

# BANKS NEED A COMPREHENSIVE STRATEGY FOR INNOVATION

*Align tech with business goals to garner support  
for initiatives and promote cultural change*



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**D**igitalization is causing the financial sector to evolve and adapt at a breakneck pace. As a result, innovation is imperative — not just for a competitive advantage, but for survival. A September 2023 survey of 110 banking professionals by Arizent, the parent company of American Banker, and sponsored by SoftServe showed that 80% of respondents agree that innovation is an essential part of their organizational mission and long-term success. However, almost half (48%) of those surveyed also feel they lack a concrete innovation strategy. Data reveals that smaller banks, those with assets less than \$5 billion, find themselves even less likely to have such a roadmap, with 62% lacking a strategic roadmap\*.

This dichotomy, in which the majority of banks recognize the critical role of innovation but many still lack a concrete strategy, raises crucial questions. How do banks perceive and pursue innovation? And, what factors deter them from adopting cutting-edge strategies?

From large financial institutions to their mid-sized and smaller counterparts, there is a full spectrum of innovation, ranging from incremental steps forward to disruptive, architectural, and radical endeavors. However, commonalities exist in the major roadblocks banks face, such as limited resources, change management challenges, budget constraints, legacy infrastructure, and issues related to buy-in. All of these have serious implications for the strategic vision of these institutions.

An environment of collaboration within banks, along with a readiness to learn from past missteps, is necessary to overcome common hurdles and develop and implement game-changing technology. This collaboration includes the crucial alignment between business goals and innovation, a factor that can significantly influence the trajectory of a bank's journey. Such cultural change leads to greater success in innovation efforts.

In this white paper, you will learn about the various approaches banks and financial services providers take to innovation with a focus on the trends that are reshaping the industry. You will also learn the most common roadblocks faced during these projects, how to overcome them, how to measure success, and the key areas on which to focus.



## LACK OF DOCUMENTED INNOVATION STRATEGY

**A**t a time when 80% of banks see innovation as critical to success yet nearly half of them feel they lack a strategy for implementing cutting-edge technology, there are significant implications and stagnation for both individual banks and the sector as a whole.

Lacking a cohesive roadmap for breaking new ground leads banks to miss out on growth opportunities. They find themselves reacting to external market forces and technological advancements rather than proactively adopting emerging technologies that shape their future. As a result, banks without an innovation strategy lose a competitive advantage and fall behind competitors due to:



**Failure to meet customer expectations** — Legacy systems are unable to provide the seamless, personalized digital customer experience that modern consumers demand.



**Missed growth opportunities** — Without adopting emerging technology, banks cannot anticipate and plan for changes in customer behavior and market dynamics and therefore are unable to unlock new revenue streams or implement cost-saving measures when needed.



**Operational inefficiency** — Innovating without a well-defined strategy leads to wasted time and money as resources are not effectively allocated, or projects are not aligned with the institution's long-term goals.

Issues that arise then leak out into the entire banking sector if they affect a significant portion of banks, stifling the overall evolution of the industry. Innovation drives competition and, in turn, progress across the industry, which leads to more efficient products and services.

With such a sense of urgency to innovate, and such clear disadvantages to doing so without a strategy, what holds banks back from moving forward with a decisive plan?

## HESITANCY TOWARD RADICAL INNOVATION

**B**anks are traditionally risk-averse institutions, and without a defined innovation strategy, they become more hesitant to invest in new technologies or experiment with new business models. There is a struggle to implement new technologies while ensuring compliance with existing regulations and safeguarding against cyber threats. The American Banker survey results are a tangible display of this hesitancy, with only 24% of large banks willing to be early adopters of tech — a percentage that drops to 16% for mid-sized banks and only 9% for small banks\*.

Even when banks are more inclined to pursue innovation efforts, they are most likely to take the path of least resistance. A look at four forms of innovation shows that banks are less focused on making bigger changes:



**Incremental innovation** — The survey reveals that 55% of banks predominantly focus on incremental innovation\*, which revolves around the improvement and refinement of existing technologies within existing markets, often characterized by a cautious, iterative approach. It represents a safer, yet potentially limiting, avenue for technological advancement.



**Disruptive innovation** — In contrast, 27% of banks explore disruptive innovation\*, which involves introducing new technologies into existing markets. This approach, while more ambitious, presents the challenge of unseating established norms and may be met with resistance from both customers and internal stakeholders.



**Architectural innovation** — Another 13% of banks concentrate on architectural innovation\*, which involves using existing technologies to explore new market opportunities. It represents a strategic pivot, leveraging existing capabilities for fresh revenue streams.

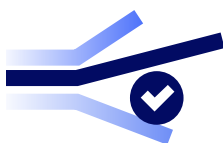


**Radical innovation** — Just 5% of banks embrace the most adventurous path\*, which involves the adoption of entirely new technologies to open up entirely new markets — a high-risk, high-reward strategy.

The choices made by banks in selecting their preferred forms of innovation are indicative of their risk tolerance, strategic vision, and long-term outlook. It is also a result of the hurdles they must overcome for successful implementation — hurdles that are more pronounced for smaller banks, which have fewer resources and typically a lower risk tolerance.

## INNOVATION BARRIERS TO OVERCOME

There exists a variety of barriers, both internal and external, that banks face in their pursuit of innovation. Obstacles that institutions must overcome to realize their vision of harnessing technology to provide enhanced services, improved customer experiences, and sustainable growth include:



**Change management** — Change management, a critical internal factor, is yet another significant challenge. The processes and strategies required to manage internal transitions are complex — particularly in large, established organizations with deeply entrenched traditional practices and structures.



**Limited resources** — As the most common barrier, limited resources emerge as a significant constraint for 40% of banks\*. This constraint encompasses the dual challenges of securing the necessary expertise and budgeting. For 15% of banks, recruiting in-house expertise proves to be an arduous task, a crucial determinant of their innovation potential. At the same time, 14% cite budget limitations as a major roadblock\*.



**Legacy infrastructure** — A significant 8% of banks confront legacy infrastructure as a major hindrance to innovation\*. Aging technology stacks, outdated systems, and the accompanying technological debt pose a considerable challenge to the agility required for innovation in a rapidly changing landscape.



**Lack of buy-in** — it is not easy to get everyone on board with change. There can be difficulty aligning the entire organization around innovation goals. At the same time, management, legal teams, and risk management teams may be cautious about potential losses, regulatory challenges, and data security. Even lower-level employees can be resistant if change means disrupting workflows.

While there is no panacea for all obstacles faced by banks seeking to implement new technologies, there are strategies to effectively overcome the barriers.

## CREATE A DYNAMIC AND ADAPTIVE CULTURE

**C**ollaboration and adaptability are essential as banks seek to evolve and stay competitive. Banks need to establish a culture that fosters ingenuity. This includes encouraging cross-functional teamwork and the critical practice of learning from failures.

However, the American Banker survey shows that a significant proportion of banks may still operate within silos, with only 47% of respondents strongly agreeing that they actively encourage cross-functional collaboration\*. Rather than working independently, teams within banks — including business development and innovation teams — must establish a culture of knowledge sharing and cooperation.

In addition to sharing subject matter expertise, teams should discuss innovation efforts that have not worked as planned. Another pivotal aspect of innovation is the capacity to learn from failures, as they often serve as steppingstones toward success. Only 39% of banks strongly agree with the importance of fostering an environment that allows for learning from failures to ensure future success\*. This suggests that there is room for growth in terms of acknowledging and extracting valuable insights from missteps. The ability to adapt and improve based on past errors can significantly impact a bank's innovation journey.

These two elements — cross-functional collaboration and the ability to embrace failure as a catalyst for progress — underscore the importance of a dynamic and adaptive culture within banks. To truly harness the power of innovation, a culture that encourages diverse perspectives, open communication, and the resilience to learn from mistakes is paramount.

## **ESTABLISH DEDICATED INNOVATION TEAMS AND PROGRAMS**

**A**s we've seen, innovation is not a solitary endeavor. Within this new company culture, dedicated teams, centers of excellence, and programs are required to drive growth. These play a crucial role in defining the innovation landscape within banks. It offers insight into the strategies employed to foster innovation, the allocation of resources, and the level of commitment to staying at the forefront of the evolving financial industry.

Specialized innovation teams are tasked with identifying opportunities, nurturing new ideas, and translating them into actionable strategies that steer the organization toward progress. However, only 39% of banks have such dedicated teams.

Similarly, innovation centers of excellence are designed to foster a culture of continuous improvement, experimentation, and knowledge-sharing. They often work in concert with dedicated teams to drive innovation efforts across the entire institution. Yet, they are even less common at banks, with only 30% having established such centers of excellence.

Banks that put innovation teams, programs, and centers of excellence in place — or bring in vendors to function as such — whose jobs is to:

- 🔍 Identify emerging opportunities** — Scan the external environment to identify emerging technologies, trends, and market opportunities that can be leveraged by the bank. Help the organization stay ahead of the curve and exploit new growth prospects.
- ⬆️ Stimulate creativity** — Foster a culture of creativity and experimentation within the bank. They encourage employees to think outside the box, generate novel ideas, and explore innovative solutions to banking challenges.
- 🚀 Develop strategic initiatives** — Develop and execute programs aimed at adopting new technologies, creating unique customer experiences, and improving operational efficiency. Ensure that innovation aligns with the bank's broader strategic goals.
- 👤 Create a customer-centric focus** — Understand and respond to shifting customer expectations. Collect customer feedback, conduct market research, and design customer-centric solutions, ensuring that the bank's offerings remain relevant and competitive.

- 🤝 **Establish partnerships** — Seek out partnerships with fintech companies, technology providers, and startups to access external expertise and accelerate innovation. Manage collaborations that can bring new capabilities and services to the bank.
- ⓘ **Manage risk** — Assess and manage the risks associated with adopting new technologies and business models. Help the bank navigate regulatory, compliance, and security challenges while pursuing innovation.
- 📊 **Measure impact** — Establish key performance indicators (KPIs) and metrics to track the impact of innovation initiatives. Ensure that innovation efforts are accountable and contribute to the bank's overall success.
- ⚙️ **Adapt and be flexible** — Innovation teams promote a flexible and adaptive approach to change. They help the bank respond quickly to shifts in the industry and customer expectations, making it more agile and resilient.

## ALIGN TECHNOLOGY WITH FOCUS AREAS

**W**ith innovation teams in place, it is necessary to begin considering how to get buy-in from the entire organization, including management, legal, and risk management teams. The first step in getting such buy-in is to ensure that the technology aligns with the organizational goals for innovation.

Despite this necessity, just 40% of banks strongly agree that the technology is being effectively aligned with their key areas of innovation\*. This statistic underscores a pivotal challenge faced by a significant portion of the banking sector. Successful innovation involves a strategic and focused pursuit, with banks aligning their efforts with specific domains that promise the most significant impact. The American Banker survey sponsored by SoftServe identified five top strategic focus areas for banks looking to future-proof their financial services:

- 📱 **Mobile banking and technology** — A substantial 65% of banks recognize mobile banking and technology as a critical domain for innovation\*. This aligns with the changing landscape of consumer preferences, where digital and mobile experiences are central to the banking relationship.
- 💰 **Digital payments** — The growing demand for seamless, secure, and convenient payment solutions is seen as critical to 49% of banks\*.
- ⚙️ **Core banking modernization** — Half of the surveyed banks (50%) prioritize modernizing the foundational systems that underpin banking operations\*. This is seen as a strategic imperative for enhancing efficiency, reducing risk, and delivering improved services.

- ❶ **Enhanced security** — A constant concern in the digital era, security is a significant focus area for 48% of banks\*. As cyber threats evolve, banks recognize the critical need to invest in advanced measures to protect their assets and customer data.
- ❷ **Big data and analytics** — The power of data-driven insights is harnessed to better understand customer behaviors, enhance decision-making, and derive actionable intelligence. Improving this area is a central concern for 50% of mid-sized banks, and even more important for large banks (60%)\*.

These strategic focus areas represent a reflection of the industry's recognition of the shifting dynamics within banking. They signify the changing expectations of customers, the emergence of new technological possibilities, and the need to stay agile and responsive in an ever-evolving landscape. Exploring innovation in these areas is more likely to get buy-in and generate excitement across the organization.

## DEVELOP SUCCESS METRICS

**B**uy-in is an ongoing process. It does not end with getting initial support for a program. Rather, it requires regular, thorough performance evaluation. Showing that innovation initiatives are successful not only keeps current projects funded and approved but also paves the way for buy-in for future efforts.

Banks employ a variety of metrics to assess the impact of their innovation endeavors. These metrics offer valuable insights into the areas of focus and the outcomes banks consider pivotal to their strategic objectives:



**Improved operational efficiencies** — A majority, 52% of banks, prioritize improved operational efficiencies\*. Streamlining internal processes, reducing costs, and enhancing workflow effectiveness are seen as critical to optimizing operations and resource allocation.



**Greater customer satisfaction** — In a sector where customer relationships are paramount, ensuring that customers experience seamless, efficient, and satisfying interactions is pivotal to success and is a top priority for 44% of banks\*.



**Reduced operational costs** — Lowering operational costs is a key metric for 42% of banks\*. This reflects the industry's continuous quest for efficiency and cost-effectiveness in an environment marked by evolving regulations and competition.





**Growth in the number of customers/users** — For 34% of banks, the acquisition of new customers or the expansion of services to reach a broader audience is a primary metric of success\*.

These common guideposts reflect the industry's strategic priorities and the core areas where innovation is anticipated to yield substantial benefits. Banks do not want to invest in innovation haphazardly — they must do so with clear objectives and measurable outcomes in mind.

Artificial intelligence is of high interest to banks when it comes to achieving the above benchmarks. AI/ML is the most exciting technology for 20% of banks\*. They cite the technology's potential to revolutionize customer interactions, data analysis, and operational efficiency by providing predictive insights, automating processes, and enhancing decision-making.

Further, Gen AI and chatbot technologies emerge as a close second, with 15% expressing enthusiasm\*. These technologies can reshape customer engagement and support services, offering personalized, round-the-clock assistance and efficient query resolution.

## OVERCOME RESOURCING CHALLENGES BY CHOOSING A TECHNOLOGY PARTNER

**E**stablishing new teams and centers of excellence, outlining a strategy that aligns tech solutions with business goals, developing metrics to measure initiatives, and ultimately selecting and implementing new solutions are resource-intensive. Balancing legacy systems with modern technologies during a transition period is a particular concern. It involves challenges related to improving or replacing legacy systems, acquiring and developing talent, ensuring interoperability, mitigating risks, and strategic planning.

Understanding and addressing these resourcing challenges is pivotal for banks seeking to innovate while maintaining the stability and security of their operations. Banks that recognize the critical role that providers play in shaping their technological landscape and enabling innovation can stay competitive and adaptive.

Outside expertise and talent from vendors are additional resources that provide:



**Solution scalability and flexibility** — Banks expect technology solutions to be capable of adapting to evolving needs. This scalability ensures that technology can grow with the bank and accommodate changes in business operations and customer demands.



**Technical expertise** — Technology providers should offer deep technological expertise, ensuring that they understand the complexity of the solutions being considered. This expertise is pivotal in guiding banks through the selection and implementation of solutions that best meet their needs.



**Industry experience and expertise** — Providers must possess industry experience and expertise. The financial sector has unique requirements and regulatory scrutiny, and providers with a deep understanding of these intricacies are better positioned to offer tailored solutions that address specific challenges.

## **FUTURE-PROOF YOUR BANK**

**T**he future of the banking sector is poised to be one of continuous adaptation, where technology and customer-centric strategies are pivotal in shaping the industry's growth and success. Hesitation to innovate is detrimental to banks, as they risk falling behind their competition and losing digitally native customers whose expectations go unmet.

Banks realize the importance of innovation to their future, as the American Banker survey shows, yet nearly half lack a strategic roadmap to implement new technology. Limited resources, lack of buy-in across the institution, legacy systems, and difficulty making changes to long-established structures and practices are cited as the most common obstacles. However, there is a path forward, and your bank can reap the benefits of innovation such as improved customer experience and increased operational efficiency, if you:

- +** **Foster cultural change and cooperation**
- 👥** **Develop innovation teams, programs, and centers of excellence**
- 🎯** **Align innovation initiatives with broader company goals**
- 📊** **Establish metrics to measure success**
- 🔧** **Choose a technology partner for guidance and technical expertise**

SoftServe's financial experts combine technological proficiency with experience in the sector to identify solutions that provide scalability and flexibility as your bank grows. We provide consultation, engineering services, and resources that overcome barriers to innovation initiatives and ensure significant ROI and quick speed-to-market for digital solutions.

SoftServe advises and provides technology solutions that transform and optimize how banks and fintechs do business. Our end-to-end approach assures innovation, quality, and speed across the healthcare, retail, energy, manufacturing, and financial services verticals.

\* Research from Arizent, the parent company of American Banker, sponsored by SoftServe.

## ABOUT US

SoftServe is a premier IT consulting and digital services provider. We expand the horizon of new technologies to solve today's complex business challenges and achieve meaningful outcomes for our clients. Our boundless curiosity drives us to explore and reimagine the art of the possible. Clients confidently rely on SoftServe to architect and execute mature and innovative capabilities, such as digital engineering, data and analytics, cloud, and AI/ML.

Our global reputation is gained from more than 30 years of experience delivering superior digital solutions at exceptional speed by top-tier engineering talent to enterprise industries, including high tech, financial services, healthcare, life sciences, retail, energy, and manufacturing. Visit our [website](#), [blog](#), [LinkedIn](#), [Facebook](#), and [X \(Twitter\)](#) pages for more information.

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