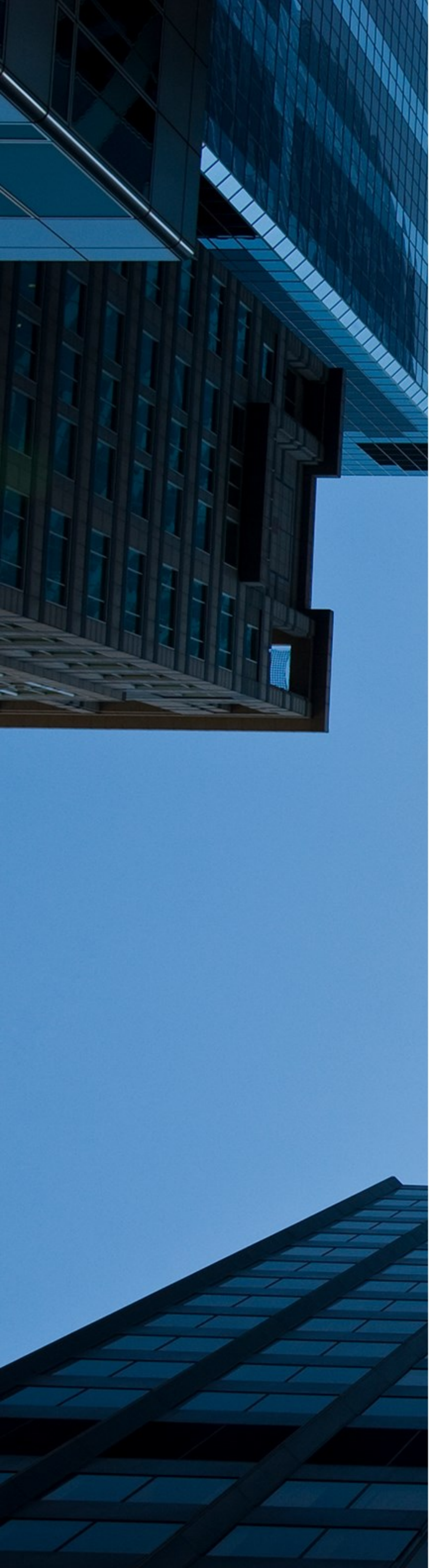

Aite Novarica

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FIVE DIGITAL IMPERATIVES

FOR MAXIMIZING GROWTH AND EFFICIENCY IN A RECESSION

PREPARED FOR:

Q2

INTRODUCTION

The fourth quarter is the height of planning season for most financial institutions and a critical time to ensure an institution's strategy and offerings are aligned with evolving client and market needs. Firms must establish priorities to ensure the right initiatives are in place to best position the institution to win the commercial relationships critical to long-term growth while prioritizing efficiency, cost reduction, and client profitability.

This thought leadership paper leverages recent Aite-Novarica Group studies of small, midsize, and large businesses to highlight five digital initiatives that all institutions, regardless of size, should prioritize as they plan for a successful 2023 in a recessionary environment. It also includes client quotes from a webinar sponsored by Q2 in September 2022 to enrich the findings.

EVOLVING REQUIREMENTS FOR SUCCESS

Yesterday's strategies do not ensure tomorrow's success. Financial institutions must continue to evolve their approaches and product offerings as the needs of their business and corporate clients and the market dictate new requirements:

- **Modern and seamless digital experiences:** Commercial clients are more tech-savvy than ever, and their personal experiences significantly influence their digital expectations. These clients are easily frustrated by siloed systems and multiple logins, and they expect seamless navigation across bank offerings and products with a modern look and feel.
- **High levels of personalization:** One-size-fits-all strategies are no longer acceptable. Commercial clients expect their financial institutions to leverage data and analytics to understand their specific needs and provide customized journeys and unique digital experiences based on their preferences.
- **Access to real-time data and actionable advice:** Real-time, actionable information and advice (as opposed to stagnant data dumps) are needed and expected to make the right investment and strategic decisions and position financial institutions as value-added partners.
- **Robust functionality and forward-looking capabilities:** Banks and credit unions must stay a step ahead of client needs to ensure they can address challenges while continually investing in and enhancing their digital capabilities.

- **Tighter integration and connectivity with third-party systems:** Financial institutions must shift from a portal to a platform strategy that delivers tight integration across banking products and external third-party systems and capabilities being leveraged by their clients.

DIGITAL IMPERATIVES

Financial institutions should prioritize each of the following five initiatives to maximize growth and efficiency during 2023:

- Leverage data to optimize profitability
- Offer self-service options to small businesses
- Digitize the onboarding process
- Form more fintech partnerships
- Tailor digital experiences

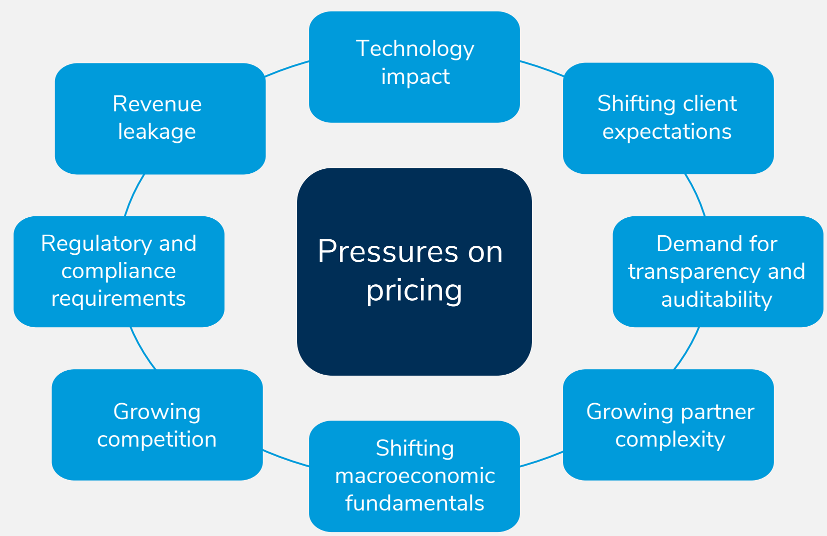
LEVERAGE DATA TO OPTIMIZE PROFITABILITY

As banks and credit unions invest in technology and digital transformation, they often view new capabilities in silos rather than as part of larger bank offerings and revenue streams. Siloed operations and data prevent institutions from delivering the consolidated views and transparency their clients expect. They also intensify challenges associated with external partnerships, the unpredictable economic environment, and regulatory compliance while exposing them to potential revenue leakage.

These conditions compound already-existing price pressures that impact an organization's ability to compete and grow client profitability. Financial institutions must shift their mindsets, processes, and technical architectures from silos to single-platform strategies with data consolidation across product areas. As Jo Jagadish of TD Bank states, "A common platform for all revenue services is key. It has allowed us to deliver the bank to our clients and meet them in their time of need."

Financial institutions that adopt this strategy will be in a better position to leverage their data and incorporate analytics to service accountholders, anticipate their needs, and cross-sell with relationship-based pricing models. Doing so will help institutions price products and services more competitively while achieving more profitable accountholder relationships (Figure 1).

FIGURE 1: THE NEED TO SHIFT TO RELATIONSHIP-BASED PRICING



Source: Aite-Novarica Group

According to Dean Jenkins of Q2, "It's really about crunching analytics, making them available, and coaching to help frontline sales teams and treasury management officers understand the levers they can pull to leverage profitability."

OFFER SELF-SERVICE OPTIONS TO SMALL BUSINESSES

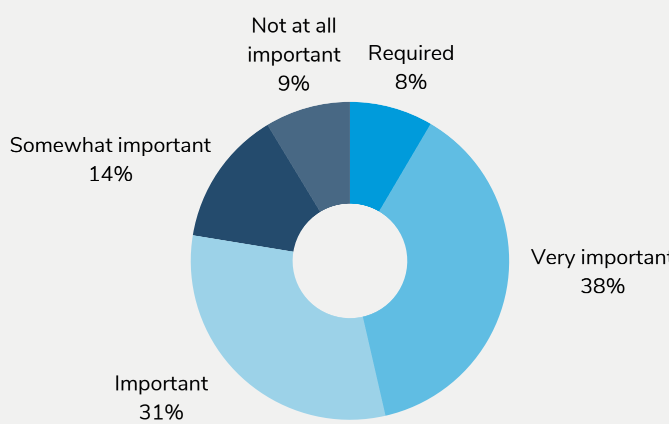
Small businesses are on the move. As Dana Gray of BECU states, "They cannot work on our time frames. They've got to be able to access banking services when they need them, and we have to make it easy for them." Thus, providing them with more self-service capabilities, such as the ability to open new accounts online, is critical.

A Q3 2021 Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers found that for 77% of participants, digital/online account opening is important or required to keep their business. This desire for faster account opening is not limited to the deposit side of the financial institution: Small businesses are also looking for a similar experience for lending. They are interested in the ability to apply for loans online, but more than half (especially those businesses generating greater than US$5 million in annual revenue) view nonbank providers as offering a superior experience with greater speed of decisioning and funding. This could mean lost opportunities for financial institutions not expanding and improving their processes (and new ones for those making the right investments).

As Shon Cass of Texas Security Bank points out, “When we create an efficiency to make it easier for a client on their time frame, we also create efficiencies for the bank.” Financial institutions making this investment will enjoy greater automation, which drives an improved user experience and faster revenue recognition. Online account opening is no longer a “nice to have;” it is a requirement for financial institutions to remain competitive (Figure 2).

FIGURE 2: THE IMPORTANCE OF ONLINE ACCOUNT OPENING

Q. To keep your business as a customer, how important is it that your bank provide digital/online account opening?
(Base: 1,004 small business financial decision-makers)



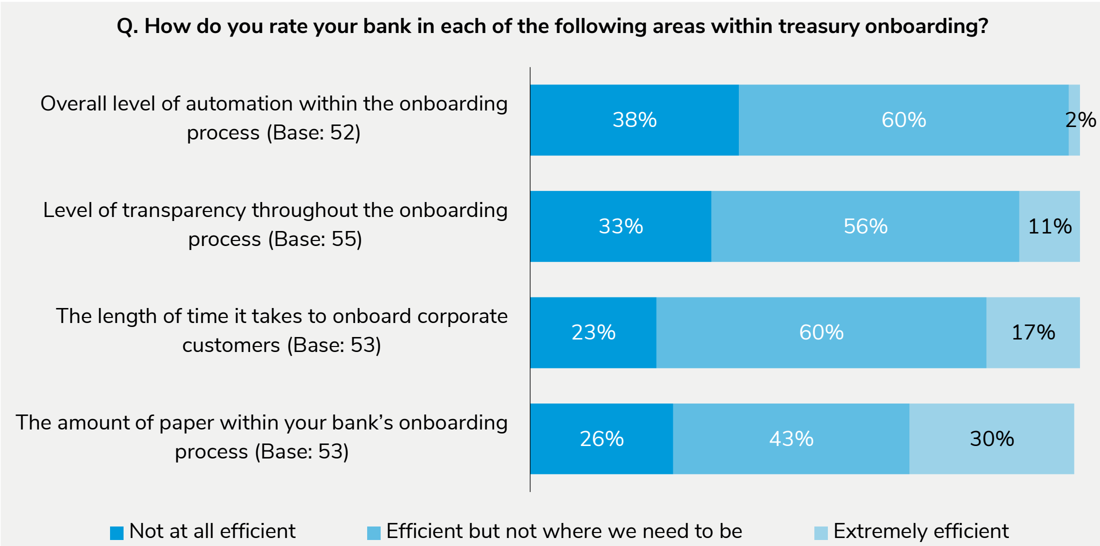
Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

DIGITIZE THE ONBOARDING PROCESS

Small businesses aren’t the only ones looking for greater automation from their banks. Corporate treasurers also often get frustrated by banks’ manual processes and the time it takes to access new, much-needed capabilities. A Q2 2022 Aite-Novarica Group survey of 300 employees and financial decision-makers at midsize and large U.S.-based organizations found that 35% of those surveyed state it takes longer than expected to be onboarded onto a new treasury and payments service at their bank. Larger banks score slightly higher than smaller ones (32% of large bank clients feel this way versus 48% of smaller bank clients).

The good news is that banks recognize the problem. Forty percent of banks admit their treasury onboarding experience falls short of client expectations, especially in overall automation, level of transparency, time to onboard clients, and the amount of paper within the process (Figure 3).

FIGURE 3: BANK SELF-RATINGS OF THE TREASURY ONBOARDING PROCESSES



Source: Aite-Novarica Group Q2 2022 Survey of Corporate Banking Executive Council Members

Investing in and improving their treasury onboarding process is a top priority for 46% of banks; an additional 16% state they are likely to invest. Some of their top planned initiatives include smart forms, digital signatures, internal and client-facing dashboards, integration with customer relationship management systems, and the electrification of product agreements/contracts. However, enhancing onboarding processes is not an initiative to be taken lightly. Firms must take time to envision the best possible outcome and experience for clients and financial institution employees and incorporate the right rules to improve workflows.

Dean Jenkins reminds banks and credit unions to be careful not to automate an inefficient process, lest the same inefficiencies appear in their digital solutions. “Think about how you want it to work for your clients versus how you automate your processes.”

Shon Cass adds that data needs to be pulled together to enable efficiency but warns, “With fast, we also have to be accurate.”

FORM MORE FINTECH PARTNERSHIPS

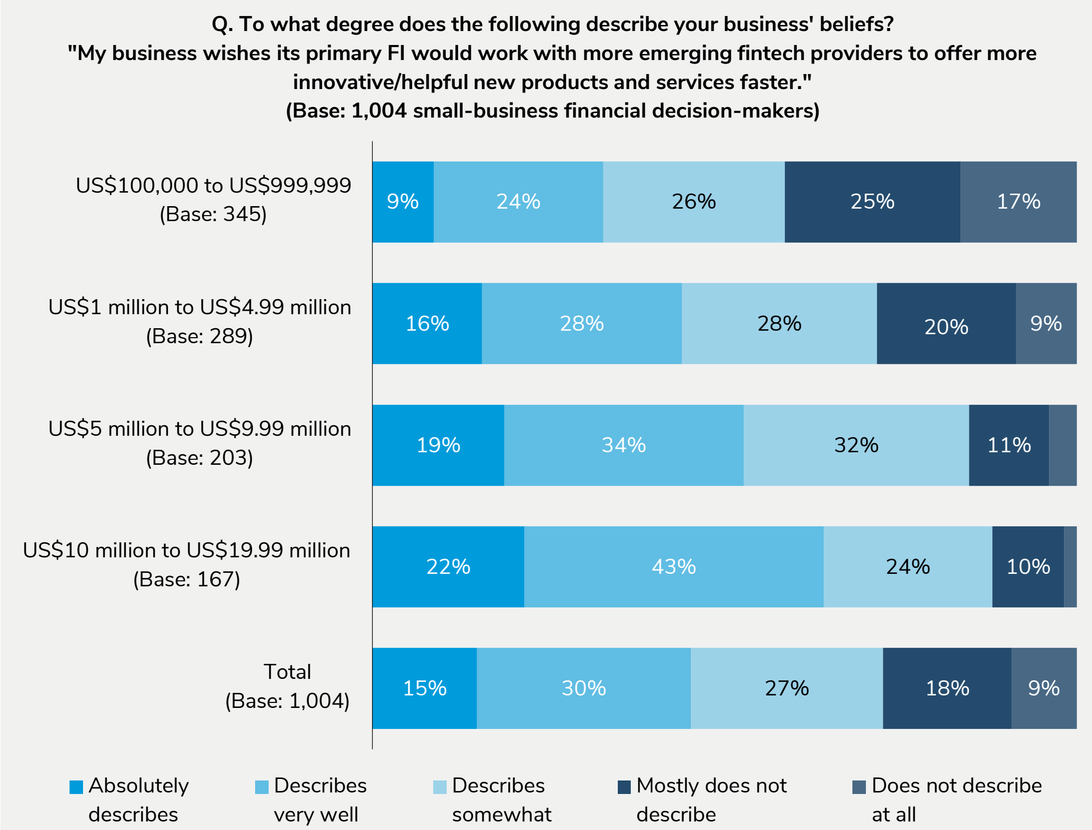
There is a “new normal” for what clients expect and need from their banking partners. Small-business leaders are increasingly aware of the digital tools they require to manage their businesses. They see gaps in what their financial institutions offer them, and more than 60% are going elsewhere to fill them. These clients often seek more robust money management tools, the ability to collect on receivables efficiently, greater payment flexibility, better tools to manage expenses, and accurate cash forecasting capabilities.

The fintech community has quickly capitalized on these gaps and, in many cases, has created new options for businesses that exclude banks and credit unions. Financial institutions must prevent further attrition by partnering with more fintech providers to broaden their product portfolios and offerings. They also have much to gain by doing so. According to Shon Cass, “There is nothing more rewarding than talking to a customer, identifying a pain point, and being able to say, ‘We have a solution for that.’”

Bank and credit union clients want their financial institutions to partner with more fintech companies (Figure 4). Businesses of all sizes want the convenience of getting multiple products in a single location from a trusted partner—two advantages financial institutions have over fintech companies. Further, when integrated, the value of the offering is far more than the sum of its parts for the end user and the institution.

Fortunately, 50% of large and midsize banks plan to build out their fintech ecosystem this year; 33% of them consider it a top priority. Any financial institution not doing so will find challenges competing and retaining customers in 2023. Jo Jagadish offers some good advice: “Don’t chase shiny objects. Find a pain point for customers and determine whether to build or buy. And if buying, vet well and find the right partner.”

FIGURE 4: THE DESIRE FOR MORE FINTECH PARTNERSHIPS



Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

CREATE TAILORED DIGITAL EXPERIENCES

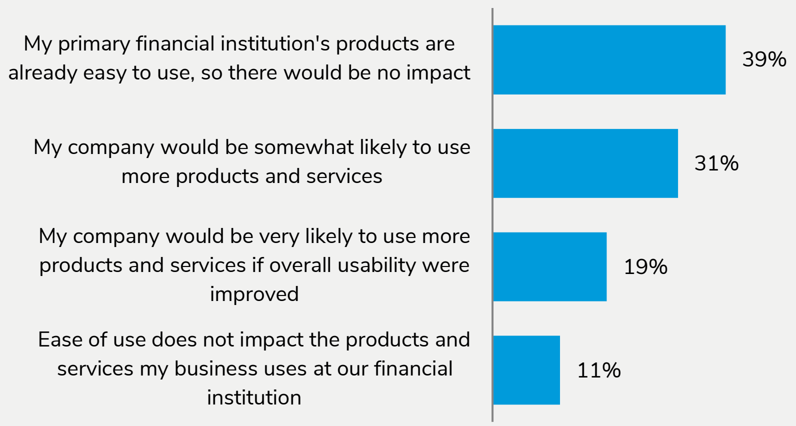
Most financial institutions offer cookie-cutter experiences (rather than personalized) to their account holders, despite 48% of business end users stating that a personalized experience is very important to keeping their business. As a result, more than 60% of businesses believe their financial institution doesn't understand their needs.

Financial institutions must utilize analytics and client input to understand how clients manage their processes and navigate through the bank/credit union portal. It must also be used to richen the insights drawn from the vast amounts of data already on hand that often goes unused. TD Bank is accomplishing this by leveraging analytics and integrating a variety of once-siloed portals to create more connected, contextualized, deeper end-user experiences. Jo Jagadish added, "When you know your customers really well, you can take that information and work backward to deliver tailored experiences."

Additionally, financial institution workflows should align with client journeys rather than force clients to adjust to theirs. At a high level, change must begin with a digital-first approach focused on increased usability and personalization. Only 39% of businesses describe their bank's digital offering as easy to use. However, 50% state they would use more products if usability were improved (Figure 5). Larger businesses often share a similar sentiment. These are statistics financial institutions can't afford to ignore.

FIGURE 5: THE CONNECTION BETWEEN EASE OF USE AND BANK PRODUCT ADOPTION

Q. Which of the following best describes your company's likelihood to use more products and services at your primary financial institution if they were easier to use (for example, more simplified and streamlined electronic payments)?
(Base: 1,004 small-business financial decision-makers)



Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

CONCLUSION

Making the right technology investments is critical to an institution's future success. Most commercial clients see little difference from one institution to the next from a core functionality standpoint. However, they see major differences in how and how efficiently those services are delivered. Thus, investing in data, analytics, and modern open platforms that better enable personalization, integration, and automation will make a financial institution stand out from the pack at a time when competition is fierce.

Fortunately, technology has advanced at price points within reach of all sizes of financial institutions to level the playing field. Implementing the strategies outlined in this paper will help institutions prioritize the right initiatives to position themselves for greater success and customer profitability during 2023 and beyond.

ABOUT AITE-NOVARICA GROUP

Aite-Novarica Group is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base. The quality of our research, insights, and advice is driven by our core values: independence, objectivity, curiosity, and integrity.

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