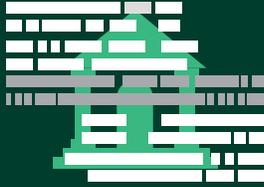


A Forrester Consulting
Thought Leadership Spotlight
Commissioned By Xerox
February 2021

Aligning Industry Expectations With The Human Touch: A Spotlight On The State Of Digital Transformation In Financial Services



Banking and insurance firms risk outpacing customer preferences by prioritizing all-digital options. The customer behavior evolution they wish to encourage does not yet match their customers' actual preferences.

Introduction

The COVID-19 pandemic has changed customer behavior dramatically. Banks, insurers, and other financial services firms must reimagine their back-office operations and customer touchpoints to satisfy evolving customer preferences. Managing risk and compliance is still a core activity, but firms must adjust to new customer expectations. Never has the pace — or challenge — of change been so acutely focused.

With the pandemic-induced urgency for firms to digitize, many firms have not yet realized their customers' actual preferences. After the initial adjustments to accommodate customers and a workforce largely remaining at home, which accentuated risks around data privacy and security, banking and insurance firms must now address modified customer expectations. Decision-makers need to reconstruct rapidly assembled solutions that were “good enough” amid the pandemic to meet ongoing demands and operational needs of a steadier state.

Xerox commissioned Forrester Consulting to evaluate the state of digital transformation within the banking and insurance industry. Forrester conducted an online survey with 150 respondents at the director, VP, or C-level position to understand the long-term impact of evolving consumer behavior and employee expectations — and how decision-makers must adapt their digital transformation strategies to keep up.

KEY FINDINGS

- › **A gap exists between financial service firms' perception of customer preferences and what customers actually want.** How business decision-makers perceive customers want to interact with them is misaligned with customers' actual preferences. Three-quarters of respondents at banking and insurance firms believe that customers prefer to be engaged via automated digital methods, but only 38% of customers prefer this digital-only option.¹
- › **Firms are balancing better customer experience (CX) with robust rebuilding.** During the pandemic, customers came to expect higher levels of support and communication. Enhancing end-to-end CX (89%) is now the immediate priority for banking and insurance firms. Business continuity and resilience have replaced security as the number one medium-term challenge, as short-term pace gives way to robustness.
- › **Security and staffing hinder digital transformation.** The pandemic brought data privacy, security, and customer communication into acute focus. But staffing is an issue too: A quarter of banking and insurance leaders want a reset of their technology strategy but have concerns over employee availability to drive digital transformation.²
- › **Firms are planning a strategic technology reset.** The pandemic also provided an opportunity for banking and insurance companies to future-proof their digital transformation. The focus has shifted from digitizing the basics to optimization. Future strategy looks to leverage business intelligence, advanced analytics, and digital capture and content services, combined with workflow automation, to optimize service and engagement for both customers and employees.

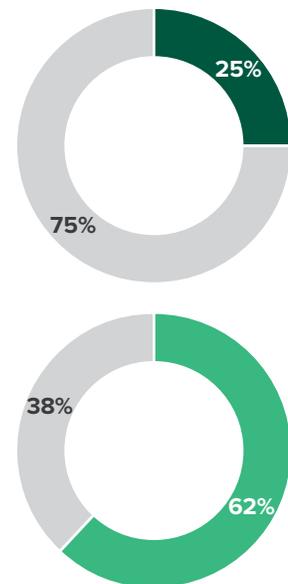
Digital Transformation Accelerated Out Of Necessity, But Customers Still Desire Human Interaction

Customers endured great dislocation in their lives as the pandemic enforced changes in their behavior: 89% of banking respondents and 79% of insurance respondents believe their customers remain reluctant to visit physical branches or agencies. More than three-quarters of decision-makers agree that the disruption from the pandemic has accelerated their digital transformation, with 83% investing to improve digital customer solutions. However, much of this is built on unproven assumptions and perceptions, not evidence:

- Decision-makers misunderstand true customer preferences.** There is a significant discrepancy between how decision-makers think customers want to interact and actual customer preferences. Overall, 75% of respondents think that customers prefer to be engaged via email, automated messaging, or a website rather than via a personal virtual connection. The reality is very different: Only 38% of customer would prefer these options. The pandemic has forced digital solutions on customers — but adopting them does not mean that they prefer them (see Figure 1).
- Customers still crave a human interaction — whether digital or in-person.** While in-office and in-branch face-to-face interactions have declined due to the pandemic, a large proportion of insurance and banking customers still desire a human element over a purely digital interaction. Thirty-six percent of bank and 41% of insurance customers prefer human interaction, whether over the phone or in digital form, such as online or video chat (see Figure 2). Both banking and insurance firms must therefore weave human and digital services together in coherent, end-to-end customer journeys.

Figure 1: Industry Perception Vs. Customer Preference

■ Digital-only (industry/customer)
■ Hybrid interaction (industry)
■ Hybrid interaction (customer)



Base: 4,483 online adults
 Base: 150 financial services or insurance respondents in a director, VP, or C-level position
 Source: A commissioned study conducted by Forrester Consulting on behalf of Xerox, December 2020

Figure 2

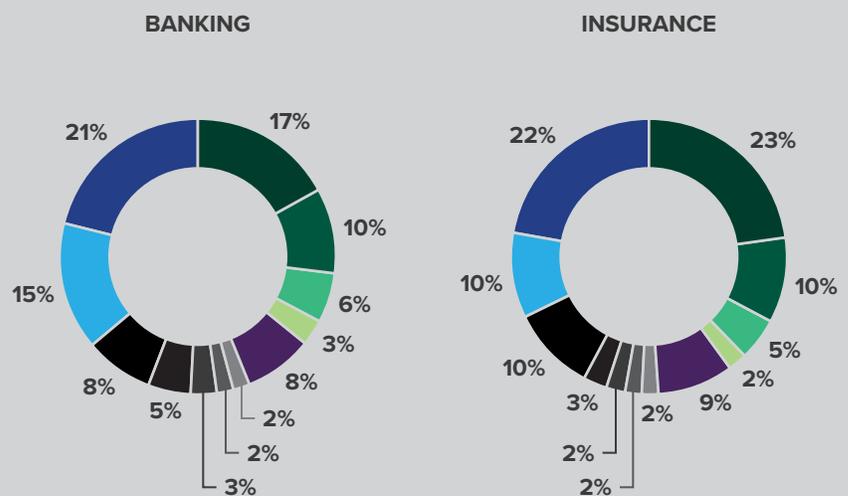
“Regardless of how you have engaged in the past, what is your preferred way to interact with your financial providers?”

Digital and human interaction

- In person at an office/branch
- Over the phone
- Online chat with a person
- Video chat with a person
- No preference

Digital only interaction

- Website
- Mobile app
- Email
- ATM or self-service kiosk
- Text message
- Online chat with a virtual agent
- Digital voice assistant



Base: 4,483 online adults
 Source: Forrester Analytics Consumer Technographics® Financial Services Topic Insights 2 Survey, November 2020

Banking And Insurance Firms Shift Their Focus From Urgency To Optimization

The pandemic folded years of transformation into a few short months. Much of this was tactical, not strategic: adapting to new customer engagement patterns, serving the needs of a distributed workforce, and mitigating the new systemic risks caused by the disruption. Our study revealed business leaders' top priorities in response to COVID-19:

- › **Hedging risks and managing compliance became urgent priorities.** Hedging emerging risks (83%) and managing compliance (79%) were high priorities for respondents as they sought to stabilize their firms. Three-quarters of decision-makers cite data privacy and security as their top challenges during the pandemic. This is unsurprising given the need to manage the complexity of high-volume real-time digital customer communications, compounded by the risks of a dispersed, newly remote workforce (see Figure 3).
- › **Organizational resilience and business continuity become the medium-term challenges.** Security has been the top challenge for banking and insurance firms for the past few years. The need for business continuity and resilience has now eclipsed security as the top medium-term priority. As the short-term pace of change gives way to robustness, the business of transformation becomes more serious, with a third of decision-makers planning to improve their IT systems to support digital technologies — and address the challenge of legacy IT systems (see Figure 3).

Figure 3

“What are your company’s top current challenges?”

	Currently, during the COVID-19 pandemic	In the next one to two years
Business continuity and organizational resilience	63%	62%
Data privacy and security	76%	61%
Managing customer communication at scale and velocity (in real time)	71%	46%
Difficulty in transitioning from physical to digital processes	53%	35%
Legacy IT systems that hinder digital transformation	43%	34%
Compliance with and reporting on increasingly complex regulatory and risk environment	44%	32%
Ownership of processes fragmented across the business	36%	25%
Reallocation of resources	39%	18%
Enabling your workforce to work both remotely and collaboratively	67%	17%
Reliance on manual and paper-based processes	18%	13%
Temporarily and/or permanently closing down branches	8%	7%
Temporarily and/or permanently closing down agencies	11%	6%

Base: 150 financial services or insurance respondents in a director, VP, or C-level position

Source: A commissioned study conducted by Forrester Consulting on behalf of Xerox, December 2020

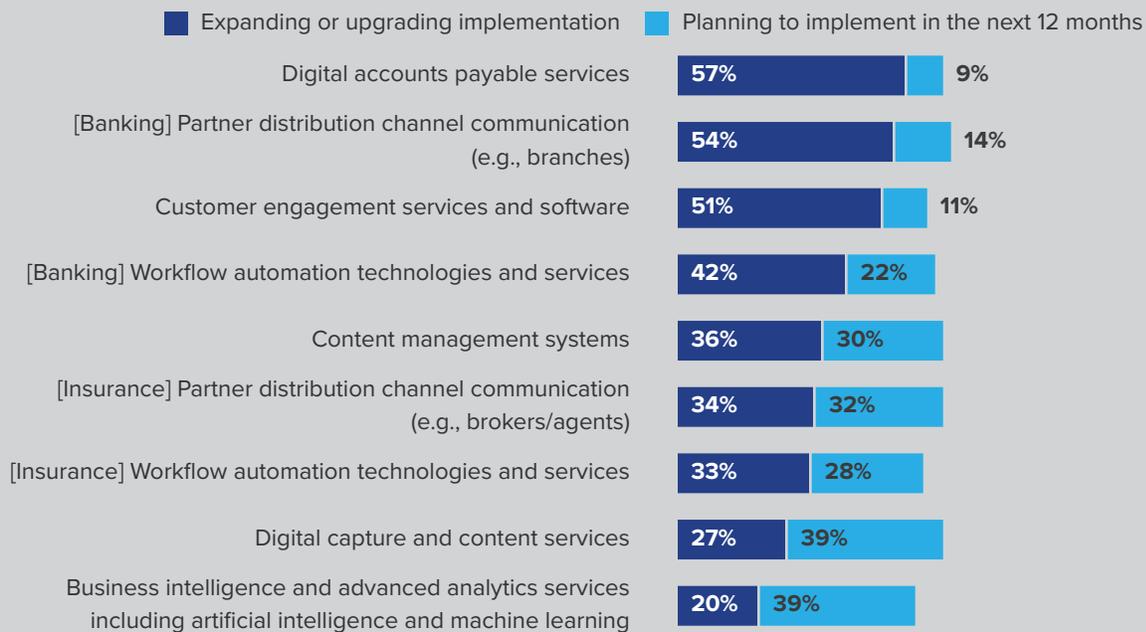
Use The 2020 Reset To Future-Proof Your Digital Transformation Strategy

The pandemic has provided an opportunity to use the “great reset” to assess future customer and industry needs. This is the moment to course-correct and truly transform. Having a digital strategy is not enough. In this time of rapid digital refactoring, banking and insurance firms must build confidence in their ability to execute by promoting their strategy to owners, shareholders, and stakeholders. Executive priorities are:

- › **Securing the foundations, shaken by the pandemic.** The immediate focus is on the fundamental foundations — getting the basics right. Payments through digitized channels (particularly inbound payments), digitizing distribution channels, customer engagement, and workflow automation top the list of short-term immediate transformation plans (see Figure 4).
- › **Optimizing for the future.** Looking ahead, the focus shifts from digitizing the basics to ensuring future success. Survey respondents report a shift in priorities, looking to rebuild strategically and capitalize on their foundational digital gains. Future strategy looks to leverage business intelligence, AI, and advanced analytics (39%), alongside digital capture and content services (39%) and content management systems (30%), to optimize service and engagement for both customers and employees.

Figure 4

“What are your company’s plans on the following digital transformation initiatives?”



Base: 150 financial services or insurance respondents in a director, VP, or C-level position

Source: A commissioned study conducted by Forrester Consulting on behalf of Xerox, December 2020

BANKING AND INSURANCE FIRMS ARE SEEKING HELP TO TRANSFORM RAPIDLY

The number of firms seeking help from partners to assist in their digital transformation more than doubled during the crisis and remains 60% higher than it was pre-pandemic. Banking and insurance decision-makers are engaging third-party providers to add new digital capabilities and generate new digital products and services. Firms will invest in capabilities, such as digitized content management solutions, that both enable their remote employees and help them meet customer expectations quickly (see Figure 5).

- › **Firms turn to partners for help.** More than a third of banking and insurance decision-makers are evaluating their partner landscape to accelerate their digital transformation. A quarter expect to use third-party partners to add new digital capabilities to their existing services and build new digital platforms or services to derisk their firms' transformation. Training staff to make the most use of these digital capabilities is also a strong priority (see Figure 5).

Figure 5

“To support your employees in working remotely, what actions did your company take before the COVID-19 pandemic, what actions is it currently taking, and what actions does it plan to take within the next one to two years?”



Base: 150 financial services or insurance respondents in a director, VP, or C-level position
Source: A commissioned study conducted by Forrester Consulting on behalf of Xerox, December 2020

Key Recommendations

It is unlikely that we shall ever see such a complete and universal reset of human behavior as we have with the pandemic. COVID-19 disrupted financial services and insurance firms' usual operations but also provided them with an unexpected opportunity to strategically rebuild, benefit from essential investments, and future-proof for tomorrow.

Forrester's in-depth survey of 150 banking and insurance respondents in a director, VP or C-level positions yielded several important recommendations:



Make sure you know the needs of your customers — and can match their expectations. What is apparent is a gap in understanding between what executives anticipate customers want — and what they actually desire. Ensure your firm understands the true needs of customers and employees, grounding assumptions in unassailable insight. Banking and insurance firms that rebuild around their customers' preferred experiences, offering them blended end-to-end journeys that weave human and digital interaction together, will differentiate. Make sure your firm and your delivery partners are capable of understanding — and executing — on this.



Use the pandemic's digital foundations as a springboard for success. Necessity is the mother of innovation. Firms made years of digital progress in a few short months, demonstrating what could be achieved with everyone pulling in the same direction. Required investment in cloud migration, workforce enablement, and customer tools form a backdrop to advance digital progress. Firms that are quick to pivot from firefighting to optimizing give themselves the best chance of strong recovery and taking a lead. Know what digital services drive differentiation from the perspective of your customers, secure advantage and accelerate change through selective partnerships, and communicate your digital strategy to build confidence from stakeholders.



Establish a robust partner network that can drive outcomes. Investing in customer engagement to meet customer expectations is vital, now and in the future. The new steady-state continues the complexities of workforce distribution and risk — with the challenges of data privacy, security, and resilience — while managing these heightened customer expectations. As you evaluate your partner landscape, focus on those that understand customer engagement, have a track record in accelerating digital transformation, and are adaptive enterprises that can help you build back strongly.

Appendix A: Methodology

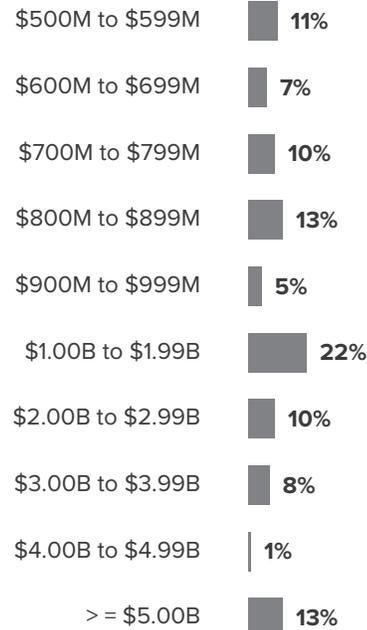
In this study, Forrester conducted an online survey of 150 banking and insurance respondents to evaluate consumer financial behavior during the COVID-19 pandemic, the acceleration of certain trends in consumer preferences, the long-term impact of these changes on the industry, and the partnership with the right digital services provider to prepare for the next wave of disruption. Survey participants included decision-makers in a director, VP, or C-level position. The study began in October 2020 and was completed in January 2021.

Appendix B: Demographics

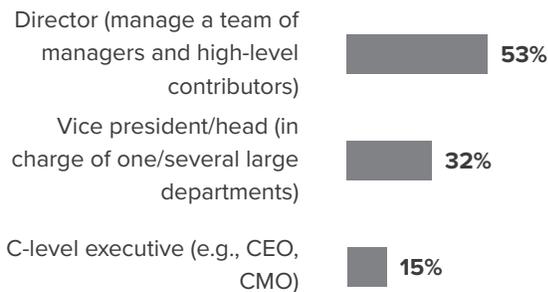


APAC: N = 150
Canada: N = 31
UK: N = 30
Germany: N = 30
France: N = 30
United States: N = 29

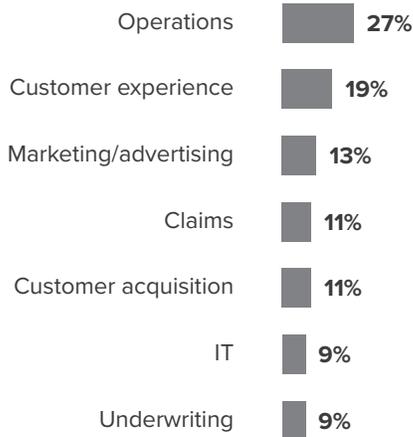
ANNUAL REVENUE



POSITION



POSITION

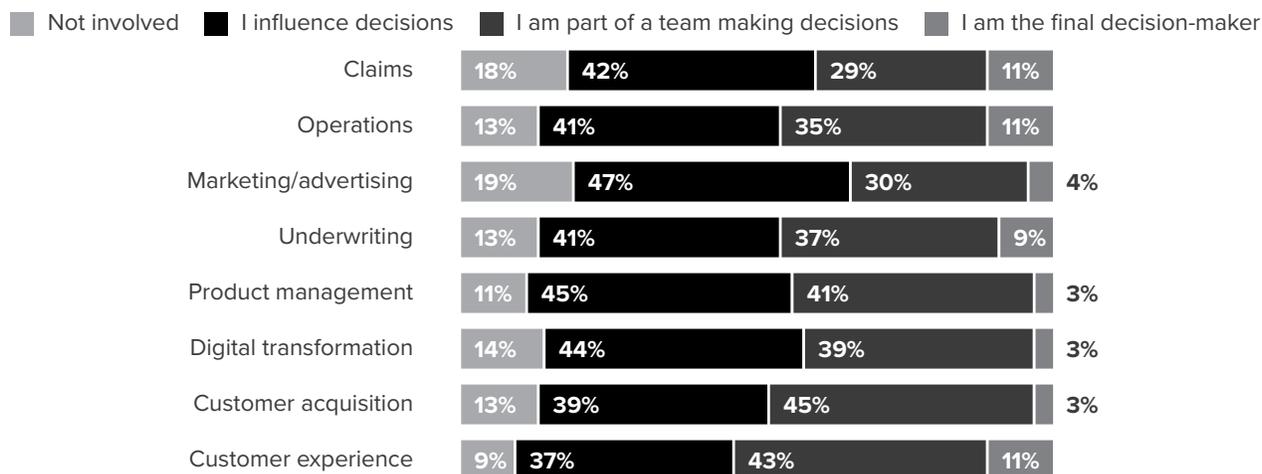


INDUSTRY



Base: 150 financial services or insurance respondents in a director, VP, or C-level position
 Note: Percentages may not total 100 because of rounding.
 Source: A commissioned study conducted by Forrester Consulting on behalf of Xerox, December 2020

“What is your level of responsibility when it comes to the areas at your organization below?”



Base: 150 financial services or insurance respondents in a director, VP, or C-level position
 Source: A commissioned study conducted by Forrester Consulting on behalf of Xerox, December 2020

Appendix C: Supplemental Material

RELATED FORRESTER RESEARCH

“Plan For The Evolution Of Banking With Three COVID-19 Scenarios,” Forrester Research, Inc., August 26, 2020.

“Video: Plan For The Evolution Of Insurance With Three COVID-19 Business Scenarios,” Forrester Research, Inc., August 18, 2020.

“The COVID-19 Pandemic Alters The Payment Industry In Europe For Good,” Forrester Research, Inc., September 18, 2020.

“COVID-19: Responding, Managing, and Leading During A Pandemic.” Forrester Research, Inc., 2020.

Appendix D: Endnotes

¹ Source: Forrester Analytics Consumer Technographics® Financial Services Topic Insights 2 Survey, 2020.

² Source: Forrester Analytics Consumer Technographics® Business Technographics Business And Technology Services Survey, 2020

Project Director:

Denis Loechel,
Associate Consultant

Asha Dinesh,
Market Impact Consultant

Contributing Research:

Forrester’s eBusiness & Channel
Strategy research group

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