

## STAY RELEVANT & COMPETITIVE

# Five key digital banking challenges that financial institutions need to address.

As banks and credit unions accelerate their digital transformation initiatives following the pandemic, the digital banking challenges ahead come into an even sharper focus. This time, the end-user sets the pace and benchmarks, but not all financial institutions are up to speed or have the resources to innovate. But they must.



One forecast estimates that more than half the global population will be using digital banking by 2026. That means banks and credit unions should waste no time addressing these five key digital banking challenges in particular.

### 1. Securing a digital landscape

Few banks or credit unions would identify security as a new challenge. In fact, most are still recovering from the enormous demands of meeting the strict regulatory reporting and compliance requirements posed by GDPR for European customers, CCPA, PCI DSS, and more. Compliance with the Dodd-Frank Act alone increased the banking sector's costs by \$50 billion a year.

However, security in a digital banking environment presents some unique challenges, from identifying customers online to storing their data safely to protecting their payments. Expect things to change fast. Many banks and credit unions

still use passwords and usernames, secret questions, and SMS verification to authenticate access. These are out of step with the methods end-users are offered by their favorite apps and mobile platforms.

A further challenge relates to communication. In one survey, half of bankers believe that customers will rely on social media to communicate with their bank in the next five years. That poses a huge regulatory and security challenge for banks and credit unions who are used to owning the end-user relationship.

Given that organizations can only capture, process, and store personal data for a specific purpose, many financial institutions will need to review their approach to communicating with end-users in an omnichannel world.

**Solution:** Keep end-user data safe with robust encryption as standard, and own end-user communication channels within a secure ecosystem that integrates seamlessly into your financial institution's database.

## 2. Delivering personalization and customization

Traditional banks and credit unions are still focused on security, process, and compliance, not end-user experience. That hasn't gone unnoticed, either by challenger banks or by end-users themselves, 77% of whom are reportedly disappointed in their banking delivery. Many banks and credit unions seem out of step in a post-pandemic landscape where people can sort and optimize their streaming, shopping, learning, and more to create bespoke, relevant experiences. There's a tendency to champion products and features broadly without tailoring messaging to target audiences.

**Solution:** The irony is that few organizations have as much access to actionable data as financial institutions. With the right platform driven by artificial intelligence and machine learning, banks and credit unions can unlock the value of their end-user data to enhance the service, information, and advice they offer. For example, predictive analytics can identify end-users who require new services bundled with existing ones, such as loans, foreign exchange, or savings tools.

## 3. Facilitating self-service banking

The place that brick-and-mortar branches occupy in the banking landscape has shifted in a post-COVID world. But the pandemic didn't create the exodus to mobile banking; it merely accelerated the pace of change.

In the digital era, end-users want simple transactions and interactive customer service and they will happily juggle physical and digital options to meet that need. They may prefer a third-party mobile app for foreign currency exchange or cashless payments, but still visit their local branch for financial advice or loans, for example. That's an opportunity for banks and credit unions to automate many back-end processes (such as account onboarding or checking) and reinvest the operational savings in-branch services that add value.

**Solution:** Every bank and credit union has to become a 24/7, on-demand service. That can be achieved in part by increasing the range of services offered by ATMs, but also by giving end-users more control over their accounts on mobile. The first obstacle? Give them an account they can set up in

minutes on mobile rather than in person (and in weeks) via the branch.

## 4. Finding the right technology partners

Traditional banks and credit unions face some well-known internal obstacles when it comes to innovation. There's a naturally risk-averse culture to start with, as well as famously siloed processes and slow decision-making cycles. Challenger banks, on the other hand, can bring a new product or service to market in a fraction of the time.

**Solution:** Instead of ripping out their legacy tech stack and trying to compete head-on with challenger banks, banks and credit unions should partner with the fintechs who can deliver the services end-users want now, such as biometric authentication or chatbot support. It will still take time—some six to eight months to research, vet, and prototype a product with a fintech provider—but priority can be given to services that add the most value.

## 5. Competition from mobile banks

With the arrival of open banking in Europe, and deregulation across much of the world, banks and credit unions have been forced to share their data with third parties. That has allowed challenger banks awash with venture capital to disrupt the market with slick, frictionless mobile banking services that maximize user experience. Suddenly, traditional banks look cumbersome and impersonal. Worse still, the incumbents no longer own the end-user relationship.

**Solution:** Traditional banks and credit unions still have a powerful card to play. Despite the 2008 financial crash, the occasional data breach, and branch closures, end-users still trust them and value the role they play within the community. As a result, there are no alarm bells ringing yet at brand level. If they can focus on diversifying, personalizing, and digitizing their services, they can mitigate losses to the competition.

It's worth remembering that every challenge is also an opportunity. With Lumin Digital's powerful digital banking platform, banks and credit unions can attract younger customers, offer additional services, and deliver the omnichannel experience they've struggled to provide up to now.



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