The Digitalization of Commercial Banking
• Competitive pressure from early-mover incumbents and digital-first entrants and the influence of improved retail banking experiences are driving the urgency of commercial banks’ digital transformation plans.

• Banks are making customer journeys and customer experience a focus of their digital transformation plans. However, the heterogeneity of commercial customers adds significant complexity to the process of digitalizing customer journeys.

• Developing new products and services is the top priority for commercial banks in digitalizing their operations, with embedded finance as key focus of attention.

• Banks also see opportunities to add significant value by combining data from different sources to better understand and anticipate customer needs. Richer data resources will also enable wider application of AI in commercial banking.

• Despite the burden of legacy technology, incumbents believe they retain important advantages over digital-first entrants, notably experience in relationship management and compliance expertise. However, blending human interaction into digital customer journeys at key moments represents a very significant technological challenge.

• Digital transformation will ultimately require simultaneous organizational transformation. This implies a move to more cross-disciplinary leadership teams with broad skillsets encompassing technology, data, operations and customer experience in order to overcome product silos.
INTRODUCTION

The digital transformation of retail banking is now well-established. By comparison, the process of digitalizing commercial banks trails retail by some 5-7 years, due in large part to the nature of commercial banking operations. These traditionally emphasize human interaction through relationship managers and, especially for larger customers, offer negotiable, non-standard products. The commercial banking customer base, meanwhile, is diverse, ranging from sole traders and small businesses to larger and more complex corporations.

Publicis Sapient’s Global Banking Benchmark Study 2022 shows, however, that with many of the key challenges in retail banking now well understood and in the process of being addressed, large banking groups are putting growing emphasis on digital transformation in their commercial banks. Commercial banking executives who took part in the study report that increasing competition from established rivals (49%) as well as from digital-first challengers (47%) are the two biggest factors driving the urgency of their transformation plans. Commercial banks see clear scope to innovate and gain market share: their number one top goal in digitalizing their proposition is are to generate revenue growth from new products and services (21%), well ahead of and improving the customer experience (17%).

In addition to competitive pressure from new digital propositions by both incumbents and challengers, we believe that productized software solutions, which can offer a time and cost advantage to bespoke-built components, will add momentum to transformation efforts. Rising net interest margins tend to further increase the attractiveness of investments, especially in credit propositions. To explore the opportunities and challenges of digital transformation, we supplemented the results of the Global Banking Benchmark Study 2022 by conducting in-depth interviews with four senior commercial and corporate banking executives [1] who are leading the transformation of their organizations. These interviews provide a rare set of insights into the realities of digital transformation for commercial banks.

Top drivers of bank’s digital transformation strategies and priorities:

- **49%** Increasing competition from established rivals
- **47%** Digital-first challengers

Stated as one of the top 4 answers to the question "Which of the following are the most important drivers of your organization’s digital transformation strategy and priorities?"

[1] We are grateful to the executives who agreed to be interviewed for this paper: Steve Everett, Head of Cash Management and Payments at Lloyds Bank Business and Commercial Banking; Brian O’Connor, Global Head of Embedded Finance at IPM Payments; Brent Stephens, Head of Liquidity Solutions, Global Transaction Services at Westpac Institutional Bank; and Dan Wilkinson, Head of Expand my Business Customer Propositions & Delivery, Commercial & Institutional, at NatWest.
COMMERCIAL BANKS ARE FOCUSING ON DIGITAL CUSTOMER JOURNEYS—BUT FACE MAJOR OBSTACLES

The Global Banking Benchmark Study makes it clear that commercial banks are re-orientating themselves around customer journeys and the customer experience as the central plank of their transformation programs (72% of commercial banking respondents agree). This is also clear from our conversations with commercial bank executives. “My primary goal in joining NatWest recently is to help our teams to focus on our customers end to end customer journey to make it as simple as possible,” says Dan Wilkinson, Head of Expand my Business Customer Propositions & Delivery, Commercial & Institutional, at NatWest.

However, the process of digitally transforming customer journeys within commercial banks is just beginning, and while some banks have defined operating models built around digital customer journeys, they are in the early stages of implementation. We believe that the key to bringing these propositions to life will be to build multi-disciplinary leadership teams with skills that span technology, operations and customer experience. Creating and managing such cross-functional teams has proved challenging historically, although the potential gains are significant: a more customer-centric business with lower operating costs due to fewer organizational silos.

In starting to prioritize the digital customer experience, commercial banks can learn from their group’s retail operations (as well as non-banking digital CX leaders, of course). Some commercial banks have started to make progress in this area, although the results are observed most commonly at the lower end of the customer base — sole traders and small businesses — where the needs and behaviors closely resemble those of retail customers and existing knowledge is therefore most transferable. This is also one key driver of why digital-led neo-banks have concentrated on smaller commercial customers. Challenger banks are becoming increasingly successful in gaining market share in the SME segment, with the share of total gross lending to U.K. SMEs by challenger and specialist banks rising to 55% in 2022* [1]

Among larger corporate customers, digital engagement is much less advanced and more fragmented, taking place mainly through legacy portals that give access to payments and cash management products.

Commercial banks naturally aspire to emulate the fast, frictionless customer experiences that retail has been able to provide. “The key is rewiring manual operations and replacing them

with seamless, digitized processes so that we can, for example, provide a digital process for onboarding and opening a payment account in less than five minutes, where this used to take multiple days,” says Brian O’Connor, Global Head of Embedded Finance, JPM Payments.

However, commercial banks will find it far more challenging to fully replicate the straight-through processing now spreading through digital retail banking because of the heterogeneous nature of their commercial customer base and the prevalence of non-standard products, particularly among larger client segments. “With larger clients, we have to deal with a lot of products that can be negotiated,” says Brent Stephens at Westpac. “So when we say we want a more digitized retail-like experience, it does come with a caveat because we can’t have total standardization or our customers won’t be able to agree to those terms in certain cases.”

The result is a services and systems landscape in commercial banks that is bespoke and fragmented, increasing cost-to-serve. Creating frictionless, digital customer journeys that can accommodate customers of differing sizes, with diverse business characteristics, needs and legal structures represents one of the greatest obstacles to progress. Moreover, the information requirements become progressively more complex as businesses grow and move from one coverage and service model within the commercial bank to the next — from business banking to SME to mid-sized corporates.

Steve Everett, Head of Cash Management & Payments at Lloyds Bank Business and Commercial Banking says: “You’ve got to build a very slick onboarding capability that ensures you’re collecting all the data you need, particularly given the KYC and AML regulation, and that’s harder to do, I believe, in a commercial business than a consumer business.”

The sheer breadth of requirements that digital onboarding journeys would need to encompass in terms of KYC and AML rules, permissions capture and business classification means that achieving digital customer experiences that are closer to those now common in retail banks will take several years.
Commercial banking respondents to Publicis Sapient’s Global Banking Benchmark Study 2022 identified their three top priorities in digitalizing their customer experience as offering new products and services (39%), combining data from different sources to gain a better understanding of customers (37%) and creating personalized customer journeys (34%).

Embedded finance has become the focus of considerable attention among commercial banks over the past couple of years and bankers identify opportunities in this area that go beyond the expansion of their product offering. Brian O’Connor, Global Head of Embedded Finance of JPM Payments, sees embedded finance as a central part of his bank’s drive to improve the customer experience.

In this vision, moving into embedded finance creates new product offerings — including the potential for propositions that blend banking and non-banking services — as well as alternative distribution channels for banks, while simultaneously delivering improved experiences for the bank’s corporate customers and their customers.

But the roll-out of embedded finance brings significant challenges, even for those banks that have invested in the internal system’s ability to deliver it. Banks can go only as fast as their customers: JP Morgan’s commercial customers have a large appetite for embedded finance propositions, says Brian O’Connor, but many are not in a position to move forward quickly. “One of our biggest learnings has been that our customers want to adopt our APIs from day one, but then they discover that their eyes are bigger than their stomachs. They find that they have to move at a speed they can manage.” JP Morgan is finding ways to enable a gradual adoption of embedded finance by its customers.

"One of the key steps to improving the customer experience is to embed our commercial bank’s range of banking services in the customer’s processes, especially in their online platforms and marketplaces, and make them available to our customers’ customers for products like payments and working capital finance.”

BRIAN O’CONNOR
Global Head of Embedded Finance,
JPM Payments
Embedded finance could, therefore, also represent a way for commercial banks to accelerate their customers’ digital transformation.

However, the wide range of tech platforms in use among commercial customers, especially accounting, ERP and treasury systems, makes this roll-out particularly challenging for incumbent banks. This adds to the range of factors that must be overcome if embedded finance is to become a profit driver for commercial banks in terms of both volume and margin. As well as the need to integrate flexibly into multiple partner systems in order to scale the proposition, the internal systems and operations that banks will rely on to deliver banking services are typically fragmented and challenging to expose to third parties. In addition, it can be difficult for banks to establish internal business ownership of embedded finance because it depends on a different distribution model than those that banks are accustomed to and can therefore cut across the traditional product silos.

Commercial banks are likely to continue experimenting with embedded finance in the search for well-differentiated propositions. Their efforts to move beyond traditional product silos and establish more collaborative, cross-functional teams is likely to prove a critical enabler of these product and service innovations.

Success in rolling out embedded finance — as with the other facets of digital transformation — will, of course, depend on updating or replacing legacy core banking systems with an architecture based on APIs and micro-services. Commercial banks are still unclear on how to best execute this transition. Should they prioritize shorter-term tactical fixes or work patiently on over-arching strategic solutions that will take much longer to produce visible results? The debate here is ongoing, although recent declines in fintech valuations may open the way for strategic acquisitions that could accelerate banks’ access to more modern technology stacks.

“I’m very much thinking now about how I can help my customers digitalize their business processes through the embedded finance products that we offer, particularly embedded payments.”

STEVE EVERETT
Head of Cash Management & Payments, Lloyds Bank Business and Commercial Banking
Commercial bankers who took part in the Global Banking Benchmark Study 2022 made ‘combining data across different systems to obtain a richer understanding of our customers and their relationship to us’ their second-highest priority over the next three years (37%). Among their key aims in pursuing this strategy is to improve the customer experience through greater personalization, including tailored screens and messaging, and to build richer data resources that will allow the application of machine learning algorithms.

To date, use cases for machine learning in commercial banking remain nascent.

Brent Stephens of Westpac argues that data analytics will become a crucial source of competitive differentiation for banks as their core technology architecture becomes more standardized. “A lot of what banks will be delivering in 10 years’ time, we think, will be very close to at par with one another,” he says. Instead, banks will use their analysis of the customer’s “transactions, settlement volumes, liquidity, balances…to work with the customer on how they can optimize their own internal processes,” he says. “We want to provide something truly different to our customers by way of transaction analytics and data, and we think that’s where banks will be differentiating themselves over time.” Providing that sort of insight to customers today is a highly manual process. But with improved technology, it can be turned into a scalable product with dashboards that use data visualization to provide personalized insights across the entire customer base.

Commercial banks report that they face important obstacles in their efforts to generate greater value from data analytics, including data security, privacy and ethical concerns (38%) and inconsistent/missing/poorly documented data taxonomies across the organization (36%) due in part to these banks’ siloed legacy technology architecture. Steve Everett of Lloyds points to the problem of siloed data resources, which results in data obtained during onboarding not being available in the downstream systems that support the bank’s products. “How you bring that data together and start to cross-share it between products is a really important question,” he says. Dan Wilkinson of NatWest says: “We’re very focused on how we can make better use of that data to make services easier to use and avoid asking customers repeat questions.”

In order to achieve their data ambitions, commercial banks will need to involve data strategists in their proposition and process design at a much earlier stage. This will enable systematic data capture, sharing, and application. It will also aid in building, or embedding, AI capabilities. These are becoming increasingly accessible for banks but rely on the right foundations, such as data models, to operate and deliver on future use cases.
In making their digital transition, incumbent commercial banks believe they retain certain advantages over digital-only entrants, thanks to the expertise of their relationship managers in understanding the nuances of client needs and negotiating and managing non-standard agreements. Neo-banks that have built digital-only propositions for commercial customers have so far concentrated on smaller businesses with relatively simple needs that lend themselves to digital self-service. But neo-banks will increasingly need human expertise if they are to service a wider range of commercial customers effectively.

Looking ahead, Dan Wilkinson of NatWest sees a trend of convergence between incumbents, which are trying to simplify and accelerate their customer journeys, and neo-banks, whose commercial banking operations will inevitably become more complex and require more human interaction as they grow. This highlights one of the central challenges for established commercial banks in their digital transformation journey: how to create end-to-end, personalized digital customer journeys and blend them seamlessly with human interaction that draws on banks’ traditional strengths in relationship management. This is extremely difficult – the systems used by relationship managers in most banks today do not have the capability to let them intervene in a customer journey that started digitally and, in most cases, give them little or no visibility of the customer’s digital activities with the bank. “You have to place a digital experience at the heart of the relationship between customer and bank, and you need to be able to complement that digital strategy with personal contact in moments of truth. To do that you have to have a very deep digital capability,” says Steve Everett of Lloyds.

“\textbf{We’re all running to the same middle point as I see it.}”

\textbf{DAN WILKINSON}
Head of Expand my Business
Customer Propositions & Delivery,
Commercial & Institutional,
NatWest
A set of common goals emerges from our survey work and deep-dive interviews with senior bankers. They are all focusing on putting the customer experience at the center of their thinking and creating end-to-end digitized journeys. A key priority of their digital transformation programs is to unlock new revenue streams, including embedded finance propositions, and to use data analytics to understand their customers better, meet and anticipate their needs and provide them with value-added insights into their own business.

However, although commercial banks are focused intently on achieving digital transformation, those guiding this process realize that success will mean simultaneously achieving organizational transformation in terms of team structures and operational processes. “It’s actually a full business transformation but anchored in a digital transformation,” says Steve Everett of Lloyds. Dan Wilkinson of NatWest agrees: “A lot of what we need to achieve is actually about reorganizing our teams around our customers, that will allow us to offer a better service to our customers, coupled with enhancements in technology.”

Digital transformation will require a broader set of leadership skills, including data and technology expertise, than is usually found in incumbent banks. The most likely way for banks to assemble the skillsets they will need is to create more diverse, cross-functional leadership teams to oversee integrated, digital operating models. The results of our Global Banking Benchmark Study 2022 suggest there is still some way to go before this style of leadership becomes a reality. Only 24% of our survey respondents say they have a fully agile operating model based on cross-functional collaboration and decentralized structures, and only 28% regard an agile culture that supports cross-functional teams and digital ways of working as being the most important factor in creating a digitally innovative bank. Embedding this kind of culture is arguably where the banks’ digital transformation journey needs to begin.

CONCLUSION
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To supplement the survey, interviews were conducted with the following executives. Thank you for your time and contributions to this report:

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