WHITE PAPER

HOW COMMERCIAL BANKS CAN BECOME READINESS LEADERS

Brian McCumber, CPA
Commercial Banking Director

HOW COMMERCIAL BANKS CAN BECOME READINESS LEADERS

In the *FIS 2019 Readiness Report: Ready. Set. Grow.,* 2,000 financial services executives were surveyed and asked to assess their organization's capabilities across six operational pillars ranging from use of automation and emerging technology to client service and risk management. Organizations that ranked in the top 20 percent across these pillars – the Readiness Leaders – were studied as to how their investment priorities differ from their peers. The Readiness Leaders stood above their peers through three key initiatives:

- Making more progress in addressing operational inefficiencies, empowering the banks to focus on adding customer value while their peers continue to concentrate on process improvements
- Taking a different approach to applying new technologies, sourcing and managing talent, and aligning their organizational culture with their strategic vision
- Rethinking how they work with third parties to bolster growth

If a commercial bank is not checking all the boxes for successfully launching these initiatives, they are losing ground to their competitors – whether global, regional or community banks. Here are four areas of focus to catch and surpass the competitors to become the new standard as a Readiness Leader 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.

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 simplest terms, the everyday financial lives of commercial customers revolve around five activities: *make payments, receive payments, get information, invest funds and borrow funds.* 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.

Today's corporate banking clients want the efficiency and convenience they experience every day on retail websites such as Amazon and eBay.[1]

Boston Consulting Group

[1] *Boston Consulting Group: "What Do Corporate Banking Customers Really Want?" Nov 29, 2018*

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.

Banks looking to capture a greater share of the global corporate banking wallet must consistently invest in updating and enhancing their corporate banking solutions to meet client demands for ease of use, flexibility and convenience. The days of implementing a new solution and only applying mandatory maintenance patches or regulatory requirements are long gone.[3]

CELENT

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.

"Corporate banks have been slow to introduce new digital technologies. To catch up, they need to do much more than simply create a new user interface or introduce a new digital tool in isolation. They need to reinvent their most important customer journeys to resolve their clients' key pain points and overcome internal challenges. And they need to support these new journeys by optimizing their business processes from end to end, integrating digital tools throughout."[2]

[2]*Boston Consulting Group: "What Do Corporate Banking Customers Really Want?" Nov 29, 2018*

[3]*Celent: "Top Trends in Corporate Banking" 2018-2019 Edition*

Become a digital bank from end to end

The bank has now committed to deliver a bespoken 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 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. 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 is 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

With new-age competitors such as fintechs and other challenger banks threatening to grab the most profitable aspects of commercial banking, it is a critical time for banks to invest in emerging technologies and to fundamentally improve the way they serve corporate clients to retain/grow business and increase profitability.[4]

CAPGEMINI

[4] *Capgemini: "Top-10 Trends in CommercialBanking:2019. What You Need to Know"*

The key initiatives require bringing different resources, perspectives and approaches to the table for the transformation. Fintechs were previously perceived as predators, 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 Transaction Banking and Commercial Lending is forecasted to grow at 4% through 2020[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. Ultimately, commercial customers are going to select their banking partners based on factors such as:

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

Lower costs – Personnel savings, bank fees, transaction processing

New and better – Services, expanded geographic access, working capital options

Risk mitigation – Financial, regulatory and operational

Live and self-service support – Problem-solving, inquiry support, advice and guidance

Secure data – Information security tools, fraud prevention, Open Banking availability

Financial management tools – Working capital, current ratio, days sales outstanding

Readiness Leaders 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.

Become a Readiness Leader. *Ready. Set. Grow!*

Corporations have multiple banking relationships, and midsize and smaller banks are increasingly winning a piece of the lucrative commercial revenue pool. Being successful at serving larger commercial clients requires a commitment to technology investments, business model changes and more complex operational processes. In the battle for revenue share, technology is both an opportunity and a challenge for differentiation.[6]

CELENT

[5,6] *Celent: "Top Trends in Corporate Banking" 2018-2019 Edition*

ADVANCING THE WAY THE WORLD PAYS, BANKS AND INVESTS™

www.fisglobal.com

twitter.com/fisglobal

getinfo@fisglobal.com

linkedin.com/company/fis

About FIS

FIS is a global leader in technology, solutions and services for merchants, banks and capital markets that helps businesses and communities thrive by advancing commerce and the financial world. For over 50 years, FIS has continued to drive growth for clients around the world by creating tomorrow's technology, solutions and services to modernize today's businesses and customer experiences. By connecting merchants, banks and capital markets, we use our scale, apply our deep expertise and data-driven insights, innovate with purpose to solve for our clients' future, and deliver experiences that are more simple, seamless and secure to advance the way the world pays, banks and invests. Headquartered in Jacksonville, Florida, FIS employs about 55,000 people worldwide dedicated to helping our clients solve for the future. FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit **www.fisglobal.com**

727672