COMMERCIAL BANKING TOP TRENDS FOR 2021

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Adam [00:00:00] And now without further delay, let's begin today's event sponsored by Accenture and hosted by American Banker. I'd like to introduce your moderator for today, and that is Penny Crossman, Penny you have the floor.

Moderator [00:00:10] Thank you Adam and welcome to this webinar on 2021 commercial banking trends. I'm Penny Crossman, executive editor of technology at American banker.

Digital transformation has been a really big buzzword for the past year, probably more than in the past few years and a lot of that is because of the pandemic, which forced many banks to close branches or go to appointment-only hours in their branches, so they were really forced to step up their game in their mobile and online banking. There's also been increased competition from fintechs and bigtech companies that are gaining more users for their platforms and starting to take a little bit of market share from traditional banks. But within these kinds of broader trends, what are some of these specific investments and technology efforts that banks should be making to stay relevant and to compete during the coming year?

We are here today with Jared Rorrer and Chris Scislowicz of Accenture, who have been analyzing this and looking at this and they have come up with eight specific trends that commercial banks should be focused on for the coming year. Jared Rorrer is managing director and global commercial banking lead at Accenture. He previously worked at Bank of America for 11 years and before that he was an army captain and he was in Iraq during the Iraq War during some of the heaviest times of fighting. Chris Scislowicz is managing director for financial services at Accenture. He's been with Accenture for 24 years. Welcome both of you. Jared, can you tell us from your perspective what has been really different over the past year, because you guys have done this kind of exercise for the past few years. What really stood out making 2020 really different?

Jared Rorrer [00:02:18] Yes sure and thanks for having us today, we certainly appreciate the opportunity to talk about these trends. I think when we pulled up and looked at 2021 relative to prior years, I think we're seeing this is a bit of a pivot here. When you look back at 2020 and what's happened through Covid, and banks starting to realize what's possible, as well as this idea of focusing on a broad investment spend over a period of years at this point. We're starting to see banks both see and realize the potential of these investments, while simultaneously losing patience on the long term spend. I think there's a bit of focus on continuing to build out those capabilities that are going to be core to your digital future. Whilst an immediate need to begin to push those capabilities forward, whether client-facing, employee-facing, that begin to realize the power of what's possible, as we think about where we're at. If you look at something like PPP, and I

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hope everybody hasn't hung up, now that I've said PPP, but when I think about the PPP program specifically, and you think about all of you that were involved with this – I think many of you were. $300 billion of loans was processed by this industry in the United States over four to six weeks. $300 billion went out and there was no process, there was no defined role on this, and what we saw is many banks really push to have full-on digital solutions in a matter of days and weeks. It wasn't easy and it certainly came with its own sets of pain. But the other side of this is that customers of our banks as well as senior executives saying 'if I could pull this off, why am I still unable to realize the power of digital?' That's where we have seen the biggest pivot. So it's a bit of you have to continue to drive where you're trying, but not outside of this but simultaneously begin to realize the power of what you've built. So that's what you'll hear us speak to today.

Moderator [00:04:42] It makes sense, Chris anything you want to add?

Chris Scislowicz [00:04:45] Yeah, maybe just a bit of context about this year's trends before we jump in there which is, I think, when we look at last year's trends, we had six very discreet trends that were somewhat standalone and intentionally somewhat disparate. what we'll see this year is that the trends are very fluid and that one naturally bleeds into another – and that's to Jared's point, I think that's a reflection of where we are and where we see the industry heading. So, I won't spoil what's to come but I think as you start to see that natural fluidity – is that one trend sort of bleeds into another.

Moderator [00:05:23] All right cool, let's jump into that first trend which is around becoming digitally fluent? Jared, can you walk us through this framework that you've got up here?

Jared Rorrer [00:05:35] Yeah absolutely! I think that you know this trend. As we look at this framework, we think this is the bedrock and the cornerstone of everything else you need to be focusing on. I know sometimes people get a bit exhausted with talking about people in the journey of the organization, but by and large, this is the single most important thing that you have to make of this. We think that this framework becomes really critical to how you think about what's going to be presented today and how this applies within your own organization.

Starting at the top or on the digital foundation – you'll hear us talk about this today – this is the enabling capability in the technology tool set that's going to get you to be a truly digital bank. Moving around to the right, digital operations again, rather straight forward and what that is, is the application of digital in workflow and capabilities around how you're transforming the delivery of these products. This becomes really key, and that's both internally and externally. The last two are

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probably the bedrock and cornerstone of what we're talking about here, around digital leadership and culture, and ensuring that at every level of the organization, from the top of the organization down, digital is first and foremost on folks' minds: a singular focus and digital enablement. Lastly around this, this workforce technology quotient if you will, digital workforce TQ. What I find interesting is some of my best and brightest colleagues are like, 'what's TQ?' It reminds me of years ago – not many actually – but where I was like others: 'what does this digital thing mean?' You hear it everywhere. But this is really, 'what's your technology quotient?' How are you becoming technically savvy at every level in the organization? And how are you building this kind of culture? So, all these things become digital fluency, is the way we think about it.

The next slide shows the key point of what this trend is. It's about bringing these things together and…When we look at digital fluency and TQ, this is about every single person, and this is where this change is. Gone are the days when the banker was telling the technologist that this is what I want and then the technologist decides how it's going to be delivered. Gone are the days – okay, I think, limited are the days – when the chief digital officer was driving the digital strategy. One of the things that you'll see in our paper is we're clearly stating that we find the role of the chief digital officer will become less and less relevant in time, and I think that's a pretty bold thought but it isn't necessarily intended to say that the role of the chief digital officer is not important. It's saying that that power is going to converge with the business and it's not going to be separate. But to me, this cultural shift around digital fluency and TQ being how the organization runs itself, is a fundamental difference.

There's a bank down in South Africa, who's CEO has just become a trailblazer, you know a Salesforce trailblazer. And the CEO is saying everybody is going to be a Salesforce savant, if you will. It's just an example, but I think it's important to think about as we move forward with this.

The other thing beyond culturally thinking about how you're building up and growing this talent internally, is looking at how you're hiring. One of the things that we looked at in a survey late last week – and it was just rather enlightening and fascinating to me – is that we're seeing, by and large, bank technologists and bankers who are departing the industry to go to the likes of Amazon and Google. So, we're learning here – and you'll hear us talk about fintech risks in a bit, but that's an enlightening trend in its own right – you're growing up and learning about banking, you're going to need a fintech. Just currently the inverse isn't true. Banks that are looking for leaders are looking at other banks. They're hiring people with similar backgrounds and skill sets yet looking for different, more digital outcomes. The key thing I want folks to take away from this trend is that this is a massive accenture

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shift, in which digital capability and digital fluency teach you to all come together to where the business is driving this outcome alongside technology. It is a fundamental shift where it is absolutely everybody's job to interacting with technical digital revenue.

Chris Scislowicz [00:10:57] Yeah, I think you touched on it with this convergence point. I think that's the key: not that one group is going to take over the other necessarily. It's that they are naturally merging, that this concept of the Chief Digital Officer and the concept of commercial bank leadership are merging into a dual responsibility where digital and TQ is just part of your daily life and, frankly, your job expectation. I do think that's something that is new and is rapidly accelerating.

Moderator [00:11:32] Do you think that the title Chief Digital Officer is going to go away and are you seeing new titles emerge? I've seen chief experience officer crop up a few times, melding the business side of having the great digital experience with the actual technology side of it?

Jared Rorrer [00:11:55] I do think they will go away over time, but I think it is important to say that we do not expect this to happen in the short term. They do need that kind of focus and the enthusiasm of the single leader driving and owning their capability. But I also think – and this is important from the perspective of culture – that there's something about commercial banking, or corporate banking, or wholesale banking, that in my mind gives the chief digital officer a clearer path to running the business then in the next three to five years than virtually anyone else. I think that's fundamentally different. So you're going to see folks who bring together those skills around understanding the business and the capabilities and the client needs, and building those things into a technical road map or continuum of digital capabilities. Having the ability to run this business – and that's a fundamental shift from what we've seen in the past. The majority of our banks are led by traditional bankers. Frankly that's a good thing, but I think that it will be on those business leaders to build this digital fluency, this TQ, within themselves and within their leadership teams to continue to drive the trajectory that they hope to continue along.

Moderator [00:13:18] So you're saying people on the business side are going to have to improve their technology quotient? How do they go about doing that?

Jared Rorrer [00:13:26] Well it's funny, Accenture is helping firms do just that today. We have firms like Best Buy and Nike where we're actually helping drive and build this kind of culture. But that's not necessarily the only platform.

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I do think that the answer goes back to the wheel we showed a moment ago, that says 'are you building capabilities around these things? Is digital fluency a priority of the firm? Are you thinking about how digital fluency and digital touches everything you do?' If you're doing that, and building cultural change that rewards those kinds of behaviors, it takes on the risk of digital capabilities and it's thinking about how those things drive your future. That is how you do it. It's not a silver bullet, it's a cultural shift that is focused on investment and training and building agile teams that is the new way of working. I've talked for years with commercial banks around strengthening of the product management organization, especially in the credit space, where we've never seen true credit management. I think with the digital capabilities that are out there, you'll see that kind of role build itself into truly owning the business. That will begin to build further incubation of those capabilities.

Moderator [00:14:47] Yeah, absolutely. So maybe we should move on to the next trend, which is Digital Foundations Aren't Built in a Day. Would you like to comment on that, Chris?

Chris Scislowicz [00:15:02] Yeah, I'll take that one. The concept here is that Rome wasn't built in a day and neither was your digital foundation. It's an acknowledgement of last year's trends, in many ways, and it encapsulates all six that we talked about last year.

The point is that the digital foundation is the heart of the bank's investment, and these are multi-year journeys which, for most folks, are about halfway completed. We think these are probably 5 year journeys. There are certainly some banks near the end of it and some banks at the beginning, but the vast majority are in that year 2, 3, or 4 where they've lost sight, perhaps, of when they started and can't quite see the finish line – so they are in this uncomfortable middle zone. But I think folks need to take solace from the fact that these are massive transformations. We're talking about payments modernization, replacing your commercial loan origination system, migrating your digital infrastructure to the cloud, redesigning your entire operating model, and your lines of business. These are massive transformational initiatives and folks shouldn't be alarmed that they are taking time, that they are taking massive amounts of spend in organizational capacity, and frankly that they're not done. I think if there were three takeaways for me for this one. It's one: it's okay that you're not done. Two: stay the course and remain focused. And three – and this will be the segue into the next trend – the benefits are coming, so don't lose sight of the fact that you're going to see real benefits here.

Moderator [00:16:34] And what are the biggest obstacles that are keeping people feeling stuck? Is it money, is it the effort required? Is it the difficulty of doing a core transformation, the risks of that? What are the key things?

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Chris Scislowicz [00:16:54] At the risk of being clichéd, I think it's organizational ADD. I think it's very easy to get swept up in the newest regulation, the latest problem. Certainly there were plenty in 2020 and there are bound to be more in 2021, but I think it's about making sure that you maintain that organizational focus and capacity. Yes, it's going to consume large sums of money; yes it's going to consume large amounts of your valuable resources. You sneeze, and put in your business line, but the key is going to be organizational focus and commitment to finishing the job. The worst thing you can do is get halfway through the foundation and not finish it.

Jared Rorrer [00:17:35] Yeah, and the thing I might add is that this is indeed very complex: the foundational capabilities of migrating to the cloud, replacing an LOS, modernizing your payments platform, changing out your loan servicing platform. These are big, hairy, complex things that are essential if you're going to unleash the power of digital. But they're hard, they're complex, they're expensive and they are foundational. I think that more often than not, C-level leaders are saying 'I've spent a ton of money in this space, where is my return?' And unfortunately, I think that part of the digital foundation is that you're building. It's not about the ability to unlock the return. I think that becomes a really important inflection point, to say if you stop spending when you're finished with your foundation, you're going to keep on falling behind. Because the banks and the businesses that are moving forward the fastest and becoming the most digitally savvy are those that are saying 'now that I've built this, what am I doing about it? How am I realizing this?'

Moderator [00:18:42] I think in your report you called out commercial loan origination and accounting as a priority for these digital foundations. Why did you emphasize that? Is it partly because the door was opened by the PPP?

Jared Rorrer [00:18:59] No, I think it goes back farther than that, which is frankly they were the most behind. Not to say that things like payments modernization and others aren't important, but credit is the backbone of a lot of banks, and in many cases it was the most neglected platform that we've seen. A lot of folks that have invested in those platforms started four or five years ago, but have really accelerated, particularly outside of North America in the past 12 to 24 months. And then we continue to see that trend accelerating. Again, it's largely because it's commercials where the banks are making money. And if you look at where they make the most money – these are sweeping generalizations – it's in credit. And lo and behold, those are the most archaic platforms in the commercial bank.

Moderator [00:19:49] It gets ironic when you think of it that way. Alright, maybe we should move on to the next trend. The Digital ROI is the name of the game. Chris, do you want to start off with that one?

Chris Scislowicz [00:20:04] I feel like we gave this one away a little, talking about the last one, but the fact is I'm going to take this another way. These are somewhat fluid and they roll from one to another. This is a broad recognition that foundation isn't complete, and as Jared mentioned, we have to start demonstrating value out of it. I have no doubt there are executives on this phone, who are feeling the pressure and are having to answer the questions of 'when am I going to start seeing the returns on these big investments?'. There's a good news / bad news story here. The good news is they're very close, and they're very tangible, and they're very meaningful. The bad news is it is going to take even more of your organizational capacity, to go and dig just a little bit further and push a little bit more on these sorst of ancillary features to realize the benefits of that foundation. So, whether you're giving new analytics to your RM through your CRM platform or your loan origination system, whether you're bringing in machine learning to make better risk decisions or automation to improve the efficiency – you've still got to take that incremental step, which is going to be hard, backed by an organizational focus point. You can't lose sight of the foundation. But if you don't start to acknowledge and receive the ROI, you are going to start falling behind. Jared anything you want to add?

Jared Rorrer [00:21:26] Yeah, I think there's a mindset here. I've seen some banks trying to do this. I get it that the digital ROI is the name of the game, and I want to skip trend 2, which is building my digital foundation. But I'm sorry, you can't. It's pretty straightforward: If you haven't enabled an open API infrastructure and you can't expose the data in an effective way to build on the capabilities, if you don't have the power of cloud computing, you're not able to analyze the data. All these things start to play together. If you still can't measure the cycle time of a loan, because you haven't built a capability around your origination, well my goodness you have work to do. But I think it's important to recognize that you have to be able to do both. One of the things that jumps out in my mind as we think about 80% of spend being on the digital foundation: over half of the value is coming out of digital ROI I think that becomes really key.

The other thing I will reference is we did a report late in the summer of 2020 on SME banking. We surveyed, I think, 1,300 SMEs. One of the big insights we gained was about how they are building a framework around digital. How are you measuring your impact in power on digital? And we came up with a framework of four simple words: empathy and focus, efficiency and responsiveness. And we said every single program you're thinking about should be measured as to whether it's bringing those kinds of outcomes. You know, there have been a lot of people who have pushed on me, and said those aren't outcomes. My response was: well they actually are, if you think about them properly. They are indeed outcomes. So pick your own key priority and focus areas, but those are the things that are going to enable and empower your digital experience. That becomes really important to me, but I think the key here is: no more dabbling; digital is real. Your CFO leaders aren't going to have any patience for you not delivering on the digital ROI. There's no way of going in and saying, 'I understand what all is building a foundation'. It's not enough. You have to be able to demonstrate that the foundation is being built, and while you're building the car it's running down the road, and this is how we do it.

Moderator [00:23:48] Do you see that the digital ROI is coming mostly from the revenue side? Like trying to push more loans through your apps and websites? Or do you see it more on the cost-cutting side, like having a virtual assistant that answers more questions so fewer people are going to the call center, that kind of thing?

Jared Rorrer [00:24:16] If you're thinking about the foundation as a bit of internal housekeeping – keeping your house in order and improving what you're doing – banks have been able to get away with improved cycle times, better transparency, faster time to yes, these kinds of capabilities over the last couple of years. That has been enough to satisfy the demand of the customer. But now I think we're in a situation where customers are absolutely looking for this full-on digital experience. So banks are going to be forced to expose legitimate digital capability, and I think this will be a big differentiator. I think it's going to change the question and it's the same as what Chris said: it is a bit of both. But I think the way in which you're thinking about it is going to be important. It's one of those digital outcomes I'm looking for. They will ultimately lead to cost reductions in different ways of experience, but I think the experience has to start first. Banks have to think a bit more like our software or fintech company if they're going to be effective. When I think about this trend specifically, I come up with another example around maybe PPP forgiveness.

I mentioned earlier that PPP was a great learning environment for all of us. A painful and important learning environment, but what we also knew – or maybe we didn't know – is when the forgiveness program was being rolled out last summer, customers who didn't have a positive experience, which is essentially any customer that didn't get a full forgiveness, it was going to be a bad customer experience. It wasn't like the banks could go back and blame the SBA; it was going to be the banks' problem. We worked with one regional bank in particular to build a PPP forgiveness program. And before we did anything we said: 'what is the experience for this customer? How do we think about the experience?' That was a very, very different focus for this bank. It started with what we wanted the customer experience to look like. We knew this was going to be a difficult experience. How do we communicate with them effectively? and on and on. That was a really significant paradigm shift for this bank, and for their customers. And it has had a significant outcome in terms of both the way in which they operate and interact with their customers, and also how they're thinking about this idea of the business of experience, or BX as they call it. It's something to take forward and really begin to put at the outset of everything they do. So we look at what we've been able to do on origination of forgiveness, the baseline of a true digital end and loan capability from portal origination all the way through. That's not something we've been able to do before. That is a full-on digital experience. But again, customers are looking to banks to think about how you're going to build out a capability that is around the experience. And yes, the role of the Chief Experience Officer is going to matter in this, very much so.

The other thing I think that needs to be pointed out is that if it's a vanilla experience it's not going to be differentiated. So how are you going to begin to think about how you can differentiate your customer experience as you build this out? This is about what are my outcomes, what am I trying to achieve? From a software perspective, what are the outcomes supposed to be? Remember I mentioned a moment ago: what do I want to do to be able to differentiate and build that capability? How am I building omni-channel experiences, on and on and on?

In another example, one of the very large Canadian banks is already exposing data to its customers in the free market and in the business banking market. Putting that data out there and providing insights for customers to build upon and understand, that's valuable, that's meaningful. That doesn't require a relationship manager to tell them about it, but it's like your information experience that helps you think about how you're adding value to your customers, just by enabling them to log onto your portal. This becomes the year when it's 'put up or shut up', and the customer is going to be demanding digital experiences which I think we'll start to see coming in the latter half of the year.

Moderator [00:28:57] Well you make a good point in your report that banks face the risk of disappearing into a sea of sameness. And you still see a lot of bank mobile apps that look pretty similar and have similar products and features, and you know a few started offering early wage access. So there will be a few early adopters and then others will follow. Do you think it's necessary to have products that are truly different? Or is it more a matter of the presentation, what the app looks like and how responsive it is, the navigation and interface that's more important?

Jared Rorrer [00:29:54] I think there's a mix here. You could start with when you click on the loan tab, not having an 800 number for example to apply. You could start there, but I do think there will be a bit of sameness to some extent. And I think we'll see banks split into a couple of groups. Some banks are not going to transform to truly digital banks, and I think ultimately they will look a bit more like utility players at the end. They will have a balance sheet, there are basic capabilities, but they will lose the most interesting and most profitable components that are programmed to fintechs, to other banks that are a bit more digitally savvy.

The second thought I have is that the stickiness of these experiences will matter. We all have our own personal online banking and you've probably been with your bank forever, because what a pain it is to change. And once that value is there and you're embedded in the capability, you don't want to change. So how are you, one, retaining your customers, but two, building a capability that is so dramatically better from a customer experience perspective, from the perspective of knowing the customers are going to come to you? Not just the relationship but the capability and the insights and experience they're providing. Anything from you Chris?

Chris Scislowicz [00:32:07] As you said, the look is starting to be very similar across different organizations. The feel is where I think you can differentiate. It's that behavior, it's that interaction. How are we enabling new capabilities to improve our client engagement? How are we differentiating the way in which we relate to our clients? And I think the pandemic really cast a light on all of this to say: where do we have gaps in our client interaction model? And knowing what we just learned over the course of the last nine or ten months, how can we apply that in a way that improves our experience and improves the way we interact with our clients moving forward?

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Moderator [00:32:56] Alright, maybe we should move on to trend number 5 – it has to do with actionable insights which, actually Jared, you mentioned a minute ago. Do you want to comment a little further on that?

Jared Rorrer [00:33:13] Sure! I think this just needs to get real. It's a time to commit. I think that we have seen banks dabbling with data – experiments toward getting actionable. I believe as we talk about digital ROI in 2021, this is the most obvious place to be focused and build out that digital ROI. This becomes a place where you're starting to build technical savvy, because you're building out capabilities that are helping your RMs and you're understanding how insights can actually help them – they're not something they should be afraid of. It provides you with the capability to put insights in front of your customers. It should drive better proactive risk monitoring, which may become important. We're still trying to figure out what's happening with our product credit trends, and ultimately allow you to put the right insights in front of customers through your RM. But for me, this is when it's time to get real and time to get focused. Many of my clients over the past year heard me say: just pick a use case and get going. It doesn't even have to be the right one, but you've got to get going. This is the easiest incubator you have in the laboratory, but it has to become actionable, it has to become real. And just as important, when we go back and talk about this experience a little bit, the employee experience matters just as much.

As I think about the RM population, for example, we talk a lot about providing much better insights around the customer, on either a next best offer or sales pursuit or just a better client discussion at the cornerstone of everything we do. But our RMs, by and large are not analytical in nature. They're a bit afraid of the data, and often what I've seen, frankly over and over again, is a dashboard for RMs that just overwhelms. It's all the data in the world, but it's not actionable, it's not suitable, and if it is it's not believable. So I often say get started, make sure it's believable, make sure it's consumable, and put it in front of your RMs so they can trust what you've built. It's actually a bit of 'I'm here from corporate and I can help'.

Those things become the driver, in my mind, but all this becomes key. The idea of micro-segmentation, 360° views of proactive insights, all of this is important. But I don't think banks will be able to either harness it or put the investment in place to build this out. I think the data is there. I think that the data lakes have been created, by and large, but it still hasn't been harvested in a way that drives the right insights.

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Moderator [00:36:16] Yeah, it seems to me we've been talking about actionable insights for years, but there aren't that many people really executing on that. What is the biggest hang-up right now? Is it still getting all the data in one place, like all the data about a customer and all the different channels that they use, that kind of thing? Is it the analysis?

Chris Scislowicz [00:36:39] No. I think it's the overwhelming nature of it. It's back to Jared’s point around pick a use case: it doesn't have to be right, but just pick something. For years I've been saying ‘I need all this data.’ Well now you have it, and now it's overwhelming and intimidating, and where do you start and what do you do with it? Well, just what are you trying to solve? Pick a use case.

We talked about micro-segmentation; this is one of my favorite examples of late. Historically, we used to look at macroeconomic trends by geography like this, and recently in the US, this part of Florida was not doing well, and everything in that area wasn't doing well. Now we're looking at, say, the restaurant sector: are you the take-out model, or are you the dine-in model? Materially different results, right?

So, how can you look at the data that you have and say, ‘where do I have real exposure? How do I start to segment that data in a meaningful way that I can take action upon it and really understand what my risk profile is, where my opportunity profile is and how I start to differentiate offerings, be they payment solutions, credit solutions whatever they may be, to these different micro-segments?’ Let's stop talking about food and beverage as a macro-segment and start looking at what are the different types of retailers that exist.

Jared Rorrer [00:38:01] I hear all this and I say my goodness! I've got a bunch of bankers who are saying ‘This scares me. I don't understand it.’ In our data science this is super cool. I wish I understood what an RM did more. I think it's about bringing these concepts together, prioritizing this. It’s about a culture that says, ‘if I'm not razor-focused on using data to drive insights as a core capability, I'm not going to get there. I can't dabble in this space, I have to be all in and I have to build on it, and I have to trust that I can. I can take that little snowball off the top of the hill and make a big giant snowball out of it, so it's just a matter of stuff. And I apologize for the other 48 states that don’t feature today’.

Moderator [00:38:50] All right, cool, maybe we should go on to the next trend. Every Business is a Fintech Business. Chris, do you want to comment on that?

Chris Scislowicz [00:38:56] This is what I would call an evolving or emerging trend. Historically, fintechs have fitted nicely into a couple of categories. They were software providers that gave you, as a bank, a solution to implement. They were the alternative lenders or the neobanks that were competitors and we called fintechs. Now that's getting really blurry as other folks start to enter the market. Now you have fintechs that are not, clearly, allies, adversaries or kingmakers, but all of the above. The example we talk about and report around is Shopify. On paper, Shopify is an e-commerce application. But they've now embedded financial services offerings into their buy-now-pay-later offering, making them arguably one of the top 10 largest financial services providers. On paper, or in public knowledge, or in any e-commerce company on a balance sheet, they're a fintech. And that's a pretty fundamental and frightening transformation, as we start to think about it all, especially in payments. Or you think about where payments has gone and where it's going very rapidly, as we've started to see embedded payment models and now branching that into buy-now-pay-later and dipping into that credit business. We start to see more and more – whether they're fintechs, bigtechs, products companies, other financial services offerings – all coming together and everybody penetrating into that fintech space. Which leads to an earlier comment, which was: how does a bank avoid brand erosion? How do you avoid becoming just a utility? There are obviously some inherent advantages around cost of capital that are going to prevent banks from being eliminated, but I don't think most folks on this phone want to be strictly a back-office utility that fades into the background. I think that's going to be the character crisis that banks are going to have to deal with in the near term.

Moderator [00:41:01] Maybe a business model choice?.

Jared Rorrer [00:41:04] That's right. I feel like a bit of a broken record here, but I'm going to go back there to talent and culture. The example of Shopify is so interesting. If I'm trying to build out the capability Shopify tried to do – and how cool that sounds, right? – they were saying: 'go to every place you want servicing'. If I'm a technologist or a business lead, I mean one of those sound way more interesting. I think this goes back to building a culture that says 'I am going to make a sizable investment in digital capabilities and I'm going to make my bank a digital company first'. I think it continues to be a drum beat that the business leaders within these banks have to understand, and see it as a critical capability that they have to build. Otherwise the fintechs that are your friends today become your competitors tomorrow. Right into Chris's point: they end up stripping the core processing capabilities that are now margin and you run the risk of a generation-long brain drain out of the banks.

Moderator [00:42:12] Yeah, it's an interesting time. In that way a lot of partnering, a lot of independent work, a lot of choices to be made. Your next trend, Responsibility Gets Real, that's to do with social and environmental responsibility. Jared do you want to comment on that?

Jared Rorrer [00:42:30] That's moving a bit away from the digital to some other capabilities and things that are going to be important as you think about the air in front of you. I mean, 2020 has been a year like no other. I think we all can see and realize that across the board, whether it be social justice or an increased focus on environmental sustainability, these things are real and important. The feedback can be real-time for companies across the board, for a rapid reaction on social media that can be very consequential to a brand. We have for several years focused on social responsibility at the corporate level, but we see it's pretty significant within banks. They're putting a posture in place to say 'not only am I thinking about sustainable green operations within my bank, or not only am I going to not drill in the Alaska Wildlife Refuge, but I'm also going to think about, before the regulators do, how I take my loan book diversify it and use it for good. This becomes probably the most outsized impact banks can have on society. And not to sound too Pollyanna-ish, the way in which balance sheets get deployed will matter. It's going to, and we're already seeing it begin to be regulated within Europe. Banks are having to understand, having to report what their economic return, what their book looks like for ESG causes. That's something that you need to start reporting on and there's going to be a capability to do so. But it's also going to very much influence the way in which you lend over time, right? I mean, you think about the shocking announcement from General Motors just a week and a half ago, that all cars will be electric … wow! You think about it and it's a bit easier to get your head around, because that is the combustion owners going away, we see that. But what are banks doing to help drive and pivot towards this new future? It's no longer an option to sit on the sidelines. I think importantly, just like as we've seen across the global economy over the past year, banks through government support have been a bit of the heroes this time around, and I think with responsibility they have the power and the ability to have an outsized impact, more than any other industry.

Moderator [00:45:18] Yeah, I think the OCC briefly tried to make banks rethink the idea of not lending to certain gun manufacturers or not lending to oil drilling projects, but that was shut down. So, it looks like that trend will continue. Let's go on to the last trend: From Disruption to Distraction. Chris, do you want to kick things off?

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Chris Scislowicz [00:45:47] Sure! I think it's an understatement to say that 2020 was the year of disruption, but I think every bit as important as that is to acknowledge that 2021 promises to be the year of distraction. If we think that the pandemic is still going on, virus distribution is a distraction, work from home continues to be a distraction – that convergence of work and office. That's just the personal side of this. And then you think about the macroeconomic positions: you've got a new US administration, you've got Brexit, what's going to happen to CRE portfolios which have long been the sort of stalwart of the bank? What's going to happen with all of that? It's going to be really easy to lose that focus. Are you going to be an acquirer, or are you at risk of being acquired, as M&A jumps to the forefront? As we think about all those items, it's really easy to lose that organizational focus.

Going back to some of the points we made around the digital foundation and digital ROI, it's going to be really easy to get distracted by what's happening with LIBOR to SOFR, or what's happening with the new US administration. Whether it's eco lending or reporting or whatever it may be, you're going to have to figure out a way to carve out your resources, both financial and, more importantly, personnel, to stay focused on your core initiatives and not just chase the latest rabbit.

Moderator [00:47:24] Alright Jared, anything you want to add to that?

Jared Rorrer [00:47:30] I think Chris is totally right, but I think when we look at what we've presented to you today, this is a pretty sizable amount of work to get done. It's a bit overwhelming, even though they're simple in concept. In a perfect world that's what you go do. But in the real world we have distractions all around us. We don't have the money, we don't have the right resources, we are still trying to build the talent structure. We're being asked to cut heads as opposed to building capabilities. And that's when the decisions get harder and harder. I think it becomes really critical to figure out how you're going to build to make a future while you continue to run the one you've got.

Moderator [00:48:13] Yeah, good point. So, we have a number of questions from the audience and we'll try to get to as many of them as we possibly can. I know early on somebody asked for a reminder of what TQ is, and that was technology quotient – the degree to which somebody understands technology trends. Is that the right way to define it?

Jared Rorrer [00:48:38] I think that's right. Are you becoming technically savvy? How do you understand what applied intelligence is, for example? If you don't know what that is, you probably don't have a high level of TQ. But it's interesting. At Accenture, every one of the 500,000-plus people in the company is being required to going through TQ training.

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That’s a lot of training, but we're all doing it, and it’s about building that cultural shift that says we're all responsible for it, all 550,000 of us.

Moderator [00:49:13] Wow, that's a big group, big company, I didn’t realize how big you were. Next question is: how long will clients wait for banks to truly deliver a full digital experience? I guess that’s rhetorical?

Chris Scislowicz [00:49:28] It is, but it's an interesting question. The answer is: until there's a better alternative. Maybe this is the way I want to answer that. To Jared’s point, changing banks is difficult, but eventually people will do it if there's something attractive enough to jump to. We're already seeing that to some extent in the SME space, with some of the payment providers and others. So at the moment banks still have the capital sheet balance, still have the leverage, and frankly still have the relationships. But if they don't deepen those and harness those relationships, they will start to erode over time. As for fintechs, I would be more worried about bigtech and frankly some of these other providers like an Amazon or a Walmart. You know, the big firms that are going to finally get over this fear of regulation and this fear of the balance sheet and just jump head-first into that arena.

Jared Rorrer [00:50:27] Even when we were reflecting on what we wrote within trend six in the report, Chris and I thought ‘this is all over the place. And it is. Deliberately, I guess. Because the the idea of what's happening and where the disruption is coming from isn't clearly defined at this point. And I think it's important for banks to recognize that it's not clearly defined. But it is on our doorstep, and whether it's coming from within a bank or within a fintech or within bigtech, it's here. It's a bit unclear as to exactly what it is, but we can kind of get our heads around what we think it is. So I think it becomes really critical. The broad point is: something's coming that will fundamentally disrupt the way in which we’re doing commercial banking. That's where we are. How are we as an industry defining and building on that, as opposed to just reacting to it?

Moderator [00:51:25] I think this next question is a good follow up on that. For institutions that do not have the budget, means or capabilities to undertake large digital transformations, from what micro-transformation could they see the biggest impact?

Chris Scislowicz [00:51:41] Don't underestimate the impact of operating model improvements which, frankly, don't cost a lot of money – although they do take institutional focus. We've seen tremendous value being driven, both in efficiencies, revenue uplifts etc. at a non-technology place. For all the digital talk that we've mentioned, that is significant. And at some point you're going to have to cross that bridge. The way in which you can fund it, in

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many ways is through an operating model improvement, streamlining your organization, looking at your organizational silos. Do you have your resources deployed consistently and in the highest and best use? And are there really opportunities to either consolidate, streamline, revisit and improve the experience of the customer without touching a drop of technology?

Jared Rorrer [00:52:47] The thing with that is that strategic fintech partnerships are going to be key. If you don't have the money to compete on your own, then you're going to have to figure out how you're doing to buy the drinks with the right fintech partners at a minimum.

Moderator [00:52:59] That makes sense. I think the next question might be related to our new presidential administration. What is the risk of increased banking regulation and higher corporate taxes on banking industry performance through 2022? Do either of you want to take that on?

Chris Scislowicz [00:53:17] Not really. I mean, I think it's pretty safe to say that we're going to see some fairly sweeping changes. I think we've already started to see them. Like I said, with the environment and immigration and some things that aren't, maybe, that directly applicable to banking. But I think it's naive to think that we're not going to see a shift back. My personal opinion is I think we'll see the focus first and foremost go back to the consumer. So I think the commercial bank has a little bit of insulation there, but sooner or later it's going to make its way over to the commercial bank. Jared?

Jared Rorrer [00:53:58] Yeah, increased regulation is likely coming. It's critical that it not distract from where you're trying to go. As a former banker it was clear to me that manual processes and woeful technology were the root of all regulatory problems. So what we're talking about here today, about driving better infrastructure at the core, will allow you to be more nimble, be it around recording, or on process changes, or additional steps for verification, whatever it might be. If you're thinking about these things in the right manner, you will see that this can indeed strengthen your posture for increased regulatory focus.

Moderator [00:54:45] Alright, we have a question about digital currencies. They are now becoming a part of the financial ecosystem, with Bitcoin leading the trend. If banks begin to adopt the custodial options to hold the digital assets for fees and building credit facilities around those, do you think this trend will catch on and become profitable in 2021 and beyond?

Chris Scislowicz [00:55:10] I'll start by saying I’m not a crypto-currency expert by any stretch. But let me start with a couple of facts. I don’t

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think crypto-currency is going away, and it can already be profitable if you know how to handle it. Are we out on the street, telling banks to get heavily into crypto-currency? No. In my personal opinion there's a lot safer bets. That's not to say that there aren't going to be banks who do that, and banks who make a ton of money off of it, but like I said, that's not my recommendation in the short term.

Jared Rorrer [00:55:53] I look at it from the point of view of us as an industry, and say you need to look for a couple of moonshots out there. Because it's coming. And you need to be able to experiment and have a culture that's going to allow you to fail, and to think about how you can take and reinvent some of your core products. You need to do that. This might be one we're taking. But importantly, I believe you're over-subscribed already – from a resource perspective, from a spend perspective. And it's going to be important, as you make room for a couple of moonshots, that you think very carefully about which ones those will be. That's not a direct answer, but I think an important reminder that the focus of delivering is really incredible here.

Moderator [00:56:43] Alright, great! Well unfortunately we are just about out of time. I believe we have a link for people in the audience to download the full report that we've been talking about, it's right here. But I want to thank our speakers, Chris Scislowicz and Jared Rorrer, and I want to thank Accenture for joining us today. And I want to thank all of you for your time and attention. I hope you found this valuable. I hope everyone has a great afternoon.

Jared Rorrer & Chris Scislowicz [00:57:20] Thank you, thanks for having us.