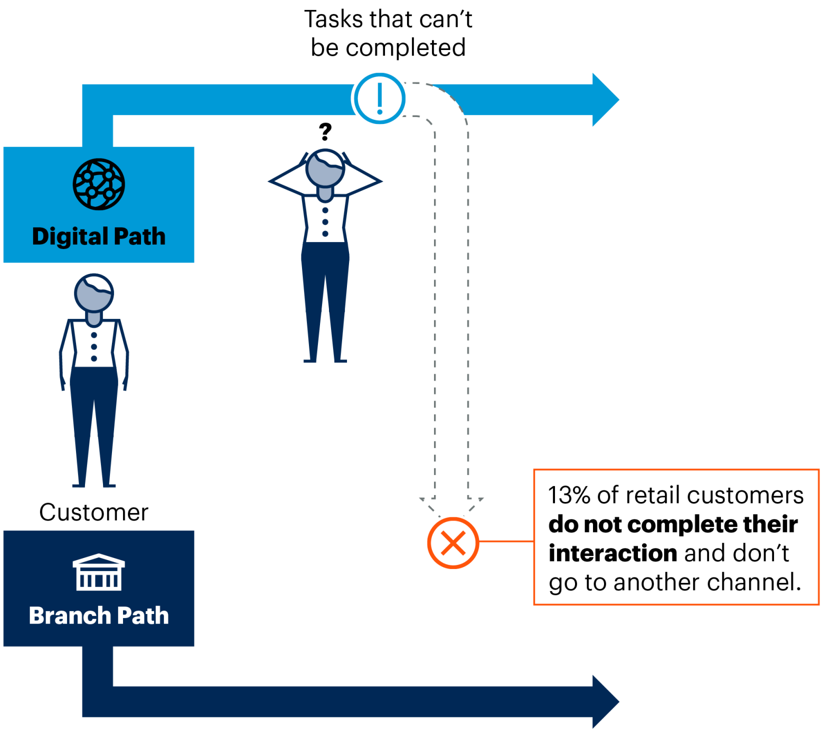
Reality: Poor digital channels can leak customers out of the bank.

Finally, the common model of reserving digital channels for simple interactions depends on the ability of FSIs to easily lead their customers to the right channel as soon as their needs are more complex than what their current channel can tolerate. Specifically, FSIs need to have a highly effective pipeline from digital channels into the branch or live phone for complex needs.

But Gartner found that 13% of retail banking customers (more than one in eight) who start their interactions in digital channels do not complete their interaction, and do not switch to another channel (see Figure 4).

Figure 4. Customers Don't Always Just Switch Channels

Customers Don't Always Just Switch Channels
Potential Pitfalls of Not Meeting Customer Needs in Digital



n = 5,807 (Retail Customers)

Source: 2021 Gartner Customer Experience for FS Survey; 2021 Voice of Financial Decision Maker Survey
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In other words, these customers give up on serving their needs with their provider. They may give up on their need entirely, or they may be drawn in by a competitor with a better digital experience, or even just a closer branch. This gap will only become more significant as pressure from fintechs and other challengers intensifies. Already, nearly 60% of retail banking customers say they have used fintechs in the past six months.

Escape the Cycle: Use Digital Channels as Growth Drivers

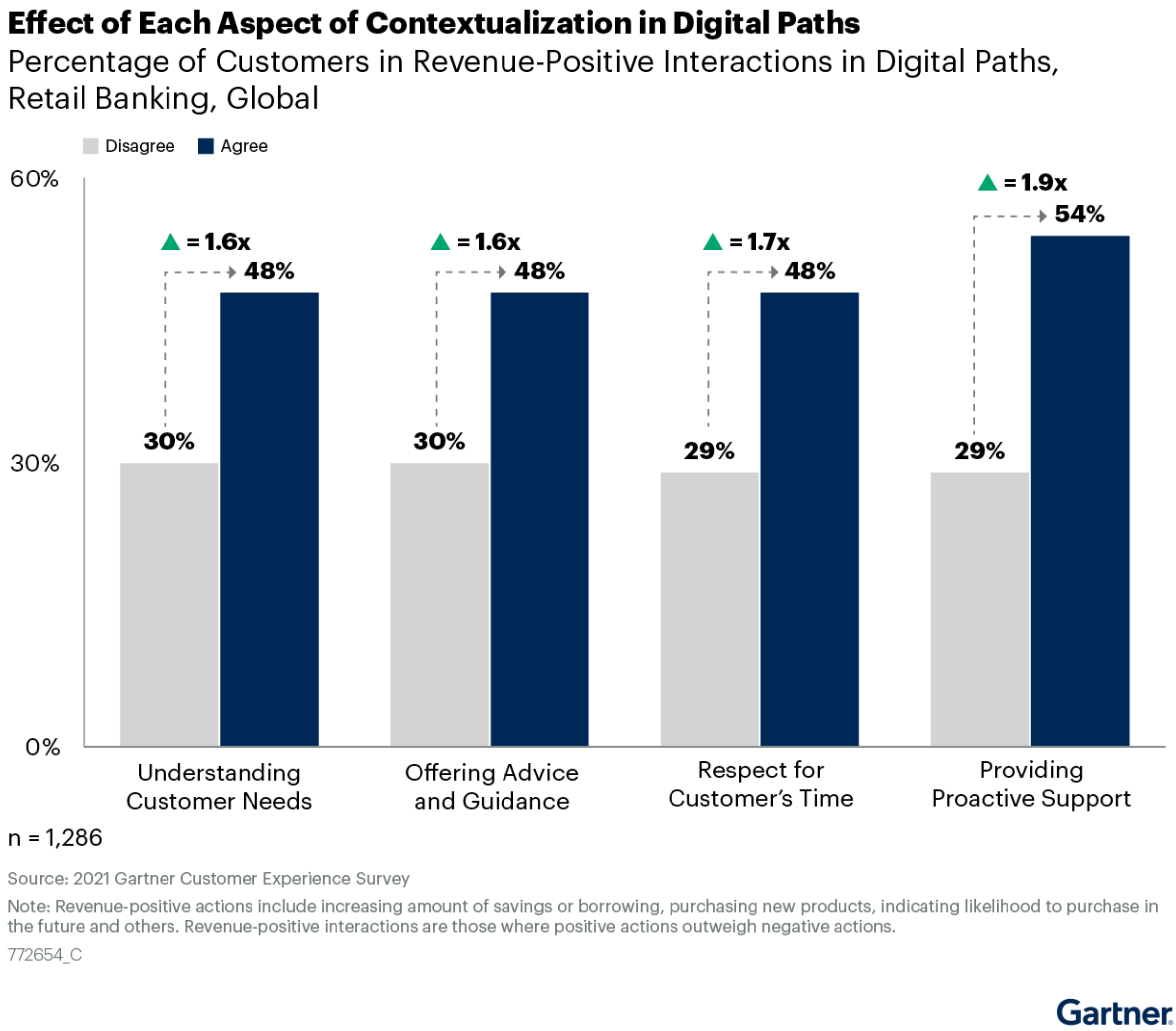
The past few years have shown that these broad assumptions do not hold; that it is necessary to leverage digital channels for interactions that produce growth in order to create real returns on digital technology investments and avoid falling behind new market entrants.

Our research shows that when customers receive a **contextualized digital experience**, the percentage of revenue-positive interactions increases significantly. Contextualized experiences encompass four key aspects:

1. Understanding customer needs before providing a solution
2. Providing helpful guidance about financial matters
3. Treating customers as individuals and respecting their time
4. Providing proactive support

These four aspects are correlated with about a 60% improvement in the proportion of revenue-positive interactions (see Figure 5). Providing proactive support nearly doubles this metric.

Figure 5. Effect of Each Aspect of Contextualization in Digital Paths



See Achieving Business Growth From the Digital Customer Experience for more on how to break through the digital wall and achieve growth through digital investments.

Recommended by the Authors

Achieving Business Growth From the Digital Customer Experience

Voice of the Customer: How Financial Services Providers Should Respond to Customers Experiencing Unexpected Situations

Endnotes

2021 Gartner Voice of Financial Decision Maker Survey: The survey was conducted online from November 2021 to December 2021 among 435 respondents from multiple industries, working in organizations under $1 billion in annual revenue in North America, Europe, and Asia/Pacific (APAC). The respondents of this survey are business owners, CFOs, other C-suite executives, and senior level executives in the leading roles in the finance function of their organizations, who are responsible for managing liquidity, payments and lending activities.The study was developed collaboratively by Gartner Analysts and the Primary Research Team.

2021 Gartner Financial Services Technology Survey: The survey was conducted online from October 2020 through December 2020. Respondents included senior leaders who were either primary decision makers for their organization's or business unit's technology strategy, or had a high level of influence in those decisions. The total sample was 847, with representation from all geographies and from both the banking and investment services sector and the insurance industry sector.

[1] **Gartner Financial Services Business Priority Tracker, December 2021 and March 2021:** The Gartner Financial Services Business Priority Tracker Survey is a quarterly survey that aims to understand the most pressing current and near-term priorities of FS business and technology leaders, as well their views on the importance and impact of economic and social trends on their business.

[2] **2021 Gartner Customer Experience for FS Survey:** The survey was conducted via an online panel from October 2021 through December 2021, collecting responses from 5,807 retail banking, 1,140 insurance and 905 high-net-worth (HNW) (wealth) respondents. Quotas and weights were applied for age, gender, region and income at the country level, so that the sample mirrors the distribution of the population. The results of this survey are representative of the respondent base and not the “global” retail banking, insurance or HNW population as a whole. The survey was developed collaboratively by a team of Gartner researchers and quantitative analysts and was reviewed, tested and administered by Gartner's Research Data, Analytics and Tools team.

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