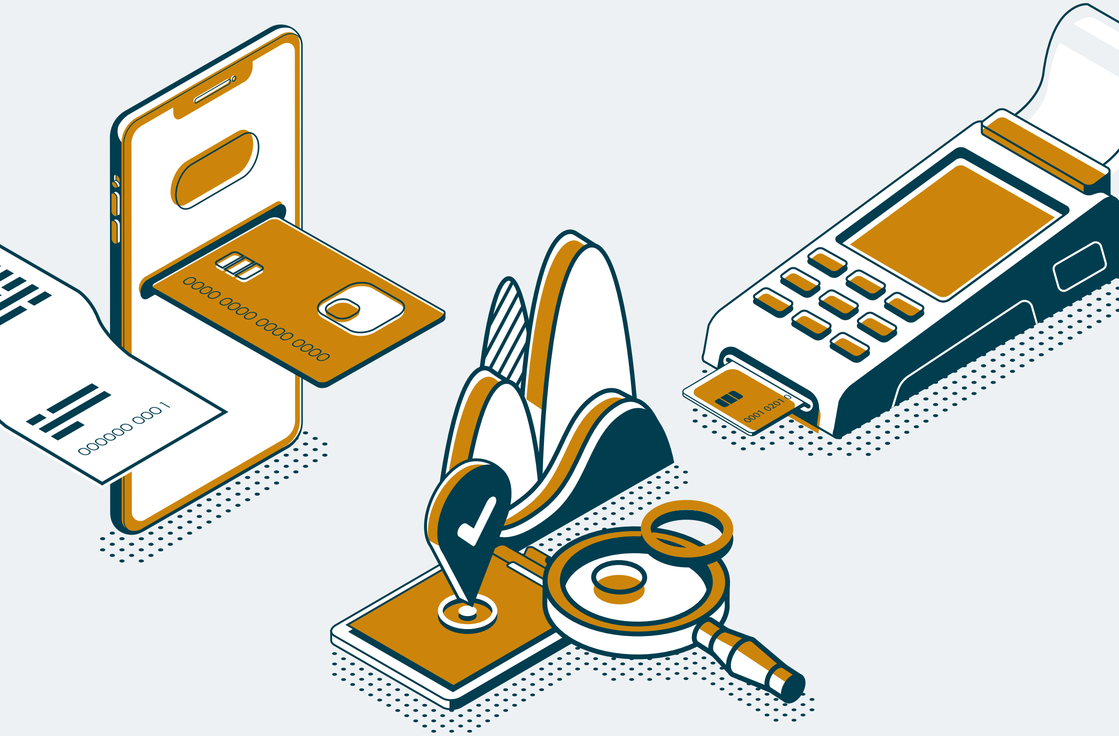

Investing in innovation: How digital products are redefining retail banking experiences

By Ian Kelsall and Neha Madan

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Strategy. Design. Engineering.

In recent years, interactions between customers and banks have fundamentally changed. Physical branches are closing, new digital-native banks are emerging, and customer expectations continue to rise and evolve at a pace that's challenging for even the industry leaders to keep up with.

According to Forrester research released in January 2024, between 47 percent and 69 percent of banking customers globally used apps to perform banking activities in the last month[1], depending on where they are in the world. Digital products like mobile banking apps have become the foundation of retail banking experiences. To stay competitive in today's market, banks need to go beyond the basics and develop innovative features and experiences that put their customer at the core.

We wanted to learn more about how retail banks are evolving, what they're investing in and how they're transforming their operations to support the creation of engaging digital products. To find out, we partnered with Forbes Insights to survey 300 global industry leaders — 100 of whom were retail banking executives.

The full cross-industry findings of that study are available to explore in the Unlocking digital product success report. But here's a more detailed look at what we learned about the state of digital product innovation in the retail banking sector.

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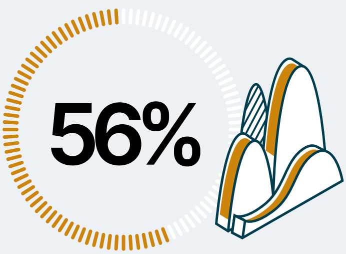
1 The Forrester Digital Experience Review, Mobile Banking Apps, 2023

Where are retail banks investing?

Retail banks certainly aren't shying away from investing in new and transforming existing digital products. In the survey, we define digital products as transcending the confines of downloadable apps and online software — the modern customer journey is far more integrated than isolated entities and each touchpoint is an integral part of the overall digital portfolio. Areas for developing digital products could range from customer data platforms and digital engagement platforms to supply chain and customer-driven merchandising, to name a few.

We discovered that 66 percent of retail banks view investing in this area as mission-critical to building and maintaining brand equity over the next year. And 56 percent plan to budget more than $50 million for digital products in three years' time. That's up from nine percent just three years ago.



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While each bank has its own digital product strategy and priorities, there are several key areas consistently attracting significant investment:

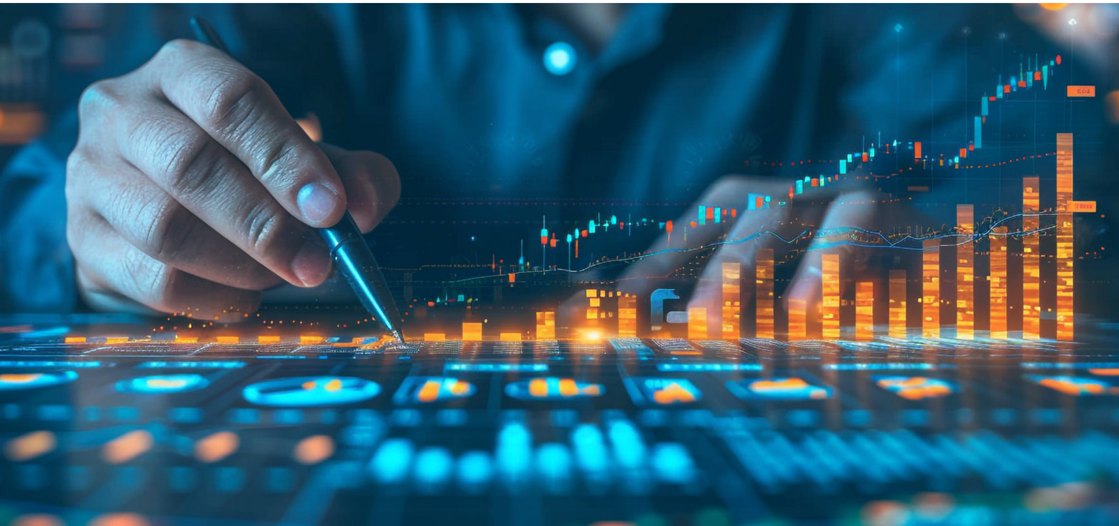
Anticipatory experiences

By using customer data in the right ways, many retail banks are now able to proactively tailor products to shifting customer needs, and they're investing in new digital capabilities to deliver anticipatory experiences at scale. For example, 58 percent of respondents to our survey agreed that AI and machine learning (ML) are essential for creating deeply personalized banking experiences.

Fraud prevention

Fraud and scamming are huge problems in the financial services industry. But fortunately, digital products can help fight them both. By building verification into apps and digital journeys, retail banks can help safeguard their customers and prevent losses.

That could be as simple as providing reminders about potential scams at the point of transaction. Or it could take a more innovative form, such as providing peace of mind by showing customers a phone call is legitimate through their banking app when they need to reach you.



Customer self-service

Nearly three-quarters (72 percent) of respondents to the Forbes survey believe customer service is one of the areas that can benefit most from digital product innovation — with 54 percent calling out customer self-service in particular. The challenge lies in successfully serving the customer through digital channels while not compromising the quality of service delivered.

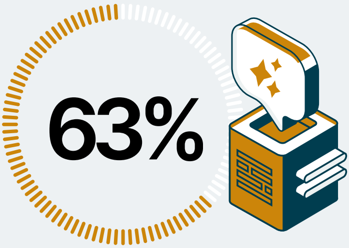
Customer loyalty and lifetime value

Our survey also found that 72 percent of retail banking executives rank customer loyalty among their top three priorities for their business, and 68 percent also place customer lifetime value high on their agenda.

To build both loyalty and value, some retail banks are turning their banking and payment apps into digital ecosystems that reward use of multiple services and enable customers to claim and use benefits without ever leaving the app. Others are providing free value-adding services by leveraging partnerships designed to save customers money and help them achieve their financial goals.

AI including generative AI

Almost two-thirds (63 percent) of retail banks now believe gaining a competitive advantage is not possible without using generative AI in their digital products. But 54 percent also believe that the degree and pace of change driven by generative AI is a significant challenge for their organization.



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Across the board, retail banks are planning to revamp between 11 and 20 percent of their portfolio with AI — including generative AI. The top areas of investment within that are client acquisition and customer service, where generative AI has the potential to transform how customers engage with banks. AI assistants such as Fargo from Wells Fargo and Erica from Bank of America have become popular investments for banks, as have employee-facing AI technologies that provide real-time agent assistance for service and sales personnel and coding assistance for developers.

Payments

In just a few years, payments have evolved from a cost center for most retail banks into one of their most valuable experience differentiators. In fact, our survey found that 45 percent of retail banks are increasing their investment in digital payment products.

With the emergence of third party wallets launched by large technology organizations, banks that don't focus on reimagining the payment experience to drive stickiness and work as a cross-sell opportunity risk customer churn from their mobile banking apps.

PayTo, a payment option for online, in-app and recurring payments, is transforming the future of Australia's payment sector — and financial institutions are jumping on board. PayTo provides customers with a superior digital experience compared to direct debit systems and more visibility and control over banking app payments — potentially preventing churn to other payment apps. It also removes uncertainty from the payment process and greatly reduces the risk of fraud. Established customer experience (CX) industry guidelines will play a pivotal role as PayTo picks up momentum and expands.

Simplification and consolidation

Many core banking systems are still mainframe-based. And as the experts who built them are already above, or approaching retirement age, it's becoming harder — and a lot more expensive — to maintain these systems.

As a result, banks are undertaking major consolidation and simplification projects to make their systems future-ready, ensure they can integrate emerging technologies like AI, and build a robust foundation for the delivery and operation of innovative digital banking products.

The challenges of digital product delivery

While retail banks are eager to embrace the opportunities that new digital products can create, many face multiple barriers when trying to deliver and iterate on them.

The top 25 percent of performers in three digital product performance metrics (product-to-launch, product-to-adoption and product-to-ROI) all reported the same top three challenges:

Difficulty keeping pace with user demands for new features and enhancements.

Difficulty scaling digital products beyond POC or MVP.

A lack of skilled talent.

Digital products have the potential to transform almost every aspect of the retail banking experience. But to fully realize that potential, retail banks must transform into digital product organizations. In fact, many banks are carving out Digital Banking Units as separate business units with their own P&L to help drive alignment between a digital-first approach and other digitalization initiatives. This allows them to innovate and launch new products to the market, faster.

Banks should also consider investing in omnichannel digital platforms that enable consistent and seamless experiences across the various channels and products through which their customers interact.

Top performers are breaking down the barriers to digital product success by:

Investing in employee training and development in digital product management.

Developing product roadmaps with clear goals and milestones.

Implementing agile development practices to increase responsiveness to new challenges and demands.

In order to successfully navigate the challenges of digital product development, banks must ensure they have the skills, workflows and structures to deliver exceptional products. For many, that will also require a shift in partner strategy.

Historically, retail banks have managed large portfolios of technology partners and relied on those partners to fill their digital skills gaps. However, in most cases, once those partners leave the bank, they don't leave behind the skills required to maintain digital products and solutions.

Instead, retail banks should seek out partners that are just as invested in developing skills as they are in developing outstanding digital products. Products are evolutionary, so it's essential that your partners help you build the capabilities you need to continuously iterate on and improve them. Banks with digital transformation ambitions should look to own their key, differentiated technology assets, while applications that are a commodity or cater to a supporting function (e.g. HRMS, accounting) could be outsourced to vendors.

The other area in need of significant transformation is banks' attitudes toward product development processes. Too often, retail banks set a goal for a product, with no process in place to revisit the goal, which makes it harder to pivot even when conditions and demands shift. This results in the delivery of products that meet yesterday's needs, rather than today's.

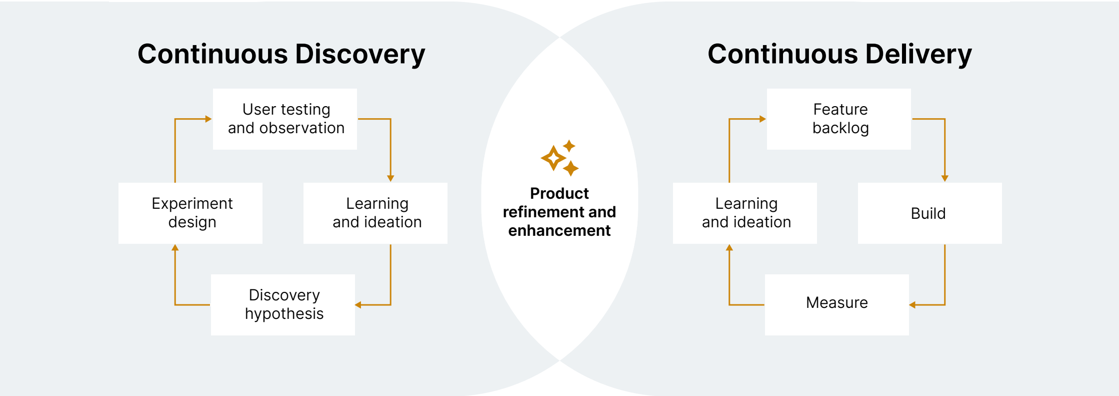
Retail banks must embrace a flexible test-and-learn approach. If something isn't working, teams should be empowered to move on from that idea and stay focused on delivering specific customer outcomes, rather than a single, defined product. By taking a more incremental approach to digital product development and delivery, teams can realize value faster, measure success more accurately and continuously respond to what their customers and organization really need today.

Five ways to balance continuity today with innovation for tomorrow

#1 Adopt a dual track approach to development and discovery

In the past, many retail banks have focused purely on developing products they believe can deliver value for their customers and the organization. But with conditions shifting so rapidly, discovery must be an always-on process that happens alongside development.

A single team should be empowered to conduct discovery and delivery in parallel. This ensures that insights generated through discovery can be continuously applied to delivery, reducing the risk of misinterpretation during handover and increasing responsiveness to emerging customer and market needs.



#2 Drive change proactively

Our survey found that the most successful retail banks drive change on their terms by actively:

- Implementing user-centric design principles to revolutionize customer experiences.
- Developing new business models and revenue streams for digital products.
- Using data analytics and business intelligence for decision-making.

With major changes continuously emerging across the retail banking landscape, disruption is inevitable. The best way to ensure continuity while also driving innovation is to proactively build the digital products that will define tomorrow's retail banks. This requires close collaboration between product, business and technology to ensure that the design and architecture of the solution can evolve quickly to support innovation and emergent digital product needs. We think of this as building digital platforms where products become a combination of core capabilities that can be stitched together.

#3 Avoid overcommitment to ideas and stay agile and flexible

Committing to a product isn't necessarily a bad thing, but it can lead to lock-in that prevents teams from delivering the best customer outcomes. It's important to be very clear about the problem your new product intends to solve. But you shouldn't be too prescriptive about how that problem is solved.

As new discoveries are made and teams iterate on product capabilities, they should be free to adapt and evolve product plans in whatever way will deliver your intended outcomes. This flexibility also improves working experiences for your team and helps you build a culture of empowerment and agile innovation that attracts top product development talent.

#4 Focus on customer-centricity

According to our survey, 91 percent of top performers track customer feedback and satisfaction either daily or weekly.

The customer should always be at the core of your product strategy. Embrace a product thinking approach where you deliver value by continuously exploring customer problems and solving them holistically. This involves examining every angle to determine what problems users face, why they have those problems and how well the market is responding to them.

#5 Make business value a key focus

Build accountability and efficiency across the business with regard to how your product investments are allocated. Establish a defined decision matrix for prioritizing one initiative over another. Have a clear strategy as to how budgets are allocated (for change, for run, for transform). And beyond the typical ROI calculation, consider other measures such as the opportunity cost of not delivering a feature by a certain time.

Learn more about Thoughtworks' agile approach to digital product development, and discover how we can help you build innovative and engaging digital products:

Visit our customer experience and products page or talk to us today.

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As the Product Principal for BFSI and fintech, Ian leads the strategic direction of the financial services stream and works closely with key enterprise and fintech clients across APAC. With experience across financial, retail, travel and media sectors and from multinational corporates to fledgling startups, Ian brings a diverse set of expertise and enthusiasm to each new client.

Ian began his career in project management and later moved into user experience design and product management after seeing too many projects deliver the wrong outputs instead of the right outcomes. He is passionate about helping clients reignite their passion for their business, turn ideas into solutions and learn how they can experiment at speed.

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Neha is a Lead Product Manager at Thoughtworks, with over 13 years of experience in product management, Agile delivery, and business analysis. Her expertise primarily lies in the BFSI sector, as well as healthcare and energy, working with clients across the US, UK, and Australia.

Neha excels in leading teams that develop digital B2B and B2C products, regulatory frameworks, data migration/ETL platforms, and API products. She effectively bridges the gaps between technology, business, and customers, ensuring seamless end-to-end project execution.

Her collaborative approach across business units drives innovation and aligns client strategies. Neha's natural curiosity and problem-solving skills have consistently led to successful outcomes, making her a key player in fostering a collaborative and high-performance environment.

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