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COMMERCIAL BANKING TOP TRENDS 2023 – AMERICAN BANKER WEBINAR

VIDEO TRANSCRIPT

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Danielle Fugazy: Thank you for joining us and welcome to the 4th annual Accenture Commercial Banking Top Trends live webinar. My name is Danielle Fugazy and I'll be your host and moderator today. I'm so looking forward to diving into the trends report as I am every year and I'm sure you're all anxious to get to the trends as well. Our guests will take us through the six trends that they believe will shape commercial banking in 2023. I'm very excited, once again, to welcome back our two experts from Accenture. First please welcome **Jared Rorrer**, Jared is a managing director and the global practice lead for Commercial Banking at Accenture.

Jared Rorrer: Hi, it's great to be back.

DF: Also joining us is **Chris Scislowicz,** who is a managing director and the global lending lead at Accenture. Chris, thank you for taking the time to be here with us today.

Chris Scislowicz: Thanks for having us back.

DF: So good to see you both again and I'm so excited to hear what your views are on the top trends for commercial banking in 2023. Jared, can you get us started by giving us an overview of 2023 trends as a whole, please. There's been a lot going on in the commercial banking industry right now, as obviously you both know. We talked earlier and you made a point about commercial banks and the need for them to go back to what they do best and be laser-focused and drive forward knowing there's an upside leading to a better future. Can you just help us understand a little bit what you mean by that?

JR: Yes sure. I think these trends, more than any we've done in the past, really drive towards a view of everything that's happening in the macro environment – you'll see it as we get into the trends today. But when we look broadly at what's happening in the industry, when we think about the massive transformation across commercial banks for the better part of 7 to 8 years, we're just tired, right? So, when we start with this point that we've done a lot, we should recognize what we've done, and we should feel good about that.

But there's this idea that there's just so much happening, right? We have been at home for the better part of three years. We worked through a pandemic. We killed ourselves to get PPP done right. There are just so many different things that have worked us so very hard, and now we've coupled that with this market uncertainty that's frankly unlike anything we've ever seen? So, when we look at where we are in the marketplace, it's just kind of fascinating to think about pulling up and looking around us. But when we look at the first half of this year, we say there's a tremendous amount of uncertainty that is probably going to result in softer investment in the short term as banks look to where they're trying to go. But it also gives us a massive opportunity to pause and reflect and react to what we've done and ensure that we've really got the basics done.

We've got strong regulatory controls in place, compliance controls in place, and we've improved our people processes. We're regrouping to say all this work we've done, what have been the impacts? So, I think that as we look at where we are in this macro environment, my goodness, we have to pause and reflect and say a lot has happened around us. But we must think about what this means for us. Chris, anything?

CS: Yeah, thanks Jared. I think you've summed it up well, but these trends more than any other are shaped by the world around us. I think we've had the luxury, and perhaps we didn't realize it at the time, but we had the luxury of being somewhat myopic and defining trends that were explicitly… I'll call it 'commercial banking first'. Or maybe 'commercial banking outward'. Now, however, we are forced to contend with these broader economic and other forces that are going on in the marketplace, that are shaping the world in which we live in commercial banking.

DF: Thanks for level-setting for us. So, let's get right into the trends here. **Trend number one** simply says 'The economy'. With central banks hiking interest rates throughout 2022, I think it's safe to say that the borrower's market is over. This is a macro-trend Accenture identified that will set the scene for the rest of the trends for 2023. Jared I'm going to throw this back to you. Why is this so critical to everything happening in 2023?

JR: There's this quote that's from James Carville, way back in 1992: "It's the economy, stupid". We put this up purposely because it's relevant when we look at where we are. We're really going all the way back to the Clinton administration to think about this kind of a rising-rate environment and this kind of uncertainty in the market. And in some respects, a lifetime ago. Many bankers weren't in the industry at that time. And when we look at what's happening, I think there's a couple of things to really home in on.

The first thing is, as we look at the broad macro-environment, it creates uncertainty, right? Whether that's layoffs across multiple industries, economic uncertainty, or the opportunity for some banks to potentially take some opportunistic layoffs. All this lands with, in the next several months, banks saying to themselves I've got to be cautious. I've really got to think about being prudent, being careful with what I'm thinking about committing to, all the while recognizing that I must keep one foot on the gas or at least ready to get on the gas.

Which is the second point. So, we look at this environment around rising rates. I think back to when I first started working in the industry, I worked on the funds transfer desk for one of the large school of banks in the US. I sat there and I learned that banking spreads make money for banks. It was the early 2000s, and I haven't seen it happen since, and it's just kind of fascinating to think that we had these great economic lessons. We've never seen it, but that is an amazing benefit for banks. No other industry has this economic horsepower of a rising-rate environment, so those banks that are flush with deposits are flush with potential investment. Then I think about what that means – and you're probably going to hear me say this a couple of times today – but it means proceed with caution. Regroup. Think about where the industry is going, where the market is going. But recognize that these banks are so flush with opportunity for investment in the market, and the digitization is not done, right? So how do we capitalize on that? And think about shovel-ready projects that are ready to go by mid-summer.

DF: Good advice. Chris, anything to add?

CS: I think you're right Jared. I think we need to use the first half of this year to breathe. Jared alluded to the fact we've been going very hard at this for several years now, trying to transform various aspects of the bank. And frankly, being successful. And now, with an uncertain environment, it's easy to get caught up in a downward spiral of doom scrolling, right? Every day it's the economy is up, the economy is down, the market's up, the market's down. This is happening, that's happening, layoffs are happening. It's easy to get caught up in it. And I think it's time to take a step back to breathe, to leverage these first few months, to analyze and place your bets. And we'll give you some ideas in a bit on how and where we think you can make those bets. But Jared and I are not economists, we're not here to predict the economy, but we'd be tone-deaf not to acknowledge that it is the driving force in the world and that includes commercial banking.

DF: Yeah, makes sense. Thanks, proceeding with caution, but ready to go. So, let's talk about **trend number 2**. I like the title for trend 2, which is 'Did someone say back office?' This deals with the war on talent. Even before the great resignation, commercial banks were facing a shortage in the skills they needed to fill key operational roles. Post-pandemic, these problems have only been exacerbated. No surprise there. I just want to note that last year you guys predicted that commercial banks would be losing their talent, and here we are. So good job, kudos on that. You got that one right. So just two questions here, Jared, why don't we start with you? One: how can banks stay competitive when it comes to filling these key operational roles? And not only filling them, but then how do they retain the talent?

JR: Yeah, sure, there's a lot to unpack here. I used to run the back office when I was in the industry. And it's a great place to learn and understand all the woes that come from the front office back into the back office. But often I think we under-appreciate the complexity in the back office, and the lack of tools, and sometimes even the lack of career paths for some of our operations executives and our operations employees. When we think about where we are – and we said ‘did someone say back office’ right? – the idea here is we believe the time is now to really think about your back office. I have talked to multiple bank executives over the last several weeks who are very concerned about the graying. I think I can say that with my own graying happening since last year, the graying workforce is a legitimate point of concern for these operations teams.

So, you think about people who have been in these jobs for 20 to 30 years using the same technology. And some of our young employees who don’t have the interest in going into that. And with the job market as it is, we've got to really think about different tools. So, one is making sure that there is career pathing in place, and making sure that this is front and center. Two is driving automation. One of the things that we're seeing is a lot of effort going into back-office automation, core replacements that are happening and are driving the change in tool sets, but also a change in skill sets, right? So, you got to be thinking about that.

And then the question is, do you really want to stay in the business of running your own operation or is there an opportunity to outsource some of those skills to someone that is more specialized to do those things to minimize your risk? So, there's a lot of different ways to think about it. But at the end of the day, we're seeing a lot of people moving in operations, specifically from one bank to another, for pretty significant pay increases to do very similar work, and that's of concern. So how do we make sure that we're training people? How are we retaining people, and then making sure that as we think about the impacts of automation, that we're driving these teammates to the right place.

DF: Good point. Chris, do you want to add anything there?

CS: I do. I think, historically, we've made the mistake of thinking of back office as low-paid, dead-end jobs and we have to change that mindset. We've talked about this for years, but we haven't really seen any action. And as Jared alluded, with the war on talent where it is, with retention a problem and attracting new talent a challenge, now is the time. Now is the time to reshape back-office positions as entry-level positions that allow entrants to learn the business, because they're going to learn it hands-on.

DF: Have those career paths ready for them.

CS: That's exactly right. Here's your opportunity to learn the job –come and do that for two or three years and then we're going to move you into underwriting, move you into sales, we're going to move you into an executive path now that you understand how the bank operates and functions. You have an opportunity to have a career here.

JR: So, a couple things I might want to add. One is I was just with a client the other day who used to run client services in sales and now runs all operations. I think about that as a great testament to the fact that the back office matters, and to the relevance of the back office for folks who grew up in the front office. So, I think as you think about that kind of career pathing point, it's really important. I could be biased and tell you I think operations leaders have the ability to really get into the details and do great work. So, I think making sure that you're building them from the ground up, at the onset of their careers, is really important.

A little aside: during the pandemic, Accenture was supporting a lot of call centers. You know, for states and what not, like these inbound calls, and people in crisis trying to get money and whatever. We had analysts who came in to do consulting work, driving call center work, and I raised this because that's not what they came in to do. It was grueling, as you can imagine, but it was so important for them to understand. And because they're essentially working in the back office, they're understanding how the tools don't work right, how you're dealing with specific transactions, how you're dealing with clients, and the impact of what you do. And that drove empathy. And they used a set of tools that they would never get in their career otherwise. I think about that value as such an important component of what we're talking about, so we did say back office. We think the back office is a significant opportunity for investment, for talent, but also a potential risk if we're not really focused on addressing that in the very short term.

DF: It's a real opportunity to change the mindset. OK, let's talk about **trend number 3** – 'Financed emissions: get real and take action'. So just about everyone is getting more serious about holding companies accountable for carbon emissions. Accenture predicts that banks without effective strategies for curbing financed emissions will face a high risk of enforcement actions, and you'll see their rankings slip against their peers. Chris, are banks taking this seriously now?

CS: They're trying. Let me explain. Last year, sustainability was one of our trends, and we told banks that they had the opportunity to make it a superpower I believe. And the good news is that we saw progress. We saw a number of banks appoint chief sustainability officers. We saw a lot of movement in the regulatory space and the collection of data to meet regulatory reporting. And frankly, we saw a lot of aspirational statements from the Office of the CEO. Unfortunately, what we haven't seen is the migration of those – I'll call them corporate platitudes – down into the nuts-and-bolts operations that are necessary to enact those changes. So, we haven't seen the impact on the RM's and the portfolio managers and the underwriters and the operations staff that actually have to meaningfully execute that change. We haven't really seen the behavioral shifts necessary to implement those aspirational statements. Let me give you a few examples. Think about relationship managers. How are RM's going to prospect differently, and perhaps more importantly, how are they going to be incented differently? How are we as executives going to incent relationship managers to originate a green portfolio versus a brown portfolio? Incentives drive behaviors, particularly among the sales staff.

Moving more into the middle office, how is our credit policy going to change? How are we going to underwrite and evaluate companies differently? How are we going to start to look at our client base and not just knock a quarter-point off because they're green, but meaningfully underwrite differently? How are we going to evolve our credit policy to account for whether it's a new entrant, whether it's a company retooling their business to be more green, or frankly those who are ignoring it entirely? And then we talk about how are things like covenants going to change, how do we evolve beyond pure financial covenants and start looking at whether any of our clients are meeting their emissions targets? How do I start to shape covenants around, how do I think about collateral differently? How do I evolve what I take and what I monitor and measure and estimate a little differently in a green world? I think the risk here, if we don't, is that ESG becomes a four-letter word. And my comparison is AML: on the surface, anti-money-laundering, by its definition, should be something banks are proud of. You are keeping money out of the hands of terrorists, out of the hands of drug dealers. That should be something that we as bankers are proud of. But what do we really think about it? We walk around the halls, cursing about all the time and money we spend on AML. And that's because – unfortunately, I think – we think of it as a regulatory requirement. And ESG runs the risk of becoming that. So we have a short window of time here to make operational changes that are meaningful, and to become a positive force in the world. Banks have the opportunity to be at the forefront of that. But if we don't, then it becomes just another regulatory compliance item.

DF: Jared, do you want to add to that? I have two questions just to follow on. So you added a lot of questions there Chris. Are the banks actually ready to take that action? And just following on from what we talked about last year about this, how can banks contribute to the sustainability movement in general?

JR: Yeah, all great points Chris. Maybe not a four-letter word but three Rs comes to mind. So regulatory, obviously, and revenue and responsibility. And I think that maybe the first and last make a lot of sense. Obviously, the regulatory pressure here matters, and it's going to continue to grow, and we've got to make sure we're paying attention to that. If banks don't do this to themselves, the regulators will. And the better-informed banks make those regulatory policies by building controls, the better those will be for them. From a revenue perspective, I think we lose sight of this sometimes, but I believe there is a significant upside and opportunity for banks in this space. By and large, the single most important investments any company is going to make in the next 10 to 15 years is about transitioning from brown to green. Everybody, in every industry. If banks have the right solutions in place to help have the right advisory services and the right products in place to help with this, they're going to be unbelievably impacted. Then there's the responsibility. Again, we talked last year about this being a superpower or a superfood. I think we called it kale if I recall. The responsibility to do good in the world is important. And wherever you are on the political spectrum, there is no more denying that we are in a position of action on ESG, and banks more than any other industry have the opportunity to take all three of those factors and bring them together for good.

DF: Do you think now is a good time for it? Because we're in this sort of ‘breathe moment' where we have time to think about it.

CS: I think it has to be, right? If not now, when? So, again, I think there is this window of opportunity, and if we don't take advantage of it in the next 12 to 24 months, that window is going to close. And it's going to be yet another regulatory reporting requirement. So the time is now, and I would just repeat: if not now, when?

JR: I was with a client in December, and this client's whole strategy is ESG first. It's a big global bank. It's saying ‘we're going to be first in this, we're going to move, we're going to show that we can provide the value, we're going to provide the right tools, we're going to train our people. We're going to incent them and all that's going to do good for our bottom line and it's going to give us great press because we're saving the world'. So first-mover advantage matters here.

DF: For sure. Before we move on to the next trend, I just want to remind the audience that you can submit questions on the console using the Q&A box. We'll take those at the end of our trends, so let's move on to trend number 4. So, for **trend 4**, we're talking about 'A fresh look at the SME experience'. Actually, there's big potential for banks with their small and medium business customers; Chris, why don't you get us started on this trend?

CS: We've had SMEs on the trends before and it's no real news that banks have struggled to create a meaningful value proposition for this segment. And it's fair to understand why, I think, the context is important. Banking is not at the top of the list for most small/medium business owners. They're managing their supply chain. They're trying to acquire and retain talent. They're trying to manage their financials, keep their business afloat, come up with new ideas, right? We did a survey, and banking is nowhere near the top five of things that they think about. So then, what can you as a bank do to change that dynamic? We talked about this in the paper but there's really two things that we see. The first is embedded finance. This is not necessarily a new topic, but one that has been rapidly accelerating and we've seen tremendous investment in. We carried out a study and found that $30 billion of banking revenue, small-business banking revenue, is going to move into the embedded finance space by 2025. That that's not far away, right? That's less than 24 months. And that's a lot of revenue. And so how do you capture it?

The answer is partnerships. It's that simple. It's partnering with digital platform providers, with ecosystem players, that connect you as a business to the consumers, to the clients, to the end users, to drive those seamless financial transactions. But it's not just about capturing the revenue, because what you also gain is the insights. And those insights allow you to make and shape better products and better interactions. Which is what leads us to the second part that I mentioned, which is value-added services. So, the real innovation that we've seen in this space is that banks, or at least innovative banks, are starting to repackage and re-use the systems and the tools that they have. Think about the things that they're very good at – risk and compliance, investment advice, legal advice, the things that banks live and breathe on a daily basis – and repackage those as services for the SME market. And the really innovative banks have taken it a step further by saying 'how can I partner with complementary services, with adjacent businesses, to create a comprehensive suite of services that include things like tax advice, or managing the supply chain, or acquiring and retaining talent, to create this comprehensive business offering?' Because that then allows you to compete on value rather than price.

DF: You know, we're going to share this report with everybody next week, but there was a number that jumped out at me, and I find it compelling. According to your research, it was something like 47% of SMEs believe the banks aren't even trying to understand their challenges. So it feels like the banks aren't getting it. I'm glad to hear that there's some headway. But do you believe that the SMEs are going to be receptive to banks' attempts at this point, and are we moving forward fast enough?

JR: A couple things come to my mind. First, let's talk about wealth management for just a second. When we're winning in wealth management, it's when in my mind I say: 'I wonder what my financial advisor thinks about what I'm about to do'. If I'm a banker, that's what I need my SME to be thinking about me as a bank. So I think that, first, it's so important to think that's the value proposition. The second is, how do I drive that expertise? You know, the classic distribution model of small business through a retail branch hasn't really worked. I was with a bank recently – on average, one new business account per branch per month, OK? That's not atypical for other banks, but it just demonstrates it's not enough to drive expertise.

So if I go back to what would my financial advisor think, what would my small-business banking client think, I can't even comprehend them going into a branch because the expertise doesn't exist. Because the bank is touching it once a month, right? So how do we think about bringing digital services and capabilities into an environment where there is true specialization? We can centralize that capability, we can front-load it with a lot of digital onboarding capabilities, digital services. Provide analytics, the right RM capabilities and tools for outbound / inbound calling, real meaningful expertise at the fingertips. And like you said, there are 30 billion reasons to solve this problem, and I think the tools are there.

The other thing I think that this division, more than any other, has to really think about ... I get it, the pain of moving from the retail side to the commercial side, and your point line is always changing. But it is time to take charge. It is time to say 'we own the future. We are the path from retail to commercial for the digital journey, and we have to be treated like a real segment'. And have the ability to keep that strategy in place over the cycle of spinning between these two different divisions.

DF: I think that may be one of your most important trends. So let's move on to **trend number 5**: 'Innovation soars in trade finance'. This is also a trend that we explored in 2022. Trade finance hasn't been a hotbed of investment and innovation, but this is the year you believe that's about to change. So Jared, I'm going to turn to you. Why do you think that banks are ready to transform their trade finance businesses and why do you think it's now?

JR: We talked about this last year, about this being the last analog frontier in banking. It quite simply has to be now: the threat from new entrants into the space, specifically on the supply-chain side, is providing a lot of risk to banks on the bottom-line.

But secondly, when I think about trade finance in its traditional manner, often we have a wall of complexity that's put up by the business: 'This is complex, this is hard, you don't understand it, let me be'. That's worked well for these businesses, because they're sort of isolated. They run well – manual, high cost, but they run well – and they do their own thing. But the amount of global trade that's happening in the world is increasing and increasing and increasing. When I think about the automation opportunities in this space, they're here. Because I think while trade might be a complex product, it's no more complex than credit – it's just more manual, it has more steps, there's more verification. So technology has arrived. It has arrived in a way that is allowing banks to think about how they should drive that automation differently.

Now the other thing to think about in this space is the transformation journey. You've got to be able to talk very clearly to senior executives in this space about why this matters, how we're going to drive costs out, how we're going to retain, build new revenue. How we're going to do those things and how you can trust me when I haven't had an innovation or a transformation in my space in 20 years – a whole generation of bankers. So how do you start to do that? I think some people will balk at what I'm about to say, but when you look at letters of credit, simply, they're still here. While they may be diminishing, like lock boxes are theoretically going to go away, they're still here and the cost is unbelievable. When it takes six hours to verify a single LC transaction, that's a tremendous amount of cost, and it's a tremendous amount of disadvantage because you're not able to complete the transaction. We have technology in the marketplace, available today, to drive automation and reduce all those cycle times to take the cost out. To demonstrate to leadership that I now can begin to transform my business, and I can think about talent, change management and execution in a way that drives value to build that DNA and those skills around transformation that we'll need as we think about what's happening. Because I think, in the next decade, this is going to feel just like credit did over the past decade.

DF: Makes good sense. Chris, anything to add there?

CS: I want to double down on the point Jared made around technology, and particularly the innovation that's occurred. There has been a wave of technology innovation, particularly in Southeast Asia, in places like Singapore and Hong Kong, which are markets that frankly live and die by this business. So that's where we want the innovation to come from, and we've started to see it at the tail end of 2022: the migration of that technology and that innovation into places like western and northern Europe, into parts of North America. And that's a good thing, because again, they're the experts and they've sort of lived and played around with this technology now for a couple of years, and solidified it to a point where we can take advantage of it. Particularly in an uncertain environment, in uncertain times, when there are cost pressures, it's time to start looking in those dark corners for the parts of the business that we've ignored. So at the risk of repeating myself, if not now, when?

JR: I would just add that while there's more trade coming out of Asia, this is also an American banking challenge. This is not something that you don't even think about. You know we are still receiving all these transactions, we're funding many of those coming out of the United States. This is something that we must be focused on. We no longer get a hall pass in this space, and I think that as we look at even the broader macro view, cost-conscious bank efforts are coming, right? We're back to cost consciousness being front of mind, and this is an area that ought to be ripe for efficiency. But it can't be more efficient unless you automate it, and you must implement the technology to automate it.

DS: So, we are now at **trend number 6,** which is our last trend: 'Modern treasury management for uncertain times'. I think we've been talking about how these uncertain times play into everything here. So for the last decade, low interest rates, consistent economic growth and new technologies have shaped commercial banking. All of this has allowed commercial banking to grow. We're now in a new period, one of uncertainty. Is the market actually ready for the new payment types? RTP's have been around for several years but haven't totally taken off. Chris, I'm going to start with you on that and you set the scene here?

CS: Yeah, real-time payments is absolutely a driving force, but I would argue it's only one of three here. So let's set the stage if you will. Banks have been investing in treasury management, they have been investing in real time payments, but the migration or the investment there is not new. What is new is the rapid acceleration of that investment, and that's driven by three things. The first is the pandemic, and I know we're sick of talking about the pandemic, and maybe at some point we will stop, or maybe not. But the reality is it changed behaviors. And not just consumer behaviors, but individual behaviors – and those individual behaviors have been carried over into the commercial space. Which means that the corporate controller or the small business owner, or all the folks who drive and manage that interaction with the bank's treasury or payments group, now carry forth those same levels of expectations.

So gone are the days when we could just expect everyone to log on to our client access portal and do all their commercial banking. We have to meet them where they are, we have to get to a point where we are providing the services in the channels and in the mechanisms that they want. For example, direct integration of their ERP systems so that the corporate controller who's working in SAP, day in and day out, can press a button and export their financials directly into your system. So that the small business owner can not only give you what you need to maintain their covenants or maintain their loan, but that you're supplying data back to them that they can use to manage their business. So how do we create these digital exchanges of information that are a two-way street, and that provide real, meaningful value to your clients?

So that's the first point. Point number two is this concept of interest rates. This is a nice trend to end on because it encapsulates everything that we've talked about today. Back to the interest rate point, there's the old adage that time is money. Well, in treasury it hasn't really been that way for the past decade or so, because interest rates were zero, the cost of funds was near zero. So money was effectively free. Well, it's not anymore. The time that money sits in an account overnight, it matters again. It has intrinsic value now for your clients, and therefore should have intrinsic value for you as a bank, because you can monetize that on both ends of the spectrum, both in the services you provide and the way in which you account for that. So interest rates restored the idea that time is money.

And then we get to where you started the question, which was around real-time payments. So again, something that's been coming, something we've talked about for a while. But it's really accelerated, and what with the release of FedNow in 2023, we expect that to hit the turbo boost. I was reading an article a few days ago from payments.com, talking about the fact that more than half of all grocery stores in America are investing in real-time payment solutions. Let's face it, grocery stores are not at the top of the list when we think about innovation. You know I love Kroger, but they're not in the same league as Google. But the fact that they're investing that heavily in real-time payments should be a bit of a wake-up call to frankly everyone. If you're not keeping up with the set of retailers, who are not necessarily in the forefront, that should make you think. The bottom line is that real-time payments is coming, and you as a bank better keep up because they're here to stay.

DF: Jared, what are your thoughts?

JR: It's just a position between this concept of real-time payments and the current state of a treasury management middle office. So I think about onboarding of any call ACH, any product still takes days and days if not the better part of a month. And it's an interesting paradigm because banks are sort of talking out of both sides of their mouth right now. We're going to go drive real-time payments, but we haven’t fixed our middle office. And going back to the onset of this discussion, one of the things that's really important is to pause, assess, regroup. People, process and technology are all components you focus on. But in the regroup phase, people and process are still front and center of the things you can start to make change on. And banks haven't figured out the treasury middle office. It's still complex, too many handoffs. The RMs are still too involved, because they feel like they must, because the fear that the process may break on their clients. So, there's a significant need to focus on some of the basics around onboarding, AML, KYC roles, better workflow.

All these things that you know, frankly, haven't really changed in their sound bites and discussion points in the better part of eight to ten years. So I think there is certainly a huge opportunity, and a focus needs to be put on the advent of new technology and the modernization of the treasury platform. But just as important is ensuring that our people are prepared for that, and we're investing in going back to trend number 2 a bit: this idea of investing in talent, retraining talent, retaining talent. And really ensuring that we're thinking about our clients and that service experience all the way through. Because at the end of the day, transaction services, unlike credit, is a day-to-day business. So we're working with clients all the time, and when those are painful experiences versus seamless experiences, it matters. There's just a tremendous amount of work still to be done there. So I think that as we look at short-term, low-hanging fruit, we have to address these issues.

DF: So take a breath, regroup. But there's still plenty of work to do. OK, so with that, thank you guys! I want to get to some of our questions. Let's jump right into them and we'll answer as many as we can. So let's see. Question one: how can banks get over the technology issues to partner at pace? The biggest barrier to creating partnerships for value-added services today is bespoke tech builds that are nearly impossible to scale.

CS: This comes up so often, and it's a totally fair question because you can't afford to build something that is agnostic of the rest of your environment, because eventually you must hook it up. But I still think too many banks are beholden to their legacy technologies. You have to design the new technology and implement the new technology in this... I'll call it a somewhat isolated manner. What I mean by that is, design it in the way you want it to work, and then figure out, through your middleware and integration layers, how to integrate it. Banks compromise the design of this fancy new technology to accommodate a legacy system. I'm not sitting here saying you can ignore your legacy system, because you can't. But stop, and I'll use the term 'bastardizing', the new system to accommodate the legacy.

JR: There seems to be a theme of 'build versus buy' in there as well, in that question, that I think we can't ignore. There are only a handful of banks that are truly successful at building their own technology, and you know across the across the globe, frankly, software as a service is here to stay. It is an accelerator for your capability. It provides you a framework to configure versus full-on customize and build from the onset. I've seen it time and time again, from my time here in the consulting industry as much as my time as a practitioner banking. If you're going to build, it takes you longer and you get more basic functionality over the period of time. Let alone the fact that the senior executives get tired of funding, year over year over year, and you might be doing three years and you haven't completed the project, and you only have baseline capabilities. So you've got to take advantage of what's off the shelf and make it work.

DF: Ok, good advice. So this next question, there's a lot to unpack here, so let's get to it. There is a lot of talk about how rising interest rates are like a superfood for banks. Do you think there is a risk of banks not acting fast enough to take advantage of the current environment before the pace of rate increases slows or even reverses? So that's question 1. Question 2 is, how should banks think about balancing the risk of missing this moment versus hedging against the broader uncertainty in the economy?

JR: Great questions! The rising-rate environment is a windfall for banks that have deposits, and it must be looked at that way. And I think that I go around some of the CEOs I've talked with. We have strong deposit bases, and they seem very bullish. Look at this, it looked like it was going to be a hurricane of a recession; might be more of a splash. We must wait and see on that component. But the rising-rate environment provides banks wind in their sails to drive a whole lot of confidence in where they're trying to go. I think that most banks are going to seize on this opportunity as soon as they see the path. How you act upon this kind of goes back to the framing of it. First half of the year: a lot of uncertainty. That doesn't mean banks aren't flush with cash. Assuming this is a light recession, which I think is a fair assumption at this point, it will be gas on. It will be incumbent upon you as a leader in your business to have projects that are ready to go. So as you think about pausing and reflecting and thinking about the second half of this year, what projects are shovel-ready? Are you ready to go if there's a massive influx of investment in the second half of the year? That's how you have to think about this. There's no harm done if nothing happens. But if you are not ready to go, and you're not ready to mobilize, and you don't have a plan, and you don't have this worked out, there's nothing you're going to be able to do to capitalize on.

CS: I want to pick up on the second part of that question a bit, which is there's an element of reminding bankers what banking is about. And what I mean by that is, you mentioned earlier how banks make money, and it's been a little off for the past decade or so. I don't see any downside to that. So, the second part of the question is how do you balance the risk? I don't see there's any downside in reminding folks, hey, there are other ways in which we can make money. And even if it turns out to be not as profitable as we project, there's no downside there, so move. Doesn't mean you have to completely change your corporate strategy. We're not sitting here doing an about-face on your corporate strategy. But take advantage of the windfall while it's here, whether it's for three months, six months, or six years. There's no reason not to take advantage of it while it exists.

JR: One other thing I might add is, not every commercial bank out there has a windfall from the rising-rate environment. You know: deposits on hand. And I think we tend to bucket them as the 'have-not's'. It's a bit of a different cycle for them. That said, here's the real conundrum for those banks: innovation is not stopping, your competitors aren't stopping, and you're going to have to fund something anyhow. So you've got to figure out how you're going to move forward, regardless of if you're on the good side or the bad side of the equation.

DF: So you've got to be ready here, that's for sure. OK, next question. Have you seen differences in how global, super-regional and regional banks are choosing to play in embedded finance? So that's a good question.

CS: Absolutely! My response is: yes, but. I want to be careful about making sweeping generalizations. There are folks with big balance sheets, folks with big client bases, that have attractive value propositions for partnerships. So when you think about Tesla trying to partner with someone to do finance, it's the big brand-name banks in the various countries that are most attractive. So we'd be fools not to acknowledge that size does matter here. But we've seen real creativity come out of regional banks and super-regional banks, particularly in banks that have a dominant position in their country. That doesn't mean they're necessarily huge banks, but we think about in Europe we have individual banks that have an outsized market share that have been able to do some really creative things in their local markets, either in partnership with the government or in partnership with companies. So it's not about 'I have to be a top ten global bank to have a chance here'. But again, we'd be remiss to not acknowledge that those with big brand names and big customer bases do have some inherent advantage.

JR: The one thing I might add is that the larger banks seem to have the strategies and are investing in the space. I think about those

15 ideas that are swirling around my head, and it's like 'oh, I like embedded finance,' and I pull that one in. I still feel like some of that behavior is happening at the regionals and super-regionals. I think the question is: who owns it? Does an executive own this? Are they thinking about it every day? Are they thinking 'this as something that's going to kill us, or we're going to kill them'. Which one is it?

DF: What do you see as the future of banking as a service in 2023?

JR: Banking as a service I've always found it to be something to be thinking about. You need to break it down and say 'we're not going to provide bank-in-a-box', right? If you mean bank-in-a-box is banking as a service, it's not happening. Not anytime soon. The components of banking as a service? Absolutely. Can you outsource software and entire transaction capabilities, can you take loan servicing from the platform through the processing, can you take all that off your plate and to a provider, absolutely you can. So I think it's a mix. I think that you can certainly look at banking as a service, something you should be focused on, because it's going to give you better expertise and lower cost. But I think if you're looking for some magic button that's going to take everything, then you're really talking about outsourcing what you are and that's a banker, so kind of complicated.

CS: I don't think 2023 is some watershed moment for banking as a service. I remember more than 15 years ago I was working with a bank who was trying to resell their treasury management services. So it's not a new concept, and I don't think there's been a particular catalyst that we've seen evolve in the last six months, or that we see evolving in the next 12, that's going to suddenly make 2023 that different than it was before. I think the opportunities are always going to be there. There's always going to be a handful of folks who are pioneering and trying those things, but I don't know that I see a massive shift in that direction, particularly in commercial banking.

DF: Ok, time for just a few more questions here. Where do you see the middle-market verticalization for specific industries increasing a bank's competitive advantage in the market?

CS: I think this goes back to the comment we're making about value added services. Yes, market share matters, but we have to be using market share in that industry to be innovative and to be responsive to needs. So using the same term loan, or often the same term loan to that industry that we do to every other industry, or expecting the same sort of behavior or interaction with that industry, you're not providing a differentiated service. I think back to this point around the pandemic: it has made everything much more personal. If you're not providing something, if you're not showing me that you're interested in my business, if you're not interested in my industry, and you're not doing something to demonstrate that you're making progress toward that end, you're right to be displaced.

JR: So verticalization is not new. It's been around forever in corporate banking and the high end of commercial banking, and even in the market to some extent. What we're talking about is bringing verticalization downward. This idea has been in the marketplace for the last 18 to 24 months. I'm frankly not sure if this is a good answer or not. I think we need to watch what banks are doing and see if we see the value of this coming. There's a couple of examples of banks that are doing this. Let's see what happens. But one of the things that is the challenge in this model is the idea that specialization can be replicated at scale. Because a lot of this is about 'how do I bring business banking verticalization? How do I bring that expertise in a certain line of business?’ You're going to do that with the same salaries you have today. So how are you training and having that skill? You're not going to just magically drive better talent, so do you have the right capabilities to drive simplified training to make it look like you have that expertise? Do you have a catalog of information that's readily available? How do you build that expertise that's going to be around those people? That is the conundrum that I can't get my head around; how we solve for it in this space. I think it's a good idea, I think that the value has to be there, but I don't know how you do it without a strong technical backbone to provide those services at scale, at a cost that actually makes sense.

DF: That's certainly a challenge. Ok, so one more question: With market uncertainty dominating 2023, what advice would you give commercial banks for the top of their priority list? How do you prioritize this? Everything feels important.

JR: It can be fairly simple. Process stabilization. Confirm your control environment. You don't want to get to the second half of the year and find yourself dealing with regulators. So I think pause and reflect on that. Look at all the work you've done over the last couple of years that has been transformational. Is it working? Where are the gaps, where are those bridges that need to be built? How do I do that? Whether it's people, process integrations, thinking about those kind of components, that's where the first half of the year goes. On top of that, ‘am I shovel-ready for big projects going forward? Do I know who my team is, do I know where my gaps are, and what does it look like?’ Those are the things that I think we have to be focused on this year. But this is not a ‘swing for the fences’ kind of year. This is a ‘take a moment, take the deep breath, feel good about all you have done, and take it forward in a very confident way’. By just taking that minute to sit and make sure you're clear and calm, because we’ve missed that clarity and calmness that make us be bright and capable.

CS: Yeah, I would say number one is finish the play. There are a lot of big investments that are still in flight at a number of banks around the globe that we've seen over the past several years. So take advantage of the first half of this year to finish the play. Get those done. Get those in place. And I would say it's what Jared said, which is now is the time for organizational readiness. Maybe that's the term I'll use to encompass the ‘how do I improve my processes? How do I make sure that I've got the right controls in place? How do I make sure that I've got the right talent and, if not, how do I take advantage of the fact that talent is going to be available, at least in the short term. We've seen the wave of layoffs in technology talents available. We're starting to see it in individual industries. So back to the last question around verticalization. You want to go pick off some industry talent? Now's the time to go do that. So take advantage of that time. Not everything requires tens of millions of dollars of technology investment to make a meaningful impact on your bottom line.

DF: So we're just coming to the end of our time together here. I want to ask you both if you have any final thoughts you can share with our audience today. Chris, do you want to get us started?

CS: Sure. So for those who have been with us before, you’ll have noticed that the trends this year were a little bit different than in the past. Jared alluded to swinging for the fences, and that's not what this year is about. It’s a year of recognition that the world has changed and that your investment profile, your attitude, your focus, has to reflect that. And we hope that our trends did that for you as well, so that you could see the natural evolution of some things that were in the pipeline. The emergence of some new things that frankly we hadn't talked about in the past, and ultimately a recognition that the economy will drive – or has driven and will drive – behaviors over the coming year.

DF: Thanks Chris. Jared, any final thoughts you can share?

JR: I just wish I could say 'it's the economy, stupid' with an Arkansas accent, but I do think it's really important to think about where you are. Like pause, regroup, number one. You are flush with cash, period. You can't miss this opportunity to put that investment back into your business. And I think the third thing is we are not done with our digital journey. We're not done, we're not even close to being done. So while the uncertainty is here and there's a bit of clamping down in the short term, make no mistake: in 18 months your leaders are going to be like 'what the hell have you been doing?' So you can't look at this as this pause that you've got, 'I'm off!' You've got to really think about what's happening next, so that you're driving at the same pace. Because we're all going to forget that this happened, and you're going to be holding the accountable bag.

DF: Jared, Chris, thank you both so much for coming and sharing your insights and the commercial banking trends of 2023 with us today. I know our audience finds it super valuable as they're thinking about what they're going to work on in 2023, and you certainly gave them a lot to think about. We will be sure to share the Accenture report with everybody early next week. On behalf of American Banker, a big thank you to our audience for joining us today and again, thank you Chris. Thank you, Jared – and Accenture for making this all possible today.