Commercial Banking Top Trends in 2022

accenture

Commercial Banking Top Trends in 2022

01 Time to ditch the traditional "help wanted" approach

02 RMs: New year, new resolution

03 Next evolution of digital customer portals

04 The great technical divide widens

05 Embedded finance takes center stage

06 Trade finance: Breaking through the final analog frontier

07 Sustainability might just be a banking superpower

2022

Introduction

Over the past few years, we have spent considerable time talking about the arrival of digital transformation in commercial banking, and it's clear the industry's efforts are paying off. With the transformation of credit origination and treasury management well underway at most banks, we are now seeing digital permeate across the entire commercial bank.

Digital is no longer just an idea. But with foundational builds flourishing, banks are moving to gain maximum benefit from digitally enabled opportunities. The progress is real, but the threats are growing as well. From finding the technology investment dollars to compete with the megabanks, to fintech firms boldly attacking entire segments, the industry is in real-time disruption mode.

While the early phases of banks' digital journeys had an inward focus, the move to customer-facing innovation is now progressing. Banks are competing by supercharging their relationship managers (RMs), digitizing client portals and dramatically improving the client experience. Embedded finance is another arena where competition is playing out in real time.

It is also becoming clear that trade finance is one of the biggest remaining opportunities for transformation, a fact which hasn't been ignored by the fintechs. Similarly, sustainability is growing into more than just a regulatory issue; it is a compelling and significant potential revenue stream for banks.

Finally, talent retention remains a threat, though we strongly believe banks have a huge opportunity to define themselves as tech-forward fintechs. This will help banking regain its former luster as the industry of choice for top talent. Banks that are succeeding in this pivot are making banking fun again, changing their ways of working, and convincing their employees and potential recruits that banking is synonymous with technology innovation.

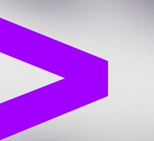
As interest rates are set to rise for the first time in over a decade, banks will be flush with capital. Investing those funds toward further digital acceleration as outlined in these seven trends for 2022, will allow banks to capitalize on this moment where digital is the catalyst for everything.

Considering all of this, the next 12 months are shaping up to be as impactful a year as we have ever seen in commercial banking. Welcome to 2022!

"...the next 12 months are shaping up to be as impactful a year as we have ever seen in commercial banking."

Jared Rorrer
Managing Director—
Global Commercial Banking Lead

Send us an email at
commercial-banking@accenture.com



01

Time to ditch the traditional "help wanted" approach

Fintech-powered banking is the path to talent.

In 2022, commercial banks will likely lose talent faster than ever. Their technology experts are being poached by Silicon Valley, and their relationship managers are leaving for competitors who offer the tools and technology that feel modern and enable growth.

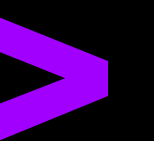
Banks that manage to retain their talented employees and compete for sought-after skills have a comprehensive talent strategy suited to the 2020s. They are investing in their people and reshaping their culture to make it more appealing to a new generation of employees. And they recognize the need to seize on the fintech movement as the reason banking is a prestigious, digital-driven profession.

Banks are looking and feeling a lot more like tech companies. It follows that, when it comes to talent, they should think and act like tech companies. That means creating a bold future focused on innovation, offering flexible work arrangements, focusing on environmental, social and governance (ESG) initiatives and, most importantly, making digital and fintech the core of their DNA. The pitch to potential recruits should be: with all the investment in tech and the opportunities around digital banking, who wouldn't want to be a commercial banker?

Talent and career profiles are being modernized, especially within credit and operations divisions. Resources are being equipped to use cutting-edge technology that is characterized more by tasks like artificial intelligence and analytics than green screens and swivel chairs. Ambitious credit professionals are expanding their role to include metrics that encourage responsible risk-taking, ensuring they help grow the bank rather than simply protecting it. To an increasing degree, technology is helping them make those decisions faster and with more data.

Millennials will comprise 75% of the global workforce by 2025.[1] They want employers that are flexible about work hours and location, and the ability to engage with co-workers and clients online. So, tell the story about your sophisticated client portals and market your technology savvy. Gen Z cares about the world—about big environmental concerns as well as ways to improve local communities. Talk about how your bankers support sustainability—and walk the walk. Workers of all ages want opportunity. Tell them about embedded finance and the huge impact it is likely to have on market growth.

With a reimagined talent strategy, banks can convincingly sell banking jobs as digital jobs—and draw talent from fintechs rather than lose it to them. The trend in the industry is clear: it won't be long before everyone is a digital banker. Capitalize on that concept. Your talent is crucial to your continued growth and success—attract it, invest in it, and retain it.



RMs: New year, new resolution

All the insights in the world won't matter if they don't use the tools.

Commercial banks have been adopting the latest customer relationship management (CRM) tools and are even starting to load them with insights. But the investment won't yield a return if relationship managers don't use them. To address this problem, banks are positioning CRM as not only a management tool but also a value-creating application that gives RMs the information they need to improve their day.

Historically, banks have focused on building insights for RMs without considering how they will use or interact with the information. But that's changing: banks are looking to get full value out of their investments in CRM tools and the use of analytics to extract insights. It's not just about the data; it's about data being a catalyst for changes in the way RMs operate and add value.

The data sets themselves, and the meaningful insights banks are drawing from them, are expanding more rapidly than we've ever seen. Banks are embedding insights from external and internal data sources into their CRM platforms and other data aggregation applications that are starting to hit the market. Savvy RMs want to put those insights to good use, but sometimes still find themselves trying to make sense of the data. The banks that are bringing data and insights to life for their RMs are making the most meaningful progress.

Accenture has found that RMs are likely to increase their adoption of CRM when a pilot-based "test and learn" approach is used to roll out analytically derived insights, and when these are embedded into the tools.

The key, it appears, is to show them how the tools make their jobs easier. News aggregation tools cut research time from hours to minutes. Analytics insights can translate into more sales. They might alert a banker that a client has more cash on hand than usual, leading to a cross-selling opportunity; or that a client has a cashflow problem, predicting they'll be unable to make a loan payment. But if RMs aren't part of the journey from the outset, or if the data isn't trusted or easy to consume, then RMs are unlikely to adopt the tools.

Some RMs regard trusted insights, provided in a consumable format, as a way to differentiate themselves when dealing with their clients. But others worry that it's a threat to them. Make no mistake, small and medium-sized business customers still want to connect with RMs. More than 60% of SMEs value their RM's understanding of their business and their personal relationship with them.[2] Tools will not replace the human touch. Instead, they are empowering RMs to better serve their clients. The market is looking for well-informed RMs, equipped with the right tools and data to lead high-value conversations.

By putting these insights directly into the CRM tool and other daily-used applications, banks are seeing not only a 3% to 5% increase in cross-selling, but also a 2% to 3% increase in new client acquisition. By empowering their RMs and harnessing the benefits of data analytics, we estimate that banks will see topline growth of 5% to 8%, which for a mid-size bank could translate to an upside in the tens of millions of dollars.[3]

03

Next evolution of digital customer portals

Dissatisfied customers are likely to move to other banks or fintechs with rich digital interactions.

Until recently, commercial banks focused on digital tools that optimized banker performance in mostly internally facing technology. Throughout the pandemic, though, client digital engagement took center stage and commercial banks moved quickly to implement the first generation of digital portals for their customers.

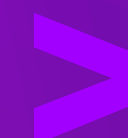
The result?
Customer expectations are higher than ever, expecting services that emulate their digital interactions in other parts of their lives. These include biometric identification and digital signatures. They want greater personalization in the form of customized alerts and tailored insights. Simplicity and speed are not negotiable. And there's a lot at stake. Customers who aren't happy with the digital experiences provided by their banks are increasingly likely to move to other banks or fintechs. In Australia, eight out of 10 commercial banking customers said they would be willing to change their main banks due to dissatisfaction with services or finding more compelling services elsewhere.[4] Approximately half of those customers cited poor online banking offerings as a key motivator.

So what's next? Now that the customer portal has emerged as a new battleground in commercial banking, how can banks compete? Simply put, the next evolution of commercial portals will embrace Open Banking concepts by embedding third-party services into the standard client interaction model.

For example, Novo, a U.S. digital bank, has built a customer portal for business banking that integrates QuickBooks for accounting, Zapier for marketing and Stripe for payment processing.[5] And that's just the first step. Lufax, a Chinese financial services firm, has built a digital customer portal that uses AI-based facial recognition and automatic speech recognition to reduce loan application times for business customers by 44%.[6] Bold moves and integrated ecosystems that reduce the friction in current banking processes will win the day.

These sophisticated portals are proving good not only for customers; they are good for banks too. Commercial banks can glean greater insight into their customers through data analysis, reduce costs by digitizing lower-value customer interactions, and help open new revenue streams with new products and services. It's not a surprise. Most banks realize they need to build or improve their open API connectivity, with 92% saying that more investment is needed to create compelling portals and mobile apps.[7]

Getting there requires collaborating with the right technology and ecosystem partners. A willingness to share ideas and data will be critical to delivering the next generation of digital engagement models.



The great technical divide widens

04

Smaller banks face escalating pressure to remain competitive.

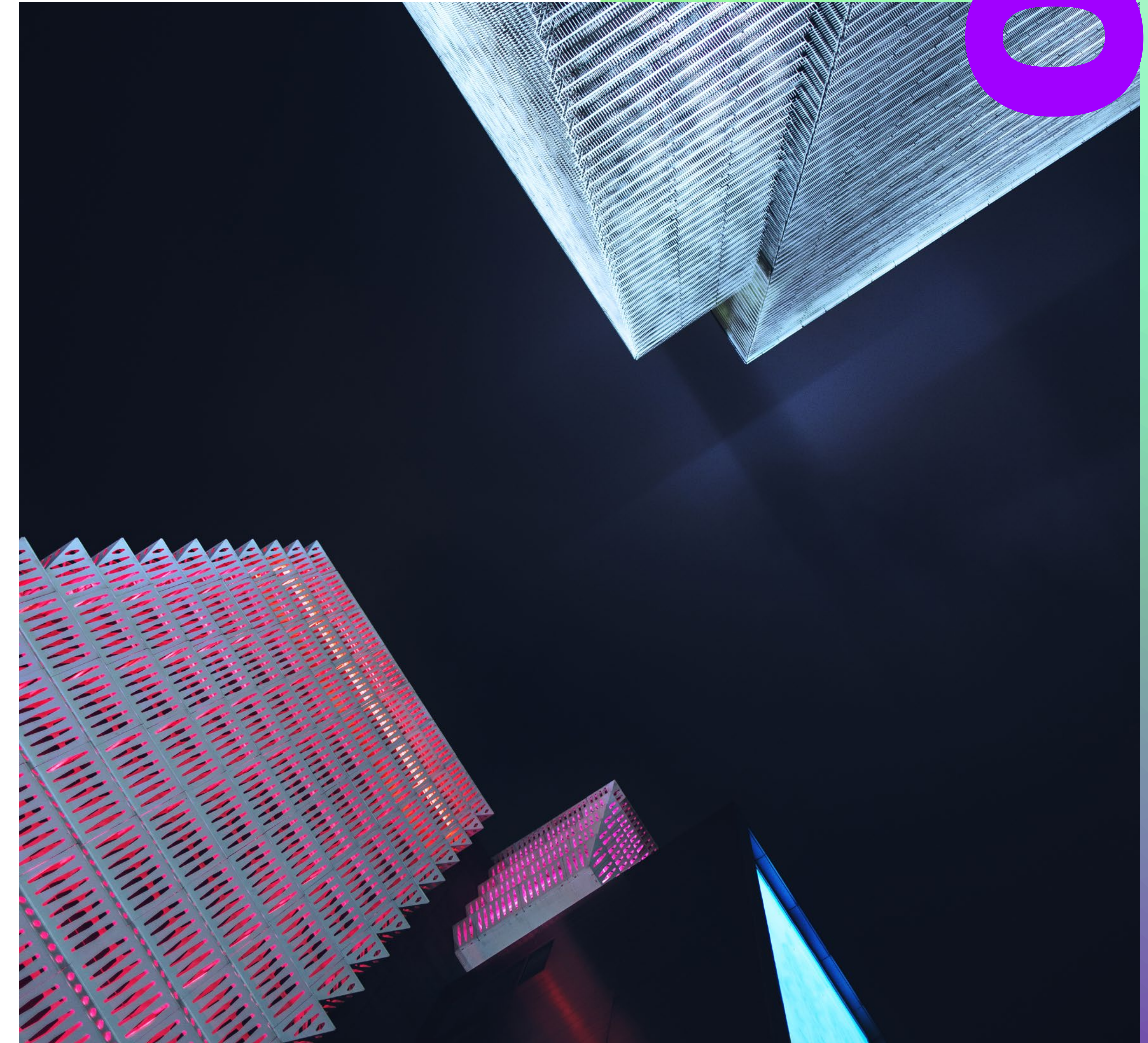
Commercial banking customers' digital expectations are continuing to rise as we move into 2022. And when it comes to digital, large banks have the upper hand. They have the war chests to go bigger and bolder. They can explore new avenues of investment and can afford to be more tolerant of mistakes. They are also several years into the digital journey which—according to 80% of executives at large banks—is only accelerating.[8] Small and medium banks, which may lack the financial resources to keep pace, are starting to adopt bolder game plans for their tech spend to avert the danger of losing clients and market share.

They are also exploring new ways to innovate and new business models. One interesting option is buying technology capabilities by acquiring fintechs, much like large U.S. banks have done. Recently, Fifth Third acquired Provide to address the lending and banking needs of retail healthcare providers. American Express showed its commitment to online banking and lending for small businesses by acquiring Kabbage. Other examples? Alabama-based Regions Bank recently acquired Sabal Capital Partners, which has a digital platform that optimizes the lending and communications process, as well as Ascentium Capital, the largest independent equipment financer in the U.S.

Technology investments are also accelerating. Customers Bank has reshaped itself into a high-tech, high-touch bank that's expanding its hybrid model of banking and financial technology nationally. It continues to invest in cutting-edge technology and launched Customers Bank Instant Token (CBIT) for business-to-business instant blockchain payments.

Other options for small and medium-size banks include mergers, partnering with fintechs, leveraging vendor tech solutions and joining forces on their technology innovation through strategic partnerships. These banks are realizing they need to act decisively or the gap will widen, and it will become even more difficult to stay competitive.

The bottom line is that the big banks are rapidly raising the digital bar. They will continue to invest, forcing the rest of the industry to follow suit with an accelerated pace of digital and technology innovation.



Embedded finance takes center stage

Serving customers on the platforms they use daily will be a game-changer.

Commercial banks have long struggled to meet the unique needs of small businesses. Only 9% of their smaller customers are happy with their business bank accounts; in fact, nearly two-thirds of small businesses still use retail bank accounts.[9] And when they do feel the need to upgrade to a business account, they're increasingly turning to fintech challengers, rather than their existing bank, to solve their needs.

Commercial banks can do a better job of offering products that resonate with freelancers, entrepreneurs and small businesses—but they also need to find new, efficient ways to reach this fragmented market of millions. One potential solution is to capitalize on embedded finance: placing banking products in the day-to-day flow of life and work so customers can get the banking services they need, when they need them, on the platforms they're already using.

Small business owners and managers are busy people. An entrepreneur, for example, is likely to be not only the CEO but also the head of marketing, the CIO and the operations leader. Playing multiple roles is typical until SMEs reach about 100 employees; at this size, roles start to delineate and functional departments form.

With this level of pressure, small businesses don't have the luxury of deeply scrutinizing every buying decision. They often default to what they know and look for solutions that work together seamlessly. Embedded finance can help commercial banks benefit from this behavior. In one model, they can reach new customers by embedding banking products into digital solutions such as cloud accounting tools or e-commerce platforms.

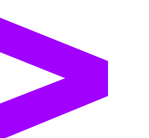
In another, banks themselves can become more holistic partners to their existing customers by embedding non-financial services into the digital banking experience.

We are already seeing embedded finance experiences appear across the marketplace. In Australia, for example, businesses can apply for loans (provided by partner banks) through the accounting platform Xero in as little as 20 minutes.[10] In North America, Shopify has launched a stored value account, Shopify Balance, which lets U.S. business owners hold revenue from their sales within the same platform they use to power their store with no additional fees and no minimum balances.[11] And Autobooks is helping more than 100 banks, including TD, to transform their digital banking portals into e-commerce platforms for small businesses with functionality like invoicing, bookkeeping and online payment acceptance.[12]

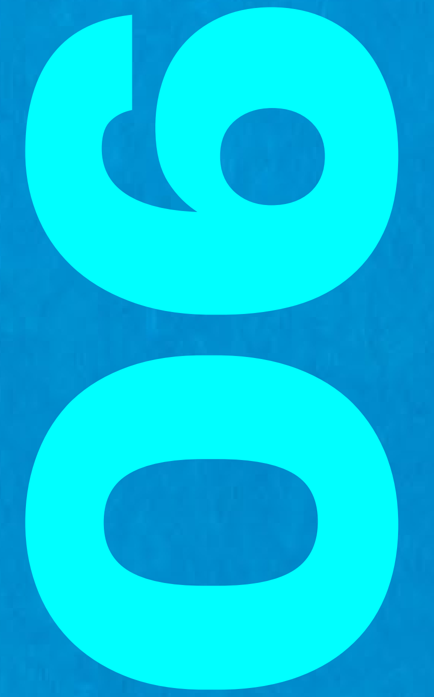
The opportunities are great for banks that lean into embedded finance—and the risks are significant for those that sit this one out. Banks that provide embedded finance to multi-service platforms will gain new revenue streams, albeit at the loss of brand identity and direct customer engagement.

Accenture research estimates that embedded banking for SMEs could capture around a quarter of the SME banking market by 2025, representing nearly $124 billion in value.[13]

Banks that get on board and lead with embedded finance will be thinking about where to compete under their own brand with their own products and services, and where to collaborate with digital platform players to solve SME challenges and reach new customers.



Trade finance: Breaking through the final analog frontier



Fintech disruption, Open Banking and blockchain enablement rapidly accelerate the digital transformation.

Global trade finance is one of the most complex markets in the world of commercial banking. It is also still primarily analog, which makes it a massive opportunity. The global financing gap for importers in developing and developed regions, and for small and medium-size exporters in developing regions, is an estimated $3.6 trillion. Research by Coalition forecasts the total trade finance revenue pool for banks will reach $54 billion in 2022, putting it above pre-COVID levels.[14] Underpinning this is the fact that technologies like blockchain, machine learning and AI are finally making automation possible in this segment.

Think of trade finance as a more complex system of commercial credit. Just as we saw tech help tackle the complexity of commercial credit, so AI is starting to be used to automate rules to help review a letter of credit, and reduce the turn time from hours to minutes. And this is just the beginning. The advent of Open Banking, the ever-expanding availability of APIs, and the real-time exchange of data are making KYC and onboarding simple and fast. They are also providing better and more reliable data for augmenting traditional underwriting for faster credit decisions.

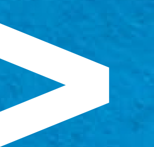
Today, banks lack the basic data and systems capabilities to provide small and medium-size businesses with access to the products they need in the time frame they need them. But the tech is available: data, analytics, distributed ledger technology, digital channels for UX and blockchain. Information can be quickly analyzed to see if a bank is willing to extend financing to a business in the supply chain.

Tech can also help speed up painful manual processes like onboarding, and present the product options SMEs demand, like invoice-level financing.

Trade finance as a banking revenue stream is under threat due to the influx of new fintechs. In supply chain finance (SCF), technology is driving automated onboarding and underwriting, and tighter integration between buyers and sellers. That's reducing costs and enabling deeper penetration into the mid-size and SME markets, a place banks have traditionally avoided due to cost considerations.

At the same time, fintechs are aggressively capitalizing on the market opportunity. In fact, one-third of global trade finance revenue created since 2005 has been captured by fintechs and not traditional commercial banks. Supply chain finance platform players like Taulia, C2FO, LiquidX and Prime are some of the most competitive, and are poised to disrupt banks' cozy SCF relationships. Another example is Stenn, one of the largest and fastest-growing online platforms for financing small and medium-size businesses in international trade. Its global, flexible, digital-first nature gives SMEs access to the global financial system.

If banks do not make a concerted effort to rapidly refocus on transformation of their trade finance businesses, they may find themselves on the outside looking in.



Sustainability might just be a banking superpower

Banks that embed sustainability have the power to change the world.

While ESG issues are an enterprise-level priority for most banks, many commercial banks are preparing to have an outsized impact in 2022 by capitalizing on the real opportunity to be leaders in the fight for sustainability.

There is increasing pressure from the public, governments, regulators and institutional investors for banks to address sustainability head-on. Sustainability-linked lending is on a growth trajectory, skyrocketing from $5 billion in 2017 to $120 billion in this decade.[15] And firms with better ESG records than their peers produce higher three-year returns.[16]

Banks can drive greater access to capital for underbanked groups, rebalance credit portfolios to include socially and environmentally conscious funding, and increase the allocation of capital to sustainability-linked loans. For example, Crédit Mutuel is practicing sustainability-conscious portfolio governance by entirely removing fossil fuel financing from its portfolio. To influence businesses to prioritize sustainability, HSBC launched Sustainability-Linked Loans with interest rates tied to the client's achievement of key sustainability performance targets.[17]

But it's not just about lending. Commercial banks are starting to realize that a green focus can also help attract and retain young talent: 64% of millennials say they won't work at a company that does not have a strong sustainability policy.[18] Banks should look at their client engagement strategies—how their RMs talk to clients about ESG priorities and execution strategies.

Sustainability should be embedded in every aspect of a commercial bank's strategy and operation.

To be successful, the vision and promise of action have to come from the top. It is not lip service; sustainability is a commitment. Bank of America recently sent a strong message by announcing that its CFO of six years, Paul Donofrio, became a vice chair overseeing a $1.5 trillion sustainable finance commitment. Banks that treat sustainability as an opportunity rather than an obligation will succeed. Banks that do nothing—or worse, attempt to "greenwash"—will fall behind.

Additionally, there is an emerging market for banks in transition financing. Either through government-backed capital or via a bank's balance sheet, the funding to support banks' commercial and corporate customers' transition to a green or sustainable business model will be a significant revenue stream. Using the balance sheet for good and driving meaningful changes in the way industries operate will move beyond any perception of "greenwashing" to making outsized impacts on the planet. GFANZ estimates the transition finance required over the next 30 years is $100 - $150 trillion.[19]

By incorporating a green agenda into everyday decisions, commercial bankers can be the engines of sustainability and drive real change.

Sources

1. https://whattobecome.com/blog/millennials-in-the-workplace/
2. https://www.accenture.com/us-en/insights/banking/commercial-bank-profitable-sme-base
3. Accenture research based on actual client experiences
4. Accenture – APAC SMB Banking Study, 2021
5. https://slashdot.org/software/p/Novo/integrations/
6. https://www.businesswire.com/news/home/20210616005440/en/Lufax-Retail-Credit-Platform-Ping-An-Puhui-Launches-AI-Powered-Smart-Loan-Solution
7. Celent Corporate Digital Channel Survey, July 2020. https://www.celent.com/insights/212139800
8. https://www.accenture.com/us-en/insights/banking/technology-vision-banking-2021 and Accenture research and analysis
9. Accenture research and analysis
10. https://www.xero.com/blog/2020/09/anz-online-business-lending-xero-integration/
11. https://news.shopify.com/shopify-announces-major-product-launches-and-updates-at-virtual-event-reunite-including-shopify-balance-and-shop-pay-installments-312084
12. https://stories.td.com/us/en/article/td-bank-adds-free-invoicing-function-to-its-business-simple-checking-accounts-to-help-small-and-micro-businesses-get-paid-faster
13. accenture.com/us-en/insights/banking/embedded-finance-smes
14. https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/after-years-of-decline-banks-set-for-trade-finance-revenue-growth-in-2021-61708844
15. https://www.spglobal.com/ratings/en/research/articles/210428-how-sustainability-linked-debt-has-become-a-new-asset-class-11930349
16. https://hbr.org/2019/05/the-investor-revolution
17. https://www.about.us.hsbc.com/news-and-media/hsbc-usa-expands-sustainable-finance-with-sustainability-linked-loans-for-commercial-banking-clients
18. https://www.forbes.com/sites/afdhelaziz/2020/03/07/the-power-of-purpose-the-business-case-for-purpose-all-the-data-you-were-looking-for-pt-2/?sh=b60873cf7a5a
19. https://assets.bbhub.io/company/sites/63/2021/11/GFANZ-Progress-Report.pdf

Contact Us

commercial-banking@accenture.com

AUTHOR:

Jared Rorrer, jared.rorrer@accenture.com

CONTRIBUTORS:

Chris Scislowicz, chris.g.scislowicz@accenture.com

Thomas Merry, thomas.merry@accenture.com

Bina Rajput, bina.rajput@accenture.com

Rishi Chawla, rishi.chawla@accenture.com

Razy Farook, razy.farook@accenture.com

Christopher Jaggard, christopher.jaggard@accenture.com

James Waller, james.m.waller@accenture.com

Patrick McAvoy, patrick.mcavoy@accenture.com

Stay Connected

www.accenture.com/commercialbanking

www.accenture.com/commercialbankingtoptrends

About Accenture

Accenture is a global professional services company with leading capabilities in digital, cloud and security. Combining unmatched experience and specialized skills across more than 40 industries, we offer Strategy and Consulting, Interactive, Technology and Operations services—all powered by the world's largest network of Advanced Technology and Intelligent Operations centers. Our 674,000 people deliver on the promise of technology and human ingenuity every day, serving clients in more than 120 countries. We embrace the power of change to create value and shared success for our clients, people, shareholders, partners and communities.

Visit us at www.accenture.com

Copyright © 2022 Accenture. All rights reserved.
Accenture and its logo, are registered trademarks of Accenture.

This document is produced by consultants at Accenture as general guidance. It is not intended to provide specific advice on your circumstances. If you require advice or further details on any matters referred to, please contact your Accenture representative. This document refers to marks owned by third parties. All such third-party marks are the property of their respective owners. No sponsorship, endorsement or approval of this content by the owners of such marks is intended, expressed or implied