publicis
sapient

Research provided by:
FT LONGITUDE

# Digital by Default

Retail banking in the era of Generative AI

GLOBAL
BANKING
BENCHMARK
STUDY

Fast forward three years and retail banking will be digital by default—not only in how banks engage with customers, but in every aspect of how they operate.

Digital transformation isn't new in retail banking. Far from it. Change has been happening for two decades, with big banks moving faster than regional and community banks, many of which are still operating mostly in the analogue world. But the drive to digital is different today. The imperative is stronger. The inevitability is undeniable.

GLOBAL
BANKING
BENCHMARK
**STUDY**

# Have retail banks reached a **digital or die** moment?

This defining moment in retail banking comes from a convergence of forces. Generational difference is resetting what it means to serve customers, with younger customers' digital savvy changing the rules of service interactions. At the same time, regional banks are feeling the sting of declining deposits and higher cost to serve as banking giants and neobanks encroach on market share. The six largest US banks by assets are on track for $31 billion in quarterly profit for the final months of 2024. In the United Kingdom, leading neobanks have seen significant revenue growth in recent years. Monzo had a 147 percent jump in revenue between 2023 and 2024. And Revolut saw a 93 percent revenue gain between 2022 and 2023.

GLOBAL
BANKING
BENCHMARK
**STUDY**

# publicis
## sapient

Then there's generative AI (Gen AI). The buzz over it has been non-stop for two years. Gen AI is rocket fuel for change. It can exponentially increase the speed and ROI of digitalization, servicing transformation, customer engagement, core modernization and more. In fact, data and AI is retail bank executives' top functional investment for digital transformation over the next three years, according to our global banking benchmark study.

These forces are creating an urgency for banks to transform faster while making the consequences of falling behind much greater. So much so that retail banking is becoming a digital or die environment. This article explores these forces of change—and reveals why core banking modernization is the most important thing that retail banks can focus on today to get maximum benefit from Gen AI.

**As part of our recent Global Banking Benchmark Study, we surveyed 600 retail bank executives across 13 countries ranging from regional to national and global banks.**

# 62%

**of retail banking executives say the pace of their bank's transformation is slower than their key competitors'.**

GLOBAL
BANKING
BENCHMARK
**STUDY**

publicis
sapient

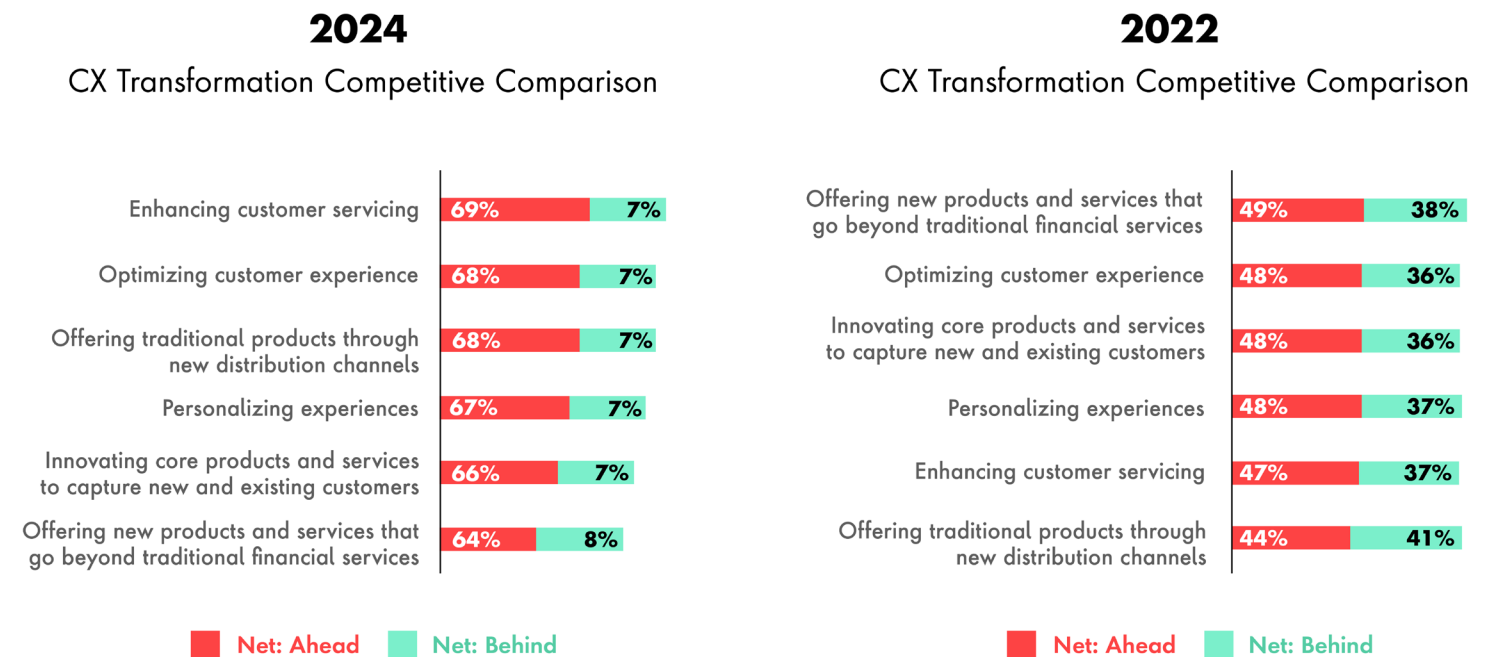# The great generational shift in banking has begun

The Amazonification of customer expectation has long been a driving force for retail banks' digital transformation. Many retail banks seek digital transformation in response to changing customer expectations and increased competition from direct and digital-first challengers. Case in point: 44 percent of US checking accounts opened last year were with digital banks and fintechs. 74 percent of executives say they must do more to appeal to digital native customers. And 71 percent say that evolving customer expectations have highlighted weaknesses in the current customer experience.

GLOBAL
BANKING
BENCHMARK
**STUDY**

# publicis
## sapient

# 80%
**of retail banking executives say that customer experience is a key metric at the highest level of the organization.**

Given this, improving customer experience is the top digital transformation goal in both our 2024 and 2022 surveys. Creating personalized customer journeys is the top customer experience transformation priority, and retail banks are pursuing it with more urgency than they did in 2022. Retail banking executives believe they are vastly ahead of their direct competitors in every customer experience area, more so than in 2022 (Figure 1). The larger the bank, the more likely they are to believe they are winning in customer experience.

But are retail banks focused on yesterday's customers or tomorrow's? This is a critical distinction. Older customers, particularly Boomers, typically prefer regional and community banks. As this customer base ages, it is imperative for retail banks to attract younger customers, who are naturally digital first.

**Figure 1**



### 2024
CX Transformation Competitive Comparison

| | Net: Ahead | Net: Behind |
|---|---|---|
| Enhancing customer servicing | 69% | 7% |
| Optimizing customer experience | 68% | 7% |
| Offering traditional products through new distribution channels | 68% | 7% |
| Personalizing experiences | 67% | 7% |
| Innovating core products and services to capture new and existing customers | 66% | 7% |
| Offering new products and services that go beyond traditional financial services | 64% | 8% |

### 2022
CX Transformation Competitive Comparison

| | Net: Ahead | Net: Behind |
|---|---|---|
| Offering new products and services that go beyond traditional financial services | 49% | 38% |
| Optimizing customer experience | 48% | 36% |
| Innovating core products and services to capture new and existing customers | 48% | 36% |
| Personalizing experiences | 48% | 37% |
| Enhancing customer servicing | 47% | 37% |
| Offering traditional products through new distribution channels | 44% | 41% |

Q. Thinking about your organization's current approach to customer experience, please indicate how your business compares to it's direct competitors in each of the following areas. N=2024 (600), 2022

GLOBAL BANKING BENCHMARK **STUDY**

Take Gen Z, a highly coveted demographic. In the United States, they will make up <u>one-third</u> of the workforce by 2030. Their <u>spending power</u> is growing twice as fast as previous generations'.

And they want very different things than their parents and grandparents. <u>Sixty percent</u> prefer mobile banking, and they look to FinTok or YouTube for financial advance. When customers never visit the branch, retail banks' tried-and-true reliance on customers' loyalty to the neighborhood branch no longer applies.

|83% of Gen Z consumers are frustrated with bank processes.

# Retail banks' is a massive product focus liability

This profound demographic shift is increasing the pressure on retail banks to understand customers in much deeper, more contextual ways. Customers aren't who they used to be. New and dynamic insights are essential to create future-forward playbooks for customer servicing, experiences and products.

GLOBAL
BANKING
BENCHMARK
STUDY

**Despite retail banks' confidence in their progress and bold promises to improve customer experience, they are missing opportunities to serve customers more holistically—as multi-faceted individuals with life needs that go beyond a specific product.**

They are missing the payoff too. In our experience, customer-focused banks typically have a higher average product holding per customer compared to product-focused banks.

GLOBAL
BANKING
BENCHMARK
**STUDY**

Small business loan customer

Mortgage customer

Rewards card customer

Entrepreneur

Parent

Homeowner

**Product lens:** False picture

**Life lens:** Full picture

How banks **see** customers makes all the difference.

# Why is this happening?

Retail banks' traditional product focus makes it impossible to fully see who customers are and what they want. The new homeowner worried about renovating the fixer-upper they just bought is just a mortgage customer. The entrepreneur who must maintain cashflow and purchase equipment to fabricate their new product line is just a small business loan customer. The parent that needs to save for their children's college education is just a rewards card customer. And when the product comes before the person, there's no way to know that the homeowner, entrepreneur and parent is actually the same person.

GLOBAL
BANKING
BENCHMARK
STUDY

# Legacy monoliths are retail banking's 800-pound gorilla

Siloed legacy technology underpins these entrenched organizational silos, making it nearly impossible for retail banks to get 360-degree customer insights. In many banks, the IT infrastructure is a maze-like "system of systems" that has been cobbled together over years of M&A. With many sources projecting that 2025 will be an exceptional year for M&A in banking, this problem will only get worse.

GLOBAL BANKING BENCHMARK STUDY

Banks' legacy systems are also at end of support or end of life. The hard truth is that the people who know these COBOL-based systems are retiring, and it is difficult to find qualified people to replace them. Executives know this. After regulatory challenges, they see legacy technology as the top barrier to digital transformation. What's more, 70 percent of executives say their banks' legacy systems and infrastructure are hindering them from providing the digital experiences their customers expect.

Legacy technology is the 800-pound gorilla in the room. Everyone sees it. Still, they are uneasy about making it leave. These monoliths are complicated, embedded in operations, and any system disruptions could be catastrophic. The general consensus is that the risk of retiring legacy technology is greater than the risk of keeping them. The irony? Banks' growth only puts more demand on these systems, exposing their vulnerabilities and compounding the problem.
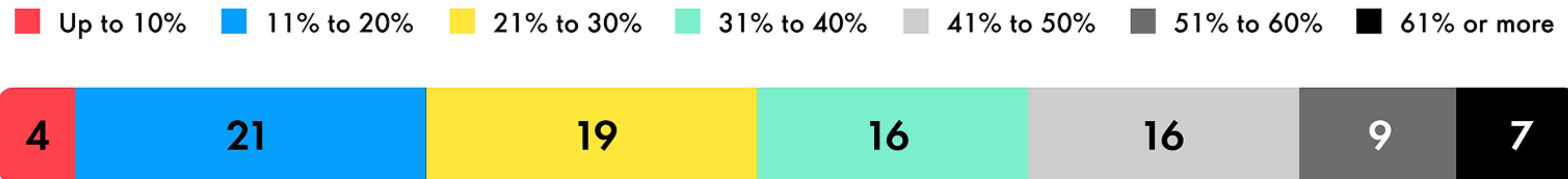
Some may consider retail banking's legacy technology problem a tired topic with no easy answers. They aren't wrong. But a tectonic shift is happening right now.

**Some may consider retail banking's legacy technology problem a tired topic with no easy answers. They aren't wrong. But a tectonic shift is happening right now.**

GLOBAL
BANKING
BENCHMARK
STUDY

# Gen AI is the game changer that retail banks need

**Retail banks can use Gen AI now to address these forces of change, simultaneously creating a foundation to amplify its impact over time. Gen AI could not have come to retail banking at a better time.** It's a much-needed catalyst for retail banking's digital or die moment. Executives, especially the C-suite, are putting dollars behind the buzz, investing big in Gen AI and other intelligent technologies, allocating significant portions of their digital transformation budget to the topic (Figure 2).

# Retail banking executives direct 35 percent of their customer experience digital transformation budget to machine learning, AI and Gen AI deployment

Share of total Digital Transformation investments allocated to AI/ML/Gen AI % of C-suite

| ■ Up to 10% | ■ 11% to 20% | ■ 21% to 30% | ■ 31% to 40% | ■ 41% to 50% | ■ 51% to 60% | ■ 61% or more |
|---|---|---|---|---|---|---|

| 4 | 21 | 19 | 16 | 16 | 9 | 7 |
|---|---|---|---|---|---|---|

Q. What proportion of your total investments in these areas for prioritized transformation do you expect to be in AI/ML/ gen AI-related technology and offerings? N= C-suite (119).

GLOBAL BANKING BENCHMARK STUDY

# publicis
## sapient

Retail banking executives are bullish on the potential of AI and intelligent technology over the next three years







## #1 for operational transformation

Non-customer facing AI is the top priority for operational transformation.

## #1 for digital transformation speed

Investment in intelligent technologies would be the most beneficial thing to speed digital transformation.
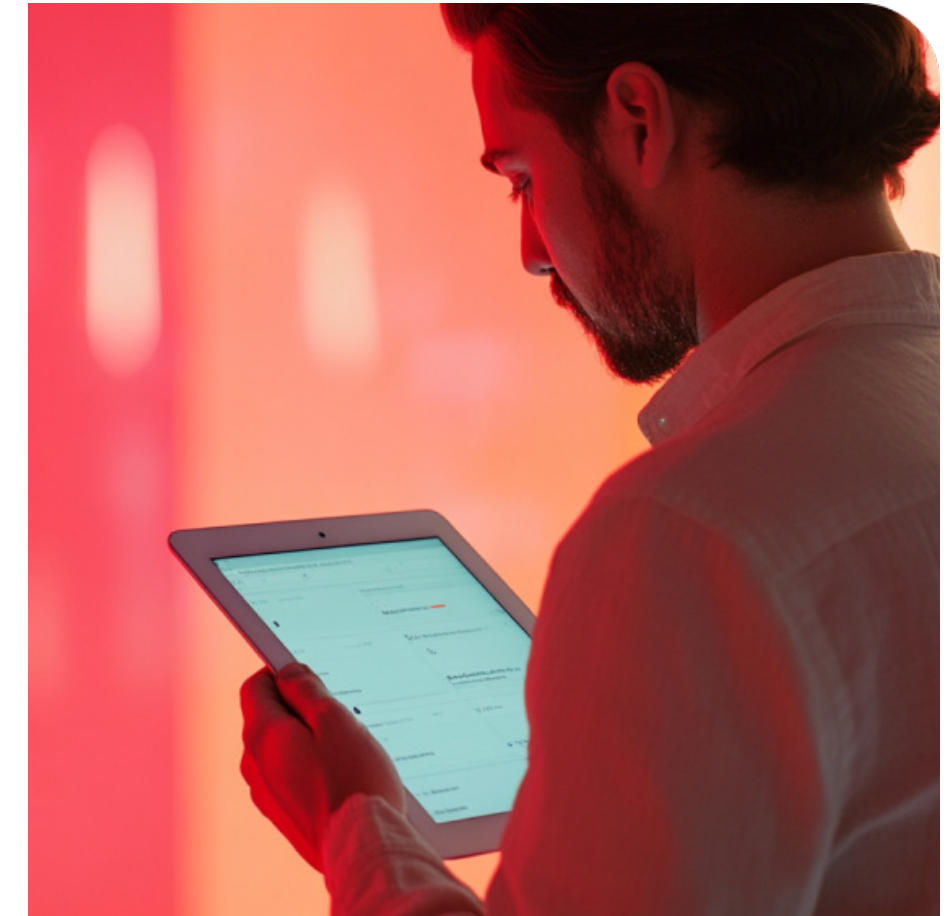
## #1 functional investment

Data and AI is the top functional investment for digital transformation initiatives.

# publicis
# sapient

There are many Gen AI use cases for retail banks to address the forces of change discussed previously. Gen AI is a powerful tool to understand customers deeply, transform customer experiences for the next generation of customers and shift from legacy technologies faster and with less expense and risk. Consider what is already possible even in the early days of the Gen AI era in banking:
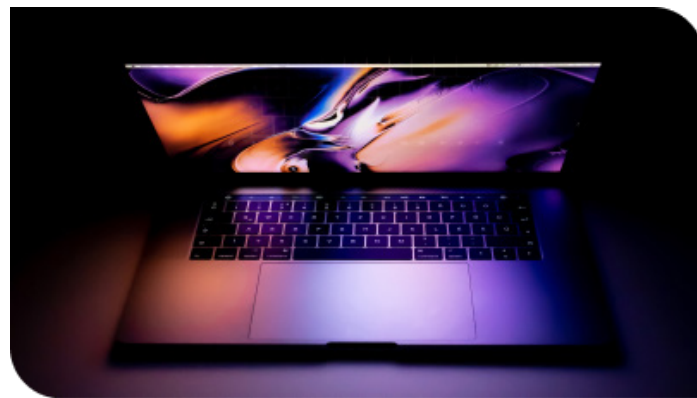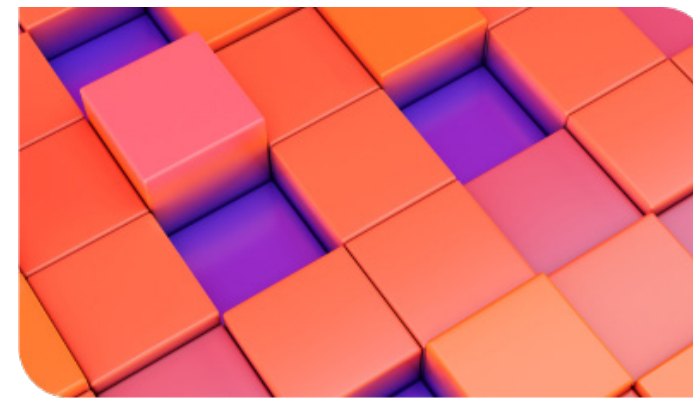








## Digitalization

Gen AI can speed the digitalization and effectiveness of customer service interactions. Retail banks can use it to code new apps created for specific customer segments and demographics that deliver highly personalized and proactive experiences. In addition, they can create AI-powered agents that have more capability than chatbots. They can interact with customers conversationally and dynamically like a human agent would.
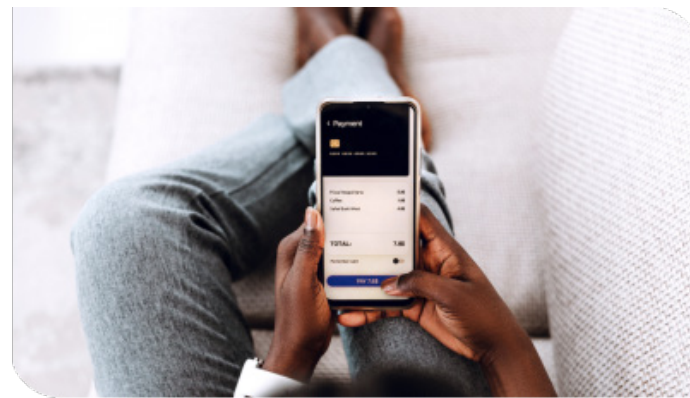
## Customer engagement

Gen AI can speed the digitalization and effectiveness of customer service interactions. Retail banks can use it to code new apps created for specific customer segments and demographics that deliver highly personalized and proactive experiences. In addition, they can create AI-powered agents that have more capability than chatbots. They can interact with customers conversationally and dynamically like a human agent would.

## Product recommendation

Gen AI can speed the digitalization and effectiveness of customer service interactions. Retail banks can use it to code new apps created for specific customer segments and demographics that deliver highly personalized and proactive experiences. In addition, they can create AI-powered agents that have more capability than chatbots. They can interact with customers conversationally and dynamically like a human agent would.
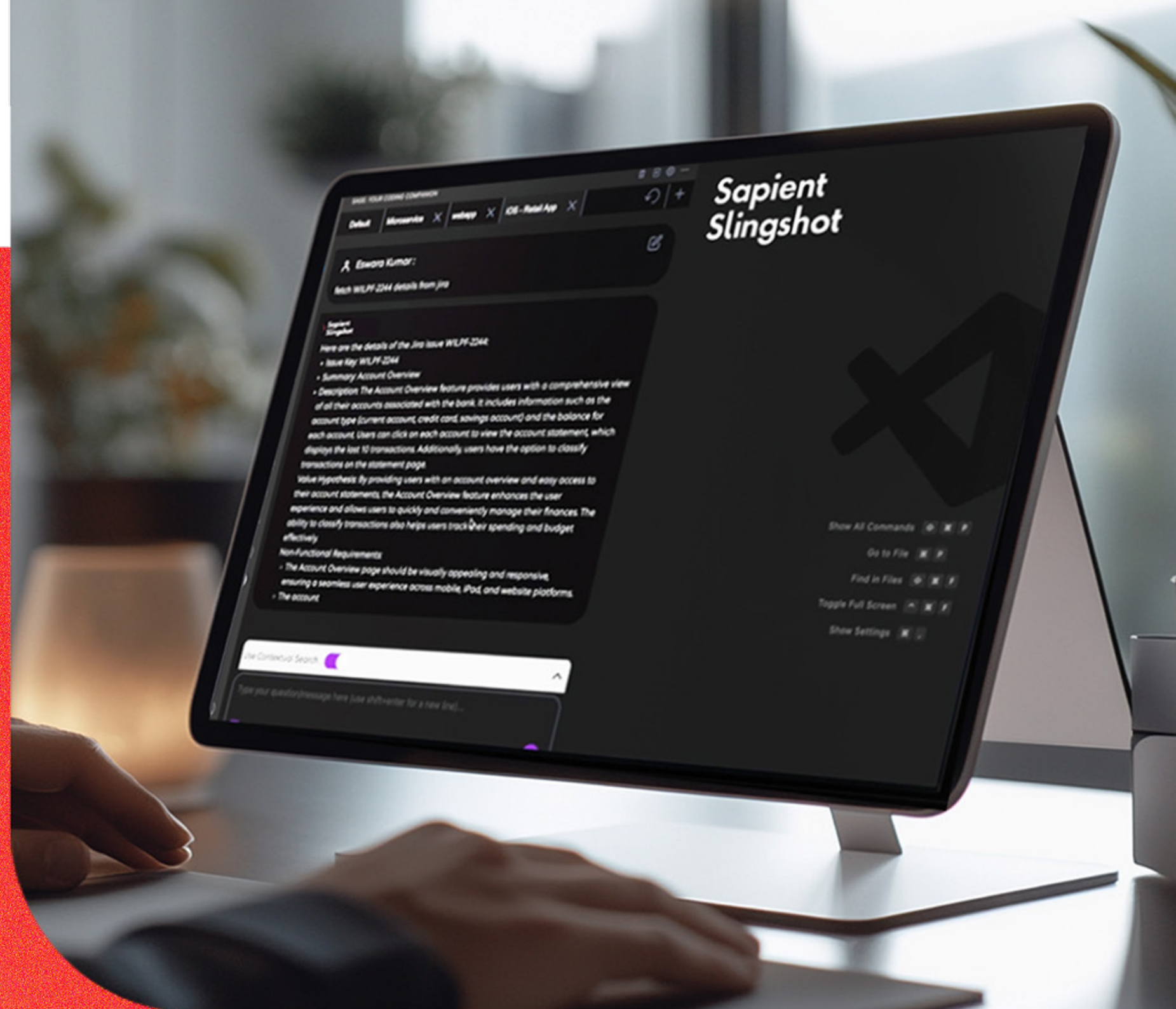
## Core modernization

Retail banks can finally tackle that looming 800-pound gorilla, using Gen AI to write code, develop software and structure and manage data faster, which makes core modernization much faster. With a modern core ledger in place, retail banks have full access to their own rich customer data. Combining this with in-the-moment access to relevant third-party data enriches customer insights. Think of the relationship between Gen AI and a modern core as a virtuous loop that increases the ROI of core modernization. Gen AI makes it possible to solve the legacy technology problem faster, and with a modern core, retail banks are in the ultimate position to take full advantage of everything that Gen AI has to offer.

# Bringing AI to the full software development lifecycle

Our engineers use our proprietary AI platform—Sapient Slingshot—to transform software development.

- Enhanced developer productivity
- Less human error
- Automatic documentation
- Streamlined development
- More test coverage
- Fewer code defects



GLOBAL
BANKING
BENCHMARK
STUDY

publicis
sapient

**Because it optimizes GenAI capability, modernizing the core makes meeting digitalization, customer engagement and product recommendation goals easier and faster. But the advantage doesn't end there.**

Core modernization aligns with banks' risk and regulatory focus. Designing for the future state using AI can enable the software development lifecycle and can be embedded to improve legacy systems and operating models in a transparent and auditable way. Also, in many cases, the use of AI simplifies and streamlines the operating models through automation of processes and data flows.

With a modern core, retail banks can launch new apps faster via microservices. There's no more building net-new apps and managing legacy system "spaghetti" to make them work. What's more, banks with a modern core don't have to rely on middleware to access the right data streams to make targeted product recommendations.

GLOBAL
BANKING
BENCHMARK
STUDY

## publicis
### sapient

**As many breakthrough opportunities as Gen AI offers retail banks, lasting Gen AI value and ROI depend on a strong data foundation that only comes from a modern, cloud-based coreless architecture.**

Here's the reality. A retail bank could spend 100 million dollars a year for ten years on core modernization. At the end of this period, the bank is out $1 billion only to end up where neobank competitors were when they started. Because Gen AI changes the value dynamics of core modernization, both in the process itself and in the outcomes delivered, it doesn't have to be this way.

In the era of Gen AI, retail banks can potentially spend less and achieve a modern core banking system faster. With rich access to real-time data that smashes silos and supports personalized experiences and seamless engagement, retail banks can end up steps ahead of these competitors. It's powerful case for change that retail banks can't afford to ignore.

**Tremendous change brings tremendous opportunity. In the Gen AI era, retail banks can solve problems that have plagued them for years while creating a strong foundation for what's next. The intersection of Gen AI and core modernization will define the future of retail banking. Publicis Sapient is working here every day with retail banks across the world. From strategy through migration, we can help you link Gen AI and core modernization to deliver maximum ROI from digital transformation.**

GLOBAL
BANKING
BENCHMARK
**STUDY**

# publicis
# sapient

## Get in touch

**David Donovan**
Financial Services Lead, North America
david.donovan@publicissapient.com

**Dave Murphy**
Financial Services Lead, International
david.murphy@publicissapient.com

**Zachary Scott**
Managing Director, Strategy
zachary.scott@publicissapient.com

**Eoghan Sheehy**
Associate Managing Director, Strategy
eoghan.sheehy@publicissapient.com

Publicis Sapient is a digital transformation partner helping established organizations get to their future, digitally enabled state, both in the way they work and the way they serve their customers. We help unlock value through a startup mindset and modern methods, fusing strategy, consulting and customer experience with agile engineering and problem-solving creativity. As digital pioneers with 20,000 people and 53 offices around the globe, our experience spanning technology, data sciences, consulting and customer obsession—combined with our culture of curiosity and relentlessness—enables us to accelerate our clients' businesses through designing the products and services their customers truly value. Publicis Sapient is the digital business transformation hub of Publicis Groupe. For more information, visit publicissapient.com.

GLOBAL
BANKING
BENCHMARK
**STUDY**