



WHITE PAPER

WHY TRANSFORM COMMERCIAL BANKING

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Most of the conversation about bank transformation, challenger banks and digitalization has been dominated by retail. Perhaps that's because retail banking is more familiar. Almost everyone knows something about retail banking, and it's easy to compare a digital banking experience with other services, such as online shopping or ecommerce. With Big Tech constantly redefining retail service standards, digital retail banking has remained in the limelight. But commercial banking is just as important. Here we consider why.

Market trends and dynamics

Commercial banks are caught in the eye of the storm of the global pandemic. Many are working at full tilt to help businesses stay afloat and to ensure their own continuity. While the pandemic may change short-term priorities, commercial banks face similar strategic challenges as retail banks.

Digital technologies are a key driver of change, as disruptive forces are creating new threats and opportunities in the marketplace. Businesses, like retail customers, are constantly demanding more. In response, 41% of commercial banks are increasing technology budgets and 29% are even accelerating projects underway.¹ The stakes are high for commercial banks, which drives the necessity to add value to retain and gain more customers. Where can banks deliver value?

Here we start with the fundamentals of commercial banking. Like all banks, commercial banks seek to grow revenue by delivering solutions to meet a business' five basic daily needs: make payments, receive payments, obtain actionable information, borrow funds and invest funds. And, just like their retail counterparts, commercial banks must provide customers with easy-to-use services that add real value.

In an ideal situation, everything that a business needs to manage its cash would be enabled with just a few clicks, bespoke for their company and cost effective. So how do commercial banks make that happen? It starts by understanding the customer journey and providing an optimized customer experience. They must shift from a bank perspective to a customer view of what they need daily to run their business. Then banks must evaluate if they have the right technology solutions to exceed their customers' wants and needs.

To that end, leading banks are focusing on four key areas to set the new standard in Commercial Banking:

1. Listen to customer wants and needs.
2. Build the customer experience from the customer's point of view.
3. Become a digital bank from end to end.
4. Transform your bank to make it happen.

Eighty-four percent of banks surveyed agreed that to compete in a post-digital world, banks need to elevate their relationships with customers as partners.²

¹Celent Corporate Digital Channels Survey, July 2020)

²Accenture: "Driving Value and Values During COVID-19" Technology Vision 2020



Listen to customer wants and needs

Commercial customers, ranging from small businesses to large corporations, need advice, guidance and service from their banking partners more than ever. The speed and complexity of business is extremely dynamic and challenging, and managing cash is vital to every business.

In the past, it was relatively easy to manage cash using a checkbook, a monthly bank statement and 10-column ledger paper. But now, commercial customers need to execute transactions and manage their cash at a much faster pace, and with higher volumes.

Enterprise Resource Planning (ERP) systems, online portals and mobile phones have become essential financial tools to help businesses manage their money, but the same cash management principles remain for each business – how much money do we have, who do we need to pay and who paid us on any given day, 24/7.

At a high level, commercial customers need the following services from their banking partners to run their business:

Cash Management – Easy-to-buy, easy-to-use solutions for payments, collections, information reporting, lending, investing, foreign exchange and letters of credit

Liquidity Management – Help to manage their operating, financing and investment funds

Risk Management – Effective monitoring tools to mitigate ever-changing risks related to credit, currency, interest rates, information security, operations and regulatory compliance

Cost Management – Solutions with real cost savings as well as cost avoidance benefits

Data Management – Efficient and meaningful reporting tools to support partnerships with the Chief Financial Officer (CFO), banks, creditors, investors and technology service providers

Technology Management – How to incorporate new technologies such as real-time payments, blockchain, cryptocurrency and smart contracts

Business customers need these services to be real-time, available anytime-anywhere and easy to use.

The customers have spoken. They have told banks what they want and how they want it. Where do banks go from here? It all starts with customer experience – not the bank's notion of what that should be, but rather the customers' view of what it could be.

Build the customer experience from the customer's point of view

The term “customer experience” can be very broad and open-ended. In the eyes of commercial customers, it revolves around four key interaction points with banks:

Onboarding – Opening accounts and implementing services

Processing – Making payments, receiving deposits and investing or borrowing money

Servicing – Maintaining accounts and asking questions about transactions and balances

Reporting – Receiving alerts, notifications and statements for account activity

Their dream would be a Staples® Easy Button™ to make it all happen with one simple click. Realistically, they just want their banking services to be easy to buy and easy to use. This is the starting point for banks to build the customer experience, which must be centered around the customer journey.

In the past, banks saw the customer journey through their own eyes. The current-state solutions were the acceptable norm (if it isn't broken, don't fix it), and the banks built upon them in the spirit of improving the customer experience. In many cases, this involved taking the existing manual processes and procedures and automating them for customers. In some cases, the bank was offloading its own work onto the customer. These “enhancements” were dubiously deemed to be a better customer experience. This is clearly not a path to success, and this approach cannot continue in today's commercial banking market.

What should the new customer journey look like instead? It's not an exact science, but rather an open dialogue with customers across the various lines of business, technology and treasury groups. Banks should take into consideration how customers need to use their services, who will be using them, and how they want to interact with the bank. Then, the bank adds in its deep banking expertise and knowledge of their customer base to develop the right solutions, partnering with the customers to instill a continuous improvement mentality in the product life cycle. Do not settle for parity with competitors. Keep pushing the solution forward to meet the ever-changing market demands.

History clearly shows the value of investing in customer experience during a downturn. In the last economic recession, companies that prioritized customer experience realized three times the shareholder returns compared to the companies that did not.³

³McKinsey and Company “The three building blocks of successful customer-experience transformations”, Oct. 2020

Become a digital bank from end to end

The bank has now committed to deliver a bespoke customer experience to its commercial customers. How does the bank accomplish this? The bank must make itself *digital from end to end*.

What does this mean? Digital banking is the digitization (i.e., moving online) of all the traditional banking activities, programs and services, including those that historically were only available to customers via the bank's physical locations and back office. Initiatives must be launched around the external and internal bank systems and processes needed to support a fully digital bank. The intent should be to deliver better, faster and easier solutions to the commercial customers. The initiatives should cover:

- Delivering business functionality with consumer-like experience
- Providing real-time processing and reporting
- Enabling customer self-service for onboarding and support, including e-signature
- Rendering application program interface (API) connectivity to the bank for customers and third parties
- Embracing Open Banking as an opportunity instead of a threat
- Investing in modernization of legacy core banking systems and other processing platforms
- Leveraging Robotic Process Automation (RPA), Artificial Intelligence (AI) and Machine Learning (ML) technology to automate processes, integrate internal systems and enable real-time processing
- Implementing Agile development methodologies to expedite cycle times for technology initiatives
- Implementing enhanced fraud prevention and information security tools

The game changers on the list are the emerging technologies – APIs, RPA, AI and ML. Not since the invention of the internet browser have banks had this much technology firepower to drive change in the customer experience. APIs are the catalyst to drive Open Banking among customers, third parties and banks and enable real-time information reporting and straight-through processing. RPA can automate repetitive processes to expedite turnaround times on customer inquiries and verification tasks. AI can provide unassisted advice to optimize working capital requirements. ML can unearth customer behavioral patterns that lead to new services to sell. These technologies can truly advance the customer experience by quantum leaps.

Transform your bank to make it happen

The last action is to rally the bank behind these initiatives and change how you do things going forward for the better. All the previously built experience and skills need to be focused to support the transformation of the bank. This does not mean burning everyone's business suits and wearing jeans to change the work environment to enable new age ideas. It's about rethinking how your bank operates – with a focus on the customer – and collectively shifting the focus toward empowering and improving the customer journey, using a combination of everything learned in the past and being open to everything that is possible in the future. Transformation efforts will take many forms, including:

- Enhancing the customer experience by providing customers what they want, when they want it
- Providing solutions that are easy to use, while supporting the complexity of a business
- Partnering with and investing in fintechs to bring new technology solutions to customers
- Initiating Merger & Acquisition (M&A) opportunities that lead to more customers, cost savings and more revenue; in turn using the revenue and cost savings to fund new technology
- Assessing talent and resources needed for the transformation
- Rethinking the business case to buy and partner vs. build in-house for new technology
- Reducing time to market for product launches
- Reacting faster to customer wants and needs
- Reorganizing to become more customer-focused than product-focused
- Leveraging data and automation to provide better customer experience and develop innovative services

The opportunity to disrupt has never been greater in corporate banking. The likelihood of disruption has also never been greater. Technological advancements, venture capital, and open banking are lowering the barriers to entry and thereby heightening competition. Banks can tip the competitive scale in their favor if they plan their technological road map carefully.⁴

⁴Celent: "Top Trends in Corporate Banking" 2019-2020 Edition

The key initiatives require bringing different resources, perspectives and approaches to the table for the transformation. Fintechs were previously perceived as adversaries, now they need to be partners to enable banks to meet the customer mandate. More external vs. internal technology builds get bank personnel out of their comfort zones of owning all the technology systems. Leveraging M&A as a new funding source for technology investments seems radical but may be how the smaller regional banks need to compete against the global banks going forward. Talent assessments may bring career opportunities to some, while identifying skills gaps for others. Ultimately, banks must change with the times. Banking as we know it needs to be delivered and used in new and better ways in today's business world.

Grow your business

Global Commercial Banking is \$2.5 trillion market size with expected growth rate of 3.8%, up from 2.7% over the last five years.⁵ Fintechs are eyeing the growing small business and large corporate markets as the next targets to challenge banks. But fintechs are missing a crucial element – the bank's deep experience and knowledge of the commercial customer base. Banks need to leverage (but not rest upon) that competitive advantage while transforming into a customer-centric and digitally driven bank. Now is the time to act.

42% of SMEs surveyed believe alternative providers can offer a better service than traditional banks.⁶

⁵IBISWorld: "Global Commercial Banks - Market Size 2005–2027"

⁶Accenture "Bank of the profitable SME base", October 2020

Ultimately, banks need to understand the deciding factors when commercial customers select their banking partners, such as:

Ease of use – Deliver what we want, when we want, with back office integration

Lower costs – Save us personnel costs, bank fees, transaction processing time

New and better – Provide us more services, expanded geographic access, working capital options

Risk mitigation – Deliver to us financial, regulatory and operational tools

Live and self-service support – Enable us to receive problem-solving, inquiry support, advice and guidance

Secure data – Deliver to us information security tools, fraud prevention, Open Banking availability

Financial management tools – Improve our working capital, current ratio, days sales outstanding, etc. metrics

Leading banks are setting the pace for competitors to catch – listening to commercial customers, focusing on customer experience and becoming a digital bank through end-to-end transformation. Their reward is retaining existing customers, turning them into advocates for the bank and acquiring new customers, all of which are driving market leading growth in their business.

Transform. Grow. Exemplify!



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