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STUDY 2024

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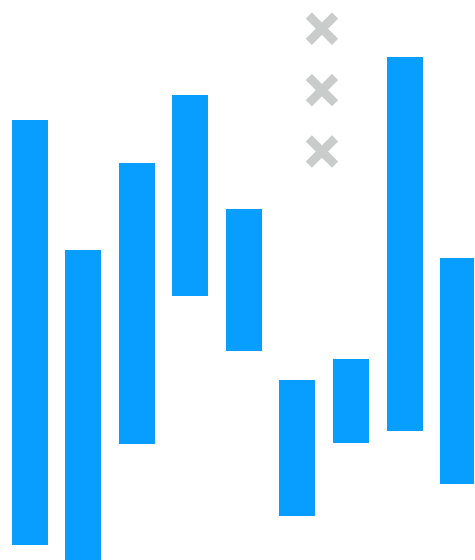
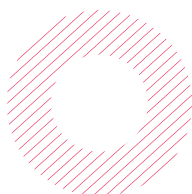
Shift from Selling to Solving in Commercial Banking

Global Banking Benchmark Study 2024

HOW TO UNLOCK NEW VALUE FOR YOUR CUSTOMERS—AND YOUR BANK

Our study shows that commercial banks are at a turning point. Those that move away from product centricity—and the operating models and infrastructure that underpin it—can serve customers more fully. Organizing around customer needs over selling individual products can increase engagement, deepen relationships and improve customer loyalty.

Banks that make this shift stand to win big, as do their customers. But achieving it is no small feat. This article explores the building blocks needed to make it happen.



COMMERCIAL BANKING IS HAVING A MOMENT, BUT CHALLENGES LOOM ON THE HORIZON

Until recently, commercial banking has received less attention for transformational initiatives compared to other banking segments, partly due to more challenging economics. Especially in the SME space, the diversity of customers' business models and maturities, along with limited publicly available data, smaller ticket sizes and lower financial expertise (compared to larger corporates), lead to higher costs to serve and less favorable risk-reward trade-offs. However, recognition of underserved customer needs and implications of a changed rates environment are now pushing both incumbents and challengers to put a stronger focus on commercial banking.

Incumbents like Lloyds Banking Group and Citigroup have significantly increased investment. Neobanks, having been around less than a decade in most cases, are seeing significant traction in pockets of the market—especially in current accounts, payments and foreign exchange for business and smaller SME clients. Specialist banks are additionally active in lending and working capital finance, taking market share from incumbents in profitable areas. [According to the British Business Bank](#), challenger and specialist banks accounted for 59 percent of total gross lending to smaller U.K. businesses in 2023, exceeding the big five U.K. banks for the third consecutive year.

As challengers expand their presence across market segments and product offerings, we expect them to continue to raise the bar for what good looks like in commercial banking across customer experience and operational agility. As interactions increasingly shift to digital channels, certain advantages of incumbents' sales forces are at risk. Additionally, business decision-makers are becoming more digitally savvy, setting new customer experience expectations that are accelerated by demographic shifts. In this context, there is pressure on commercial banking incumbents to adapt the way they win, serve and retain customers.



58%

say that their organization isn't investing enough in digital innovation to keep pace with digital-first challengers.

THE DIGITAL TRANSFORMATION LANDSCAPE:

THE RELENTLESS PURSUIT OF CUSTOMER EXPERIENCE EXCELLENCE AND AGILITY

Our recent study uncovers commercial banking executives' digital transformation priorities, challenges and goals. Despite recent focused investment in enhancing customer experience and boosting agility, both remain top transformation goals. Executives believe they have made progress in these areas, but progress is relative in a rapidly changing environment. The stakes are high given the threats that incumbents face. Customer experience excellence and agility are foundational for shifting to customer centricity, yet most commercial banks aren't where they want to be.

As part of our Global Banking Benchmark Study 2024, we surveyed 400 commercial banking executives across 13 countries, covering small businesses to larger mid-market corporate customers.

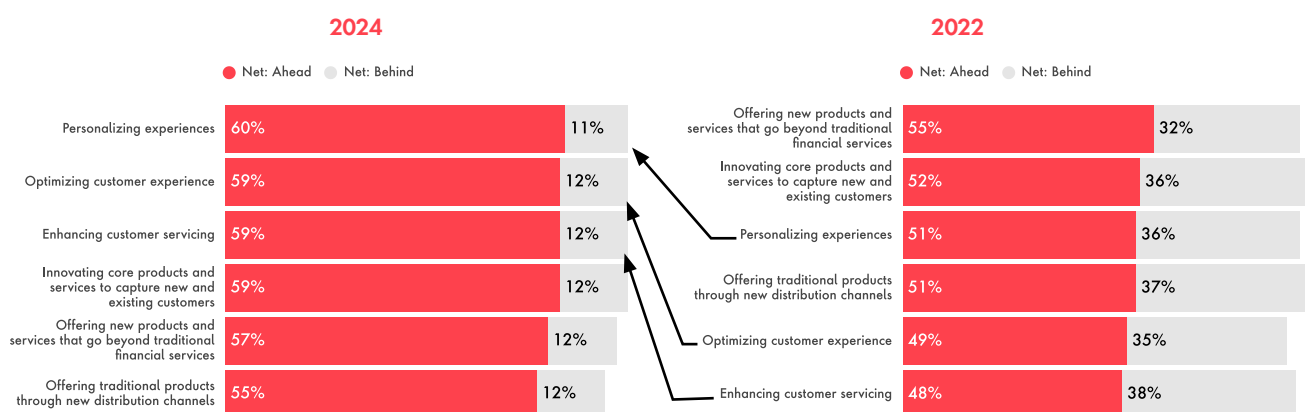
COMMERCIAL BANKS ARE CONFIDENT ABOUT CUSTOMER EXPERIENCE, BUT THEY AREN'T THE ONES RAISING THE BAR

Great customer experience is a basic rule of business. It's no surprise that 82 percent of commercial banking executives say that the highest level of their organization tracks customer experience metrics. What is surprising is how confident executives are in their customer experience capabilities overall. Most are very confident that their bank outperforms direct competitors in all areas of customer experience—more than they were in 2022 (Figure 1). The larger the balance sheet, the more certain executives are.

Figure 1: CX Transformation Competitive Comparison

Survey Question: Thinking about your organization's current approach to customer experience, please indicate how your business compares to its direct competitors in each of the following areas.

Commercial banking executives believe their customer experience capabilities top their peers' and are more confident about it than they were in 2022.



N-2024 (400), 2022 (410)

The watchpoint here is that it's the challengers and neobanks who are constantly setting new expectations for customer experience. In the U.K., for example, there is a clear gulf between challenger banks and incumbents in [Competition and Markets Authority \(CMA\)](#) business banking service quality results, favoring challenger banks.



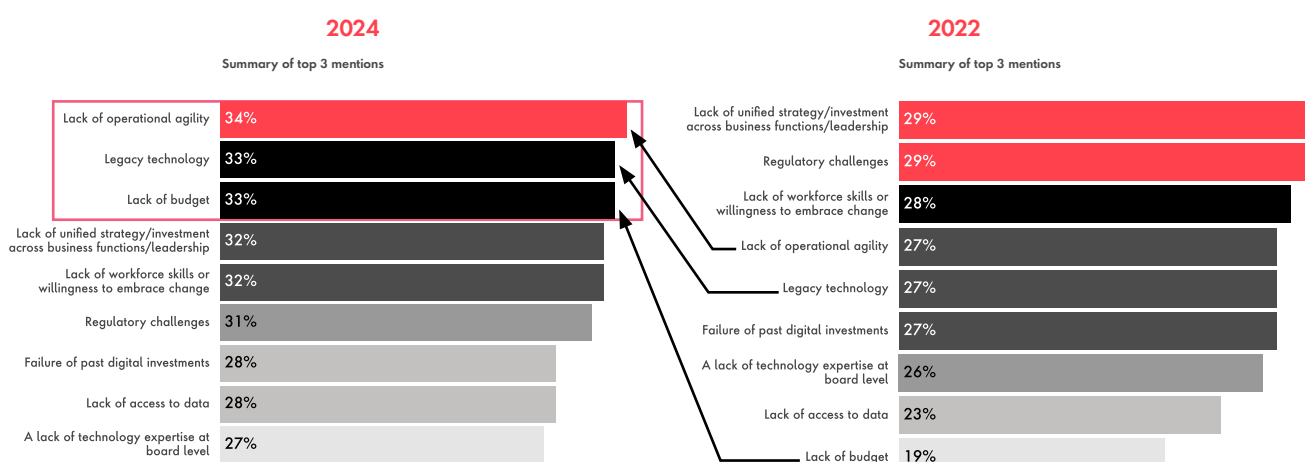
As challengers and neobanks set the customer experience standard, they are also influencing commercial banks' customer experience priorities. **Case in point: 75 percent of executives know that their bank must do more to appeal to digital-first customers, and 58 percent say that their organization isn't investing enough in digital innovation to keep pace with digital-first challengers' offerings. These findings clearly signal that incumbents aren't where they want to be in customer experience.**

THE AGILITY IMPERATIVE MAY BE OLD NEWS. EVEN SO, IT IS INTENSIFYING FOR COMMERCIAL BANKS

Agility is another business nonnegotiable for commercial banks. This is not headline news. Executives have known it for years, and they have been chasing agility for just as long. What's new? The pressure to become more agile is intensifying for commercial banks. The survey results show that the lack of operational agility is the top barrier to digital transformation in commercial banking and is more of a barrier than it was in 2022 (Figure 2). The largest banks struggle the most.

Figure 2: Digital Business Transformation Barriers

Survey Question: Which of the following have been the biggest barriers to your organization's digital transformation efforts in the past 12 months? Between 2022 and 2024, lack of operational agility moved up to become the biggest barrier to digital transformation.



N:2024 (400), 2022 (410)

At the same time, enabling greater agility is among executives' top three digital transformation goals. Those who see this as their number one digital transformation priority most commonly say it is due to competitive challenges from consumer tech companies, telcos and online retailers. It's no wonder. Many of these companies are digital-born and agile by design, from the business model to the culture.

Commercial banking leaders believe they have made some progress in improving agility. Eighty percent say that their organization is quick to pivot to new opportunities if there is customer demand. Seventy-nine percent say that their firm has made significant strides in embracing an agile operating model. Even so, progress is happening incrementally or in pockets of the business. **Just 31 percent have a fully agile operating model, and 40 percent have a fully agile operating model only in parts of the enterprise.**

Some traditional commercial banks have been able to set up modern, agile businesses on net-new, greenfield platforms (like Goldman Sachs' Transaction Banking). However, elevating the pace and scale of change in the legacy estate is a very different challenge. Commercial banks need agile delivery models and an agile technology foundation. **Why? Even the best agile ways of working can't overcome the weight of monolithic platforms, old and undocumented code bases and data that is tethered to individual channels or product systems.**

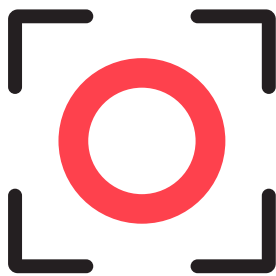


Genuine enterprise agility is essential for commercial banks to address challenger threats and stay competitive. They must be able to continually evolve how they go to market, serve customers and manage operations. The pace of change in the industry will only accelerate, with the impact of generative AI alone likely to be unprecedented. This means that relying on current capabilities and brand legacy to protect and grow market positions is a risky strategy. While banks can make changes sufficiently quickly from their established market position, they may struggle to catch up when challengers take the lead.



THE SHIFT FROM PRODUCT CENTRICITY TO CUSTOMER CENTRICITY—NOW IS THE TIME FOR BOLD CHANGE

Commercial banks that strengthen customer experience and agility have a choice to make. Will they do the same things differently or will they do different things? **Those that break the mold and shift from product to customer centricity can protect and strengthen their market position.**



PRODUCT CENTRICITY: WHERE COMMERCIAL BANKS ARE

The gradual expansion of product areas in commercial banking has led to disconnected infrastructures, including channels, product systems, and databases. As a result, the customer experience has become as disconnected as the infrastructure is. We see this problem across financial services but it is especially pronounced in commercial banking. Product centricity undermines customer satisfaction and banks' success in several ways:

1 Banks sell products instead of solving problems.

Relationship managers tend to sell individual products based on the breadth of their personal product knowledge and their incentives. Conversations with customers often underutilize available customer insights from owned data, such as transaction histories, past engagement and observed behaviors, and third-party data (such as public registries or open banking and accounting software data, subject to customer consent). This often leads customers to feel they are being sold to rather than listened to.

2 Digital channels miss out on differentiation.

Banks design their digital engagement models primarily to enable cost efficiencies by moving standard interactions to self-service. However, digital journeys are often disconnected, feel outdated and don't connect customers with relevant, value-added services. They also tend to lack integration with high-touch assisted interactions, which are typically an advantage for incumbents over digital-first challengers and can be further enhanced.

3 Data black holes slow down product access.

Commercial clients typically start a banking relationship with a current account to manage everyday banking needs. Additional needs, like borrowing or international payments, mostly result in a new-to-product onboarding process that can take 30 days or more. This happens because banks insufficiently reuse previously collected customer data and underutilize third-party data sources. The same issues often impact the pace of repeat product origination.

4 Moving within the bank is like switching banks.

When customers grow, they eventually move from one bank-defined customer segment to another, for example, from business banking to mid markets. This can feel like switching banks. Customers often have to navigate different coverage and service models, including new digital channels, new relationship managers with an incomplete understanding of the relationship history and new product systems. System duplication across segments not only impacts the customer experience but also is a drag on the bank's cost base.

CUSTOMER CENTRICITY: WHERE COMMERCIAL BANKS SHOULD BE

There is a better way. In customer-centric distribution and servicing models, interactions between banks and customers focus on the prevailing customer situation and market environment. Both customers and banks reap the rewards:

1

Proactive and relevant advice.

Banks use the information they have to proactively design solutions that fit customer characteristics and their unique situations. For example, if a bank knows that a customer is expanding its business internationally, relationship managers offer a discussion around suited credit, trade finance and cash management solutions. Or when there is a market event adversely impacting a customer's industry, relationship managers proactively discuss options for short-term liquidity optimization or temporary loan repayment holidays. Additionally, digital channels offer value-added services, including suggestions, reminders and automatic triggers based on analysis of available customer and market data.

2

Higher pace and lower friction.

Once the bank sourced data from a customer or a third party, it becomes easily discoverable by all relevant areas within the bank, supported by robust data governance. This enables rapid responses to recurring origination and servicing needs, as well as accelerated access to additional products.

3

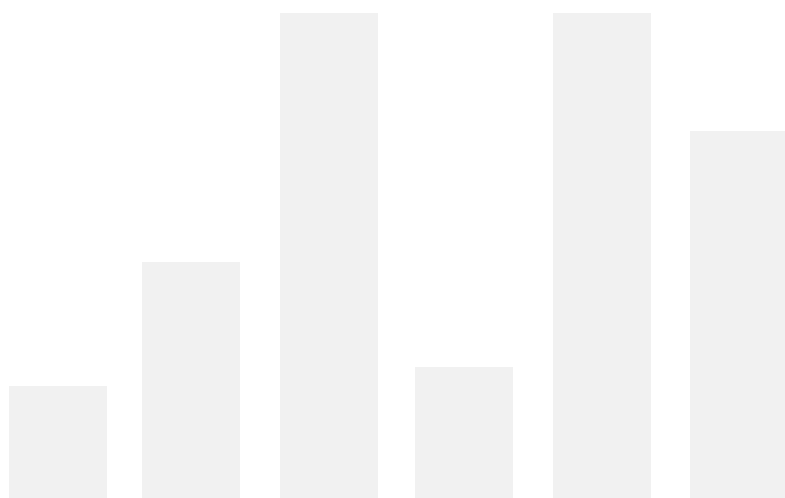
Consistency across banking services.

Throughout the customer life and growth cycle, channel and product experiences remain consistent and coverage contacts transition, where required, without loss of client knowledge. Customers access services through their preferred mode of engagement—digital or with human support—via single entry points. In addition, harmonized channel and product capabilities make it possible for smaller customers to access services typically only offered to larger businesses. This simultaneously drives revenue opportunities and operational efficiencies for the bank.

4

Broader value proposition.

Commercial banks extend the value they provide by serving nontraditional banking needs. These services could include sector-specific growth advisory, provision of insurance and risk-management services or introductions to potential clients, suppliers and external service providers. Ultimately, commercial banks become customers' preferred and trusted problem solver.

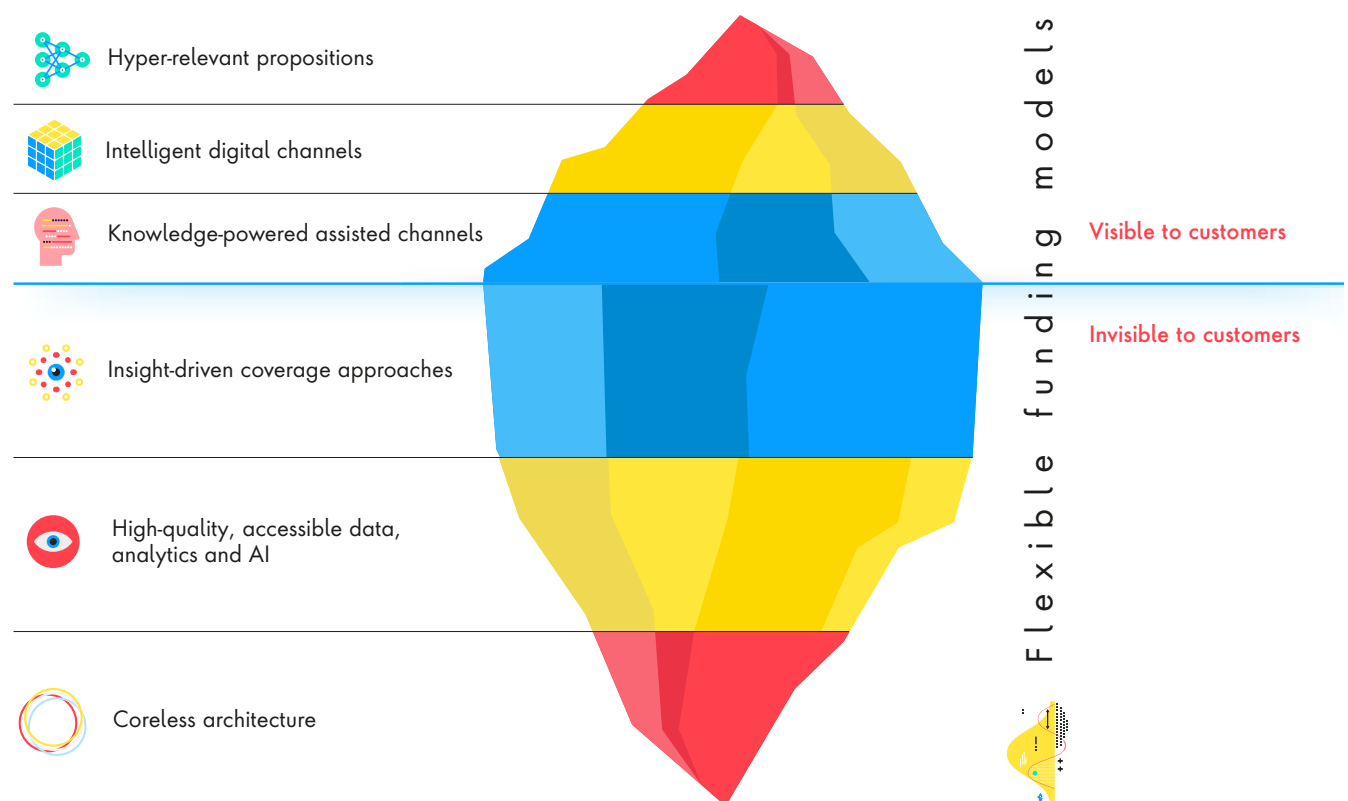


RECOMMENDATIONS

THE BUILDING BLOCKS OF CUSTOMER CENTRICITY

Most commercial banks aspire to interact with customers in these ways. Yet, many only get so far. Despite good intentions and targeted investments, banks' progress is largely incremental. At the core, it is limited by their technology and data infrastructure, operating models, and funding approaches.

Based on our experience, we know that if commercial banks want to become truly customer centric, they have to make bold changes to fundamental aspects of the enterprise. The customer experience excellence and agility required for customer centricity are grounded in shifts from the architecture all the way to the value proposition.



Building customer centricity from the foundation up. New capabilities and ways of working mutually enhance each other, fueling commercial banks' ability to develop new customer propositions and interaction models.



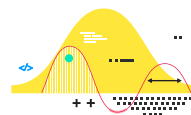
CORELESS ARCHITECTURE

Modern financial institutions will increasingly be built on a cloud-based, [coreless architecture](#). Without foundational core modernization, commercial banks will struggle to achieve significant improvements in customer centricity and organizational agility. Coreless architectures help commercial banks break down product and channel silos, easily add and exchange components over time, simplify how they partner across the technology and distribution ecosystem and build in security and encryption foundations from the start.



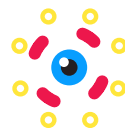
HIGH-QUALITY, ACCESSIBLE DATA, ANALYTICS AND AI

A coreless architecture decouples data from channels and product systems without the need for data aggregation overlays and simplifies the ingestion of third-party data. This makes data more accessible and avoids duplicated and outdated data points. But that's not all. Layering next-generation analytics and (generative) AI capabilities onto high-quality data fuels customer insights, improves decision-making, and multiplies customer and business value when applied in the right use cases. Executives recognize this potential, and [AI dominates digital transformation plans across banking](#).



FLEXIBLE FUNDING MODELS

Organizational agility requires funding models that allow for in-year priority shifts while providing stability for longer-term initiatives that demonstrate interim value. More experienced banks are moving toward quarterly, outcome-based drawdowns of multiyear funding envelopes. This enables them to accelerate initiatives that have a significant impact on customers and the bottom line, terminate work more quickly when market conditions change and enhance confidence in delivery activities with multiple transition states.



INSIGHT-DRIVEN CUSTOMER COVERAGE APPROACHES

Better data and analytics capabilities will allow banks to fine-tune customer segmentation. In addition to typical metrics like turnover and industry, insights on customer needs and behaviors will inform coverage strategies. Data-driven approaches also allow banks to become more forward-looking and to anticipate shifts in segment needs and preferences. Moreover, with better insights, bank management can broaden relationship managers' incentives to focus on customer outcomes, such as expansion, stability in business downturns or sustainability goals.





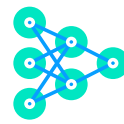
KNOWLEDGE-POWERED ASSISTED CHANNELS

Administrative tasks consume too much of customer-facing employees' time. Digital "workbenches" with built-in data aggregation and analytics capabilities help to sharpen their focus. Relationship managers can limit time spent on meeting preparation and follow-up as well as on workflow process management. Instead, they can zero in on customer need identification and relevant recommendations, supported by AI/analytics-powered suggestions. The right tooling can also scale product specialist knowledge across the broader sales organization.



INTELLIGENT DIGITAL CHANNELS

With flexible architecture patterns and scalable analytics capabilities, commercial banks can reinvent their digital channel strategies. They can embed digital assistants that cover simpler customer inquiries and systematically hand over complex customer issues to relationship managers, product specialists or operations staff. Underneath, a modular digital channel platform with modern APIs and unified entitlements enables more efficient changes and additions of customer interfaces, independent from product systems, while facilitating single sign-on. A flexible digital channel estate also enables the delivery of data and insights to brokers, who are becoming an increasingly important distribution channel, helping to create differentiated propositions for them.



HYPER-RELEVANT PROPOSITIONS

Built on a foundation of modern architecture and channels, analytics and AI capabilities, and a culture of experimentation, commercial banks can innovate in response to customer and market changes. Lower costs of change and the ability to respond quickly to market feedback accelerate and reduce the risk of adjusting existing propositions and launching new ones. Continuous improvement makes the product and service portfolio more relevant. Banks can also more readily structure solutions for specific customer needs by integrating individual banking products with each other, as well as with non-banking products that can be bank-owned or developed by third parties.



Commercial banks that focus on these building blocks can make a leap toward customer centricity. It's a win-win. More value for customers means more value for banks through broader relevance, increased engagement, deeper relationships and stronger customer loyalty. With competitive dynamics shifting fast and challengers in hot pursuit, now is the time to act.



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