Coalition Greenwich

CRISIL
An S&P Global Company

The Future of Banking: Digital Transformation

The Pathway to Profitable Differentiation

Q4 2020

Executive Summary

Banking is increasingly a technology and data-driven business. “White glove service” alone will no longer allow banks to effectively compete, unless they keep pace with digital investments. We are facing a profound period of change in wholesale banking. The leadership teams that are able to make savvy investments to banks’ capabilities and cultures will emerge as the winners.

Banks separating themselves as winners will have a few key common characteristics underpinning their success. They will deliver differentiated client experience based on best synthesizing: 1) advanced digital technologies to eliminate pain points (e.g., onboarding) and deliver new client values (e.g., highly tailored predictive, prescriptive insights embedded in client workflows) and 2) value-adding advice and relationship fabric from human touch.

Increasingly, getting the “tech” and “touch” components right will deliver the distinctive experiences clients are coming to expect. Intelligent automation, combined with powerful data and analytics-driven insights from real-time signals (“telemetry data”), will create differentiating new values. When these are built into client workflows in an easily consumable manner (e.g., automated payment type selections using ML trading-off ease, speed, cost, security, recipient preferences, etc.), they will simplify the future of banking for customers.

In this paper, CRISIL Coalition Greenwich provides guidance for wholesale banks planning major technology investments to effectively target these expenditures. We explore how the industry is harnessing innovation to meet rapidly rising client expectations and help banks transform their productivity and efficiency across the front, middle and back office.

Using findings from the Greenwich Digital Transformation Benchmarking Studies across 2019–2020, we pinpoint the key drivers of ROI for bank technology investments and identify three areas in which technology (or technology-related) investments consistently deliver attractive ROI for banks:

1. **Client Experience**, which is highly correlated with wallet share
2. **Banker Productivity**, which affects bank performance in both client experience and sales
3. **Marketing of Innovation**, which is often overlooked in IT planning but can have a huge impact on ultimate ROI

We examine each of these areas to determine specific enhancements senior management teams should target to maximize ROI and have the biggest positive impact on bank revenues and profits. A few noteworthy banks that stand out in their digital investments and capabilities are detailed in the paper.

In the wake of a global pandemic that shifted so much business and social interaction to digital channels, banks no longer have the option of going slow or waiting to see how big tech investments play out for rivals.

Introduction

The COVID crisis changed the trajectory of the banking industry by radically increasing the speed of digitization. In so doing, it also accelerated a critical trend for banks: the increasing importance of "non-banking" factors like innovation, short development cycle times and continuous technology investment as drivers of revenue growth and profitability.

Although almost every bank in the world recognizes this trend, some senior management teams—and their shareholders—remain skeptical about the ROI of technology investments. In some cases this skepticism, which has slowed the transformation of wholesale banking relative to other industries, is appropriate. After all, most banks are not technology companies—at least not yet.

However, in the wake of a global pandemic that shifted so much business and social interaction to digital channels, banks no longer have the option of going slow or waiting to see how big tech investments play out for rivals. Every bank must now answer the question: How can we deliver an effective and efficient digital experience to our clients and employees?

Through its consulting work with leading banks and nonbank financial service companies, as well as extensive research among buyers of wholesale banking services around the world, Coalition Greenwich has developed important insights about the ROI banks generate on technology investments. Here, we tap into these insights to help bank management teams direct and optimize their IT investment dollars. To do so, we will pinpoint where banks have been investing to date, and analyze how and whether these investments have paid off. Building off that analysis, we will identify the primary drivers of ROI on bank technology investments to help banks prioritize their spending on initiatives that will deliver the biggest bang for the buck.

Standout Performers in Digital Transformation

Technology has become a significant driver of bank financial performance, and its influence will only expand in the post-COVID marketplace.

Banks that excel in using technology to lower costs and better serve clients are building a powerful competitive advantage over rivals with less tech prowess or fewer resources to invest. Meanwhile, banks that continue to rely on "white-glove" service provided by relationship managers (RMs) using traditional models will be overwhelmed by the competition if they fail to keep up with technology investments.

To date, four global banks have differentiated themselves in wholesale banking by deploying strong digital/technical capabilities and analytics that outpace rivals. In alphabetical order, those banks are:

- Bank of America
- Citi
- HSBC
- J.P. Morgan

This list of digital leaders—and the analysis and recommendations included in this report—were derived from data collected in the Greenwich Digital Transformation Benchmarking Study. Digital Transformation Benchmarking helps management teams prioritize technology investment decisions and maximize ROI by comparing their technology platforms in front, middle and back office against those of global best-in-class and peer groups. Coalition Greenwich looks at both client experience (interviews with bank customers) and digital technical capabilities (interviews and platform demonstrations with banks) to help leadership teams make better-informed investment decisions. This research is based on Coalition Greenwich consultants' interviews conducted throughout 2020 with approximately 20,000 business executives and product users, as well as platform demonstrations.

Technology Investments to Date

To date, technology investments in wholesale banking have focused on two main areas:

1. **Banks are upgrading internal systems, replacing and enhancing legacy platforms in back- and middle-office functions.** The primary goals of these investments are to increase efficiency and lower fixed costs, with the ultimate aim of preserving and expanding margins. However, by switching to newer and more efficient tools or technologies like API solutions to pull data from various legacy systems, cloud-based platforms and machine learning, banks are also making their organizations more flexible and agile—a critical benefit in the face of stiff competition from fast-moving fintechs.

2. **Banks are building out digital channels and tool sets to serve the rapidly changing demands and rising expectations of their corporate clients.** The need to accommodate work-from-home mandates, while maintaining core functions during the pandemic, transformed business operations, accelerating what had been a gradual shift to digital processes among both large and small companies into overdrive. Given the success of this abrupt transformation, there is no reason to expect this momentum to dissipate. For years, companies have understood that digitization can generate real cost savings. But in a normal business environment, companies moved to achieve these benefits at a normal pace. After the COVID-induced leap to digital, companies will begin to see cost savings come through in the next 12–24 months, strengthening their own ROI proposition on digital investments.

Those results will encourage even more digitization. In 2020, companies' move to digital was largely a crisis-management function, with corporates seeking remote channels for essential tasks like payments. In 2021, companies will extend that process by moving higher-level treasury and finance functions to digital.

Drivers of ROI

Effective planning for future technology expenditures requires an understanding of the ROI achieved on past investments as well as what will drive returns in the future. An analysis of banks' recent technology initiatives using findings from the Greenwich Digital Transformation Benchmarking Study reveals that tech investments are generating returns for banks in four key ways:

1. **Enhanced wallet share and wallet share retention**
2. **Modest pricing premiums over competitors**
3. **Brand strength that drives new business**
4. **Expanded margins through lower cost per transaction**

The next question to consider in planning new technology investments is: Which particular investments are most closely associated with these different sources of return? To some extent, the answer will differ from bank to bank. However, in addition to these efficiency-building initiatives, there are three areas in which technology (or technology-related) investments consistently deliver attractive ROI for banks:

1. **Client Experience**, which is highly correlated with wallet share
2. **Banker Productivity,** which affects bank performance in both client experience and sales
3. **Marketing of Innovation,** which is often overlooked in IT planning but can have a huge impact on client awareness and adoption, ultimately steering more business to the bank

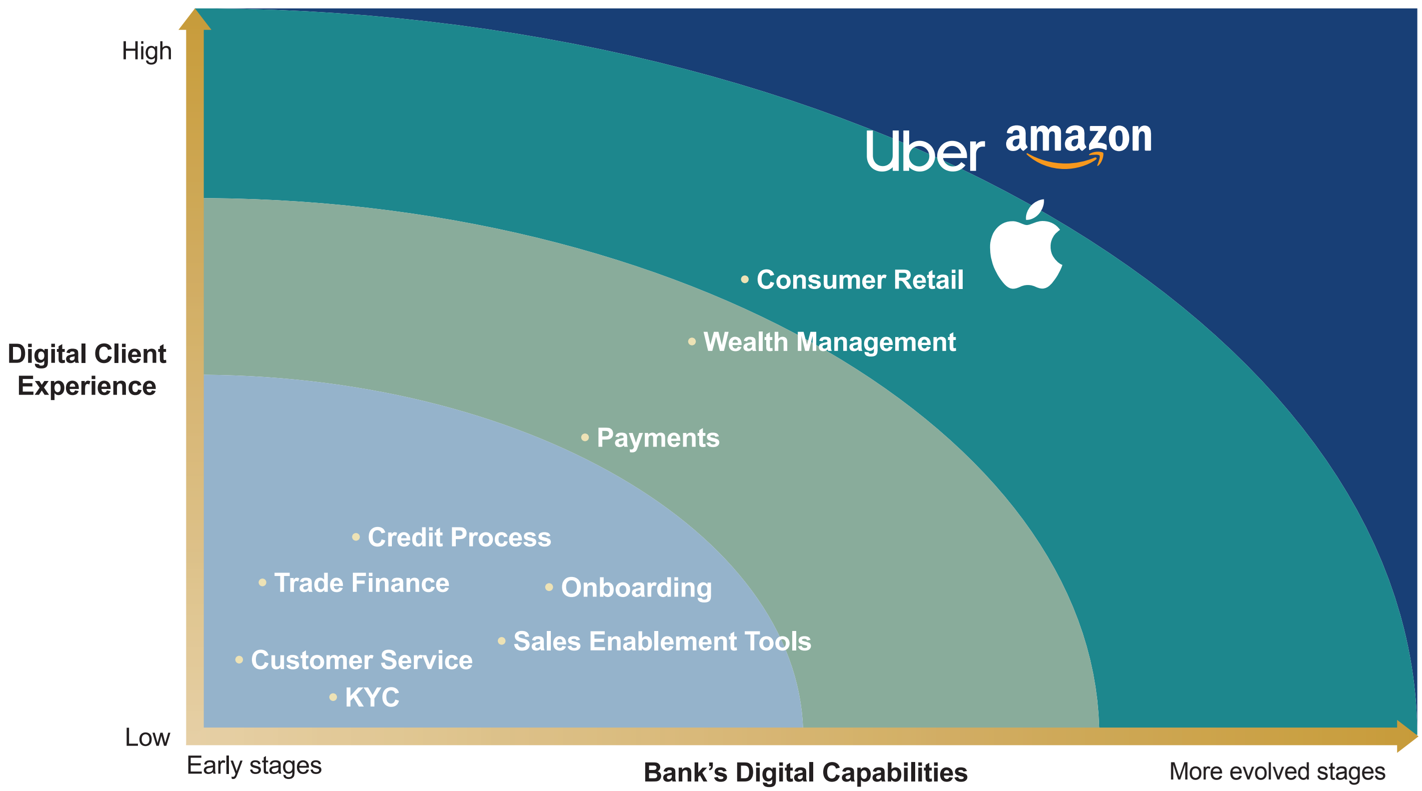
These areas should be priority targets for bank technology investment plans in 2021 and beyond.

The Client Experience: From Pain Points to Delight

When it comes to the client experience, banks are at an important crossroads. Clients expectations, shaped from their consumer digital lives, are extremely high and understandably require real-time insights, transparency and simplicity. Historically, the client experience in wholesale banking was largely defined by how painful it was for clients to do business with banks (e.g., onboarding & KYC). It's no accident that one of the biggest drivers of bank client satisfaction is "ease of doing business."

Ease is increasingly influenced by technology-related capabilities. Until now—or at least very recently—one of the main focuses of bank digitization efforts was to improve ease of doing business scores by eliminating or at least minimizing the "pain points" that most frustrated clients. Banks had been making steady if gradual progress in that effort by rolling out tools like digital onboarding, e-signatures, digital document vaults, and more streamlined/digitized KYC procedures. COVID turbocharged the process of addressing pain points, turning many of these relatively new features into relationship essentials (e.g., e-sig).

State of Digital Transformation in Banking

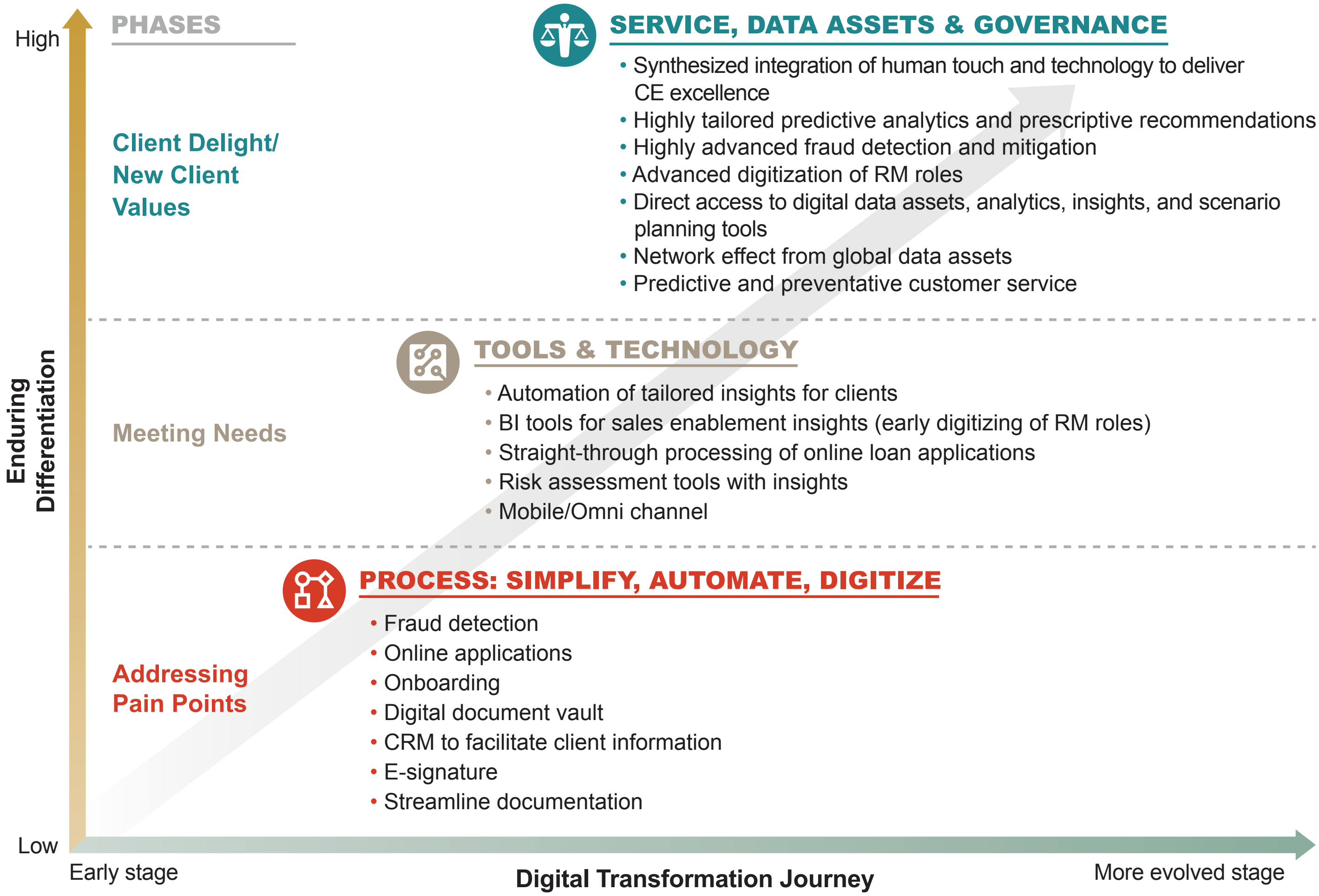


Source: Coalition and Greenwich Associates, 2020

Nevertheless, compared to wealth management, retail banking, and high-end consumer industries, wholesale banking's digital transformation is still in the relatively early stages. In the next phase, banks will try to emulate the likes of Amazon, Uber and Apple, which have used technology to eliminate most of the routine headaches of their industry and now apply digital innovation to the goal of delighting their clients. Banks will need to build additional "talent muscle" in areas such as data science to enable values like intelligent decision-making.

To elevate the client experience to this level, banks will have to use technology to combine human touch and highly tailored automation to make clients' lives easier and more profitable through better decision-making.

The Digital Transformation Journey of Addressing Client Needs



Source: Coalition and Greenwich Associates, 2020

Targeting Technology Investments to Improve the Client Experience

Banks can use technology to improve the client experience in three main ways: by speeding or automating processes, adding new values and increasing transparency.

Speed in the client experience is mainly a function of streamlining requirements and automation. The COVID crisis has accelerated the process of automating parts of routine banking functions with digital tools. Although the immediate goal of these efforts was to provide clients with remote access to essential products and services amid work-from-home restrictions. By eliminating manual components, the process of digitization is also making banking tasks faster, easier and more streamlined for clients. That helps neutralize—or at least minimize—pain points related to documentation, compliance, KYC, and ALM requirements.

Basic achievements like pre-populating documents with known information and implementing e-signatures are increasing "ease of doing business" scores and increasing customer satisfaction levels. That progress will continue as banks roll out new API-based tools that provide enhanced, real-time information and access.

New client values help deepen the client experience—and data is the key. Banks are just beginning to tap into the trove of data they collect on clients and markets. By comprehensively mining this data with AI/ML and other important tools, banks can deliver highly tailored insights and prescriptive recommendations on a vast array of essential topics. Banks that effectively understand company's strategies, risk profiles, liquidity needs, etc. can incorporate that *deep proprietary knowledge* into their prescriptive recommendations. Some of the topics more valued by clients include insights to optimize cash flows, better manage supply chains, mitigate currency exposure risk, and prevent fraud.

The key is delivering data and insights in a highly consumable manner, contextualized for the person's workflow. This means different types of insights customized at the persona level depending on their role, location, etc. (e.g., business owner, CFO, controller). By using analytics and mobile delivery, banks can provide a CEO with information on M&A as well as on competitors, a CFO with insights about capital markets opportunities, and treasurers with recommendations on FX and cash management—all in real time.

Transparency is increasingly important, as clients have tremendous clarity in their daily consumer lives and expect it in wholesale banking as well. Whether ordering a pizza, tracking a package or electronically hailing an Uber, why can't corporate treasury officers have the same transparency into the loan, KYC and onboarding process across all banks today? The leading banks have largely made this happen, and it is increasingly table stakes, with lack of transparency soon to become a significant negative differentiator.

There are emerging levels of differentiation among the leading banks based on the:

- **Quality of the data asset (how extensive, clean and well governed)**
- **Quality of the analytics and insights (real-time speed, accuracy, predictability, and contextualization)**
- **Consumability of the data and insights (integration into client workflows and systems)**

For better or worse, bigger banks with larger data sets and more technology resources will probably amass a growing advantage with these value-added advisory services, which might not be revenue-generating in themselves but will deepen and strengthen their relationships with corporate clients. Leveraging the deep proprietary knowledge of clients as well as the first-rate contextualized analytics will be important in creating differentiation.

Banker Productivity: Raising the Grade for RMs

Technology investments can enhance banker productivity in three main ways:

1. **Increasing the number of clients and prospects an RM covers**
2. **Helping RMs target those with the largest wallet opportunities**
3. **Increasing the effectiveness of every "call" an RM makes**

The following graphic shows the many different models of RM coverage, as banks rethink their models and tools for the new digital environment. At the far left is the traditional RM model (analog approach). At the far right is a pure digital model that relies on self-directed digital processes and automated data and insight feeds for client coverage and "pull" demand from websites, advertising and brand strength for sales. Most banks today fall into the traditional analog model, with aspirations to better enable bankers with powerful digital tools. The key across all segments is getting the right combination of tech and touch to deliver a distinctive client experience.

The key enabler of future digital RM models are strong data and analytics capabilities of the bank platforms. When looking at ROI, of particular importance is the "gearing ratio" illustrated in the next-to-last row of the table, which shows the number of clients RMs can typically cover using each approach. At the top end of these ranges, banks can increase RM coverage portfolios by 10–25%+ through effective technology investments. Banks can also opt to remove human RMs from day-to-day coverage completely and shift to a full digital model for certain segments in which RMs are available to companies only on an on-call basis for important events (major refinancings, capital markets events, etc.)

Sales enablement tools help bankers focus their efforts on prospects and clients with the highest value in terms of potential sales. Then, data analytics can provide the banker with differentiating insights tailored to the specific needs of an individual prospect or client.

Digital Tools are Creating New Models for Relationship Management

RM Models Across Segments

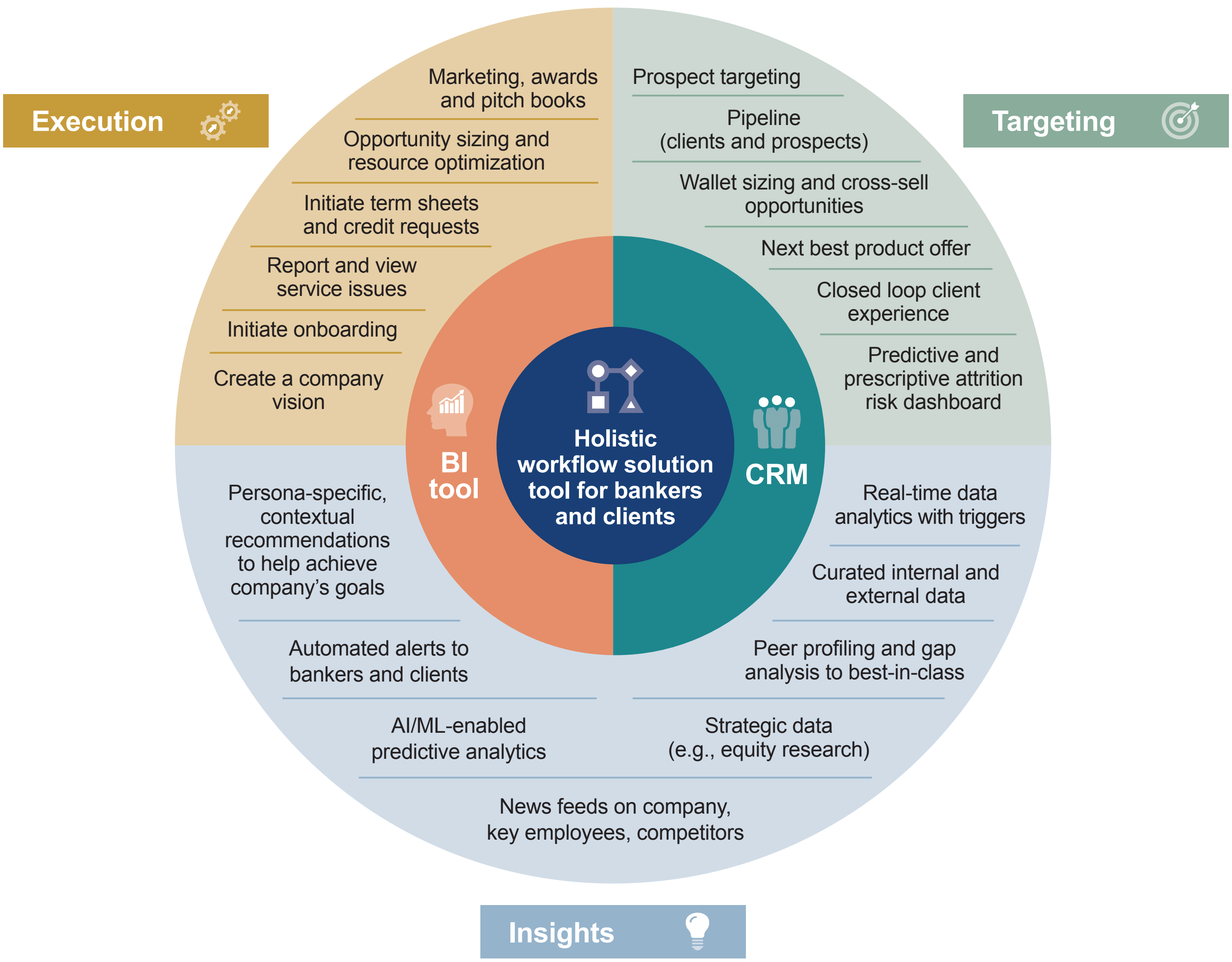
<table>
<tr><th></th><th colspan="2">Analog</th><th colspan="3">Digital</th></tr>
<tr><th></th><th>Traditional RM</th><th>Portfolio Managed</th><th>Digitally Enabled RM</th><th>Digitally Portfolio Managed</th><th>Full Digital (RM on Call)</th></tr>
<tr><td>Focus</td><td colspan="2">Grow portfolio for traditional RM and service and cross-sell on portfolio managed</td><td></td><td></td><td>Offered to new and existing clients for reduced pricing</td></tr>
<tr><td>In-person visits</td><td>Yes</td><td>No</td><td>Rarely
(e.g. every 12-24 months for major events or relationship review and cross-sell)</td><td>No</td><td>No</td></tr>
<tr><td rowspan="2">Tools/Capabilities</td><td rowspan="2" colspan="2">Traditional/CRM</td><td colspan="3">Advanced tools, fully digitized application, hyper-customized insights and predictive/prescriptive analytics for client persona-level workflows</td></tr>
<tr><td colspan="3">Clients have access to bank's BI tool/data assets to query gaps to competitors/scenario planning/ insights on own industry, etc.</td></tr>
<tr><td>Analytics and insights delivered to clients and prospects</td><td colspan="2">Few, inefficient to produce, latency in data</td><td colspan="3">Direct to client hyper-customized insights and prescriptive recommendations based on real-time data</td></tr>
<tr><td>Prospecting</td><td>Yes</td><td>No</td><td>Yes</td><td>Yes, sometimes augmented by outbound callers setting appointments with warm leads and leads from digital sources</td><td>No active prospecting, advertising/brand pull/ website draw in new clients</td></tr>
<tr><td rowspan="2">Skillset</td><td>Hunting/Relationship building</td><td>Remote relationship building</td><td>Hunting/Relationship building</td><td>Remote relationship building</td><td rowspan="2">Data and analytics must be extremely strong and accurate</td></tr>
<tr><td colspan="2">Lite analytics</td><td colspan="2">Facile at employing technology, understands automated recommendations and able to discuss with client</td></tr>
<tr><td>Gearing ratio</td><td>BB 40–70 clients
MM 25–50 clients
CIB 5–20 clients</td><td>150–300</td><td>BB 60–80 clients
MM 30–60 clients
CIB 5–25 clients</td><td>150–300 clients and prospecting</td><td>Unlimited</td></tr>
<tr><td>Access to phone-based customer service</td><td colspan="2">Yes</td><td colspan="3">Yes</td></tr>
</table>

Source: Coalition and Greenwich Associates, 2020

Technology investments can also increase the effectiveness of every RM interaction with prospects and clients within these expanded portfolios. Sales enablement tools help bankers focus their efforts on prospects and clients with the highest value in terms of potential sales. Then, data analytics can provide the banker with differentiating insights tailored to the specific needs of an individual prospect or client, elevating the value of the interaction on both sides. In other words, these systems tell the banker whom to call today and what solutions will help them determine which prospects are unhappy with their current banks and which client just paid down a loan or reduced their balances.

Finally, digital systems can automate sales, onboarding and other formerly manual tasks that consumed significant amounts of time, freeing up RMs to make additional calls. At the top of that list of previously time-consuming tasks is pre-call planning. In the past, RMs had to conduct research to determine a prospect or client's current situation and needs, and to identify the bank's best opportunities (loan growth, deposit increased, additional fee-based business, etc.) With the right investments, banks can put in place analytics systems that generate this information in real time.

Enhancing RM Productivity with Innovative Sales Enablement Tools



Source: Coalition and Greenwich Associates, 2020

The preceding graphic illustrates the myriad capabilities available to enhance RM productivity with improvements in targeting, insights and execution. By investing in and integrating the right sales enablement tools, banks can help RMs develop attributes critical to building and preserving strong client relationships, including:

- An approach to the relationship based on client needs
- Coverage intensity
- Value-adding idea flow
- An advisory relationship with clients
- Strong coordination of internal bank specialists
- Personal and institutional trust

By investing in technology that helps equip RMs with these skills and techniques, banks can elevate a B-/C+ banker, which typically constitute about half the salesforce, to an A-/B+ banker that would have previously ranked in the top 30% of performers. Across the bank, these improvements will dramatically enhance productivity in client coverage and sales. These types of RM enablement tools also help get new bankers up to speed quickly—something of increasing importance in today's environment.

RM Performance: Improving RM Efficiency Through Data

Banker level	% Banker population	Behaviors/Attributes
A+/A	Top 10%	• Inherently have the right behaviors that cannot be easily taught to others
A-/B+	Top 10-20%	• Needs-based approach • Coverage intensity • Strong coordination of specialists • Advisory relationships • Value-adding idea flow • Personal risk-taking to sell full product array • Personal and institutional trust
Use data and analytics to equip more B-/C+ bankers to perform at the A-/B+ level		
B-/C+	Middle 50%	• With the right training, tools and data available to them, this group has the potential to move up to the A-/B+ level
C-/D	Bottom 20%	• Least likely group to adopt data-driven insights

Source: Coalition and Greenwich Associates, 2020

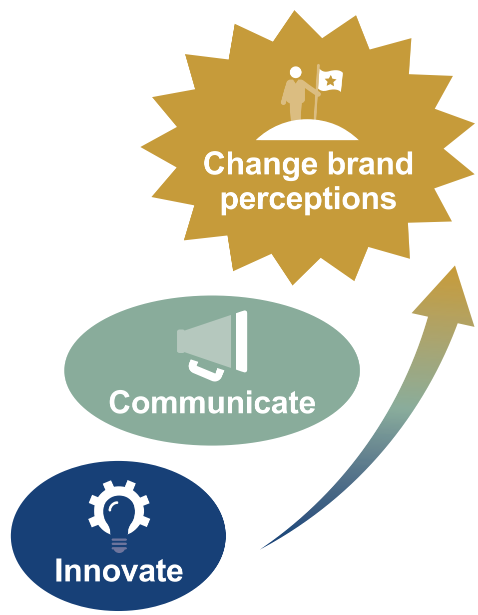
The leading banks are also leveraging these RM enablement tools to provide data directly to clients. These insights are important and giving CFOs and others direct access to identify gaps to best-in-class efficiency and other key areas that will help them differentiate.

Marketing: Creating an ROI Tailwind

Why does a paper on bank technology investments include a section on marketing? Because marketing is a key driver of technology investment ROI. Even the best client-facing applications will fail to deliver value if clients and prospects don't know about them. In fact, one of the most common mistakes made by banks planning technology initiatives—even banks spending tens of millions of dollars on digital transformation—is failing to account for and budget for marketing of new innovations internally and externally.

The Innovation Acceptance Spectrum

1. Too few clients fully understand investments their banks make to improve capabilities, security and client experience
2. Most banks do not consistently and effectively communicate innovations
3. Innovation Acceptance Spectrum:
   - **Awareness.** *Are clients aware of new capabilities the bank has deployed and roadmap functionality currently in development?*
   - **Adoption.** *Are clients using the new capabilities to help run their business more smoothly/safely?*
   - **Advocacy.** *Do bankers feel a benefit for describing new capabilities to clients? Are users more likely to recommend the bank after having used the new capability?*
4. Best-in-class banks consistently innovate and communicate
   - Bankers spend 5 minutes of each call discussing new capabilities or investments to enable bank to be a strong partner in future



Source: Coalition and Greenwich Associates, 2020

Banks that omit marketing from their innovation plans will fail to capture or will delay the full returns on their investment in terms of ease of doing business, client satisfaction, customer retention, brand strength, and cost reduction/margin enhancement. At the very least, this omission will slow customer adoption, delaying these benefits to the bank and depriving clients of potential enhancement to banking products, security and the overall client experience.

Banks should couple all technology spending plans with communication and marketing plans. Beyond that, they should ingrain technology into the value proposition they communicate to prospects and clients on an ongoing basis. As an example, some best-in-class providers have their bankers spend five minutes of every call discussing new capabilities or technology investments, reinforcing their status as an innovative leader and committed long-term partner.

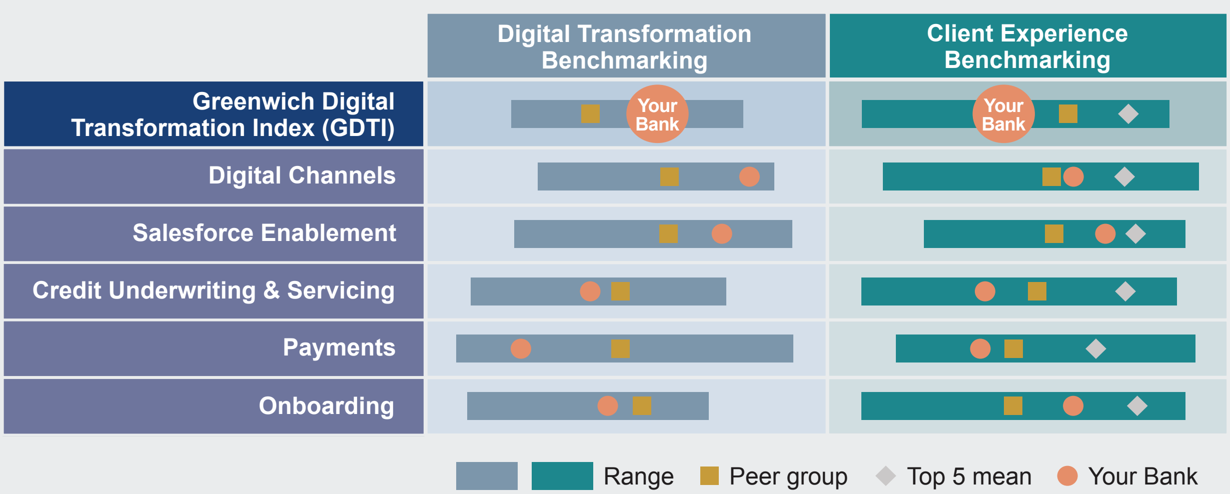
Conclusion

Changes triggered by the COVID crisis are accelerating technology investments for many banks in an industry that was already spending billions of dollars every year on IT enhancements. While much of the new spending in the first half of 2020 was directed to meeting the immediate needs of corporate clients whose operations were disrupted by the pandemic, banks in coming months and years will look to create new values to make customers' lives better.

New client values will consist of intelligent automation, building and leveraging proprietary data assets to craft tailored analytics-driven insights seamlessly into client workflows. Banking will become more transparent, automated and easily consumed through intelligent decision-making. The impact on the customer across the front, middle and back offices will feel transformational. To succeed in this effort, bank management teams should target their technology investments toward areas proven to deliver consistent ROI, especially enhancing the client experience, improving banker efficiency and marketing tech capabilities to prospects and clients.

***Greenwich Digital Transformation Benchmarking Programs** compare hundreds of key technology features and capabilities among industry leaders to help management teams compare priorities and roadmaps in order to prioritize large and competing investment decisions.*

Our Digital Transformation Benchmarking solution helps management teams prioritize large, important and competing technology investment decisions to maximize ROI as well as the impact on Client Experience.



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About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is India's foremost provider of ratings, data, research, analytics, and solutions with a strong track record of growth, culture of innovation and global footprint. It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

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