BY LEE KIDDER, DIRECTOR, AFS AND DUNCAN BANFIELD, MANAGING DIRECTOR, GREENWICH ASSOCIATES

Digital banking appears to be finally ready for prime time.

The banking industry is all abuzz about "digital transformation," and if recent earnings announcements and investor presentations are any indication, many banks have actually begun to implement large-scale capital investments. They know they have to be "digital" in order to be competitive and meet customer expectations, and many have assigned or hired executives to oversee their transformations.

At the abstract, conceptual level, the digital future in banking is incontrovertible. But at ground level, where bankers interact with customers and financial transactions are processed, what does that really mean? How should banks go about it, and where to begin? What do customers really expect? What results and benefits can they anticipate? What are the risks of not digitizing?

This sense of unease about the cost and timing of major digitization efforts is especially acute in the commercial/business banking segments of banks. This is particularly true in commercial lending, as most banks are not as far along in leveraging technology on the wholesale side of the bank relative to their peers in retail.

As a result, digital transformation in commercial lending has so far been hesitant and sporadic. Customer expectations, however, have been moving rapidly. For example, in Greenwich Associates' Market Pulse surveys, business executives cite how their frustration about banks' credit processes is growing and their expectations for rapid response times for approval decisions are rising (see graphic below).

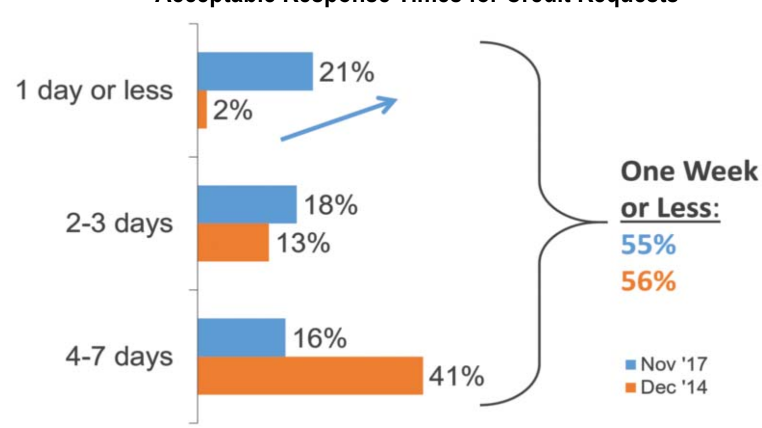
Frustrations & Acceptable Response Times to Requests for Credit

A majority of mid-sized businesses expect a credit approval in less than a week. There is also a significant increase in companies that expect a day or less.

Biggest Frustrations with Credit Process

- Length of time to receive approval for credit requests and the amount of information now required for any requests even though a majority of it is already on file.
- Start to finish time it takes to initiate contact, review, and approve.
- (No) Easy mobile app use.
- Limited electronic signatures.
- Better online platforms (more user-friendly), more online applications and more tech-savvy ways of doing banking.

Acceptable Response Times for Credit Requests



Source: Greenwich Market Pulse v56 (December 2014), Greenwich Market Pulse v68 (November 2017)

Customer expectations like this are simply going to continue to accelerate, and meeting them will require a digital response. Current 'analog' credit processes will never be able to keep up with them.

Digital Opportunities and Benefits in Commercial Credit

That's why Greenwich Associates and AFS are partnering in a new initiative with banks to benchmark the current state and pace of digitization in the commercial credit process, and to help them understand why, where and how to deploy digital upgrades.

This program, called Digital Credit Process Benchmarking, will leverage and amplify market data already available from both AFS and Greenwich, with additional insights derived from periodic surveys of both leading banks and commercial customers who have borrowed from them. Participating banks will learn where they stand in the journey to digitize credit processes and services, which digitization efforts are providing the most productive returns, and whether these efforts are satisfying the critical needs and expectations of customers.

To be clear, the program intends to "benchmark" participants not as competitors, but more as colleagues in a consortium, seeking process efficiencies, best practices, and financial returns that benefit all mutually, with a minimum of resource commitment.

We have learned in our customer work that the commercial credit process offers major digital opportunities for banks – they include improvements in operating efficiency, quicker decision turnarounds, lower risk through better-informed business decisions, and greater customer satisfaction.

Greenwich has found in its recent commercial market survey work, for example, a clear link between digital banking and customer support; customers rate banks more favorably in categories important to them, such as "ease of doing business," when those banks offer certain digital capabilities, as the graphic to the right indicates.

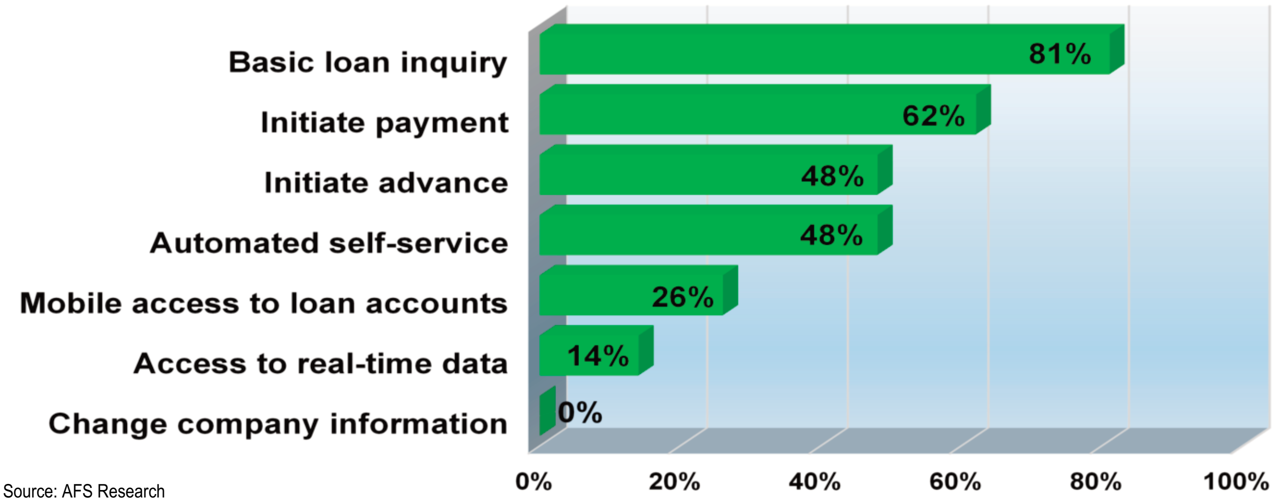
> "DIGITAL COMMERCIAL LENDING IS LIKELY NOT TO BE A DEFINED END-STATE, BUT RATHER A SET OF OPERATING PRINCIPLES AND OBJECTIVES."

In work of its own, however, as indicated on the chart on the next page, AFS has found that few banks now offer more than basic digital features to commercial customers. Loan inquiries available online usually provide only balances at the close of the previous day, while payments and advances that can be initiated digitally have multiple restrictions.

Digital Experience Results in Higher Customer Ratings

Source: Greenwich Associates Market Pulse

Commercial Lending Customers have Few Digital Options



Source: AFS Research

"Nice to Have" Today Becomes "Must Have" Tomorrow

As AFS and Greenwich talk to banks about digital, we are finding common interest and discussion about what we call "market requirements," or customer expectations that are likely to amount to competitive requirements. The race to implement new digital tools and capabilities to differentiate and keep up with market expectations is in high gear, and innovations that banks implement now are likely to be quickly copied by competitors.

This is what we mean by market requirements, and why it is so important; by the time digital upgrades that may now be in progress or planning are completed and in production, new capabilities that may now be considered "nice to have" could well have become "must have." That "moving target" prospect should be factored into current digital planning.

For that reason, a key component of our market initiative will be to identify, through surveys of commercial lending customers, what digital capabilities and services they consider important "conditions" for working with their primary bank.

It all Comes Down to Data Integrity

In that vein, we note that another common and fundamental theme keeps recurring in our bank conversations, a theme that in the final analysis will be a precondition and bellwether for all digital efforts.

> ANY EXPECTATIONS OF 'SUCCESS' FOR DIGITAL TRANSFORMATION ARE CRITICALLY DEPENDENT UPON A FIRM, STABLE AND RELIABLE FOUNDATION OF DATA.

That theme is the recognition that any expectations of "success" for digital transformation are critically dependent upon a firm, stable and reliable foundation of data.

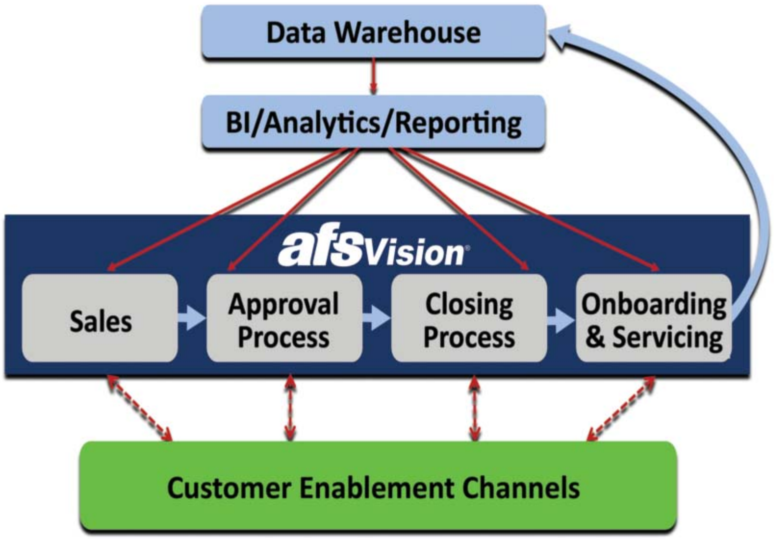
It bears repeating that "going digital" is really about something more fundamental and enduring than delivering efficiency, faster service, a shiny interface, or a corporate online portal.

After all, digital banking at bottom is really all about delivering a financial product, service or experience in a new and better way – faster, more efficiently, more conveniently, more accurately, more ubiquitously.

The many efficiency and service improvements that digital can bring to commercial lending are certainly critical goals in their own right, but essentially they all serve one core objective – getting the right data to the right person, at the right time, for the right reason.

That core objective is dependent upon what we call "data integrity," a term that comprehends the entire objective set of tools that define the expected level of output quality of the credit process.

Digital Transformation Brings Data Integrity and "One Version of the Truth"



- An integrated straight-through processing loop ensures that data maintains integrity from first point of entry to data ware house for use in analytics, management reporting and regulatory compliance
- Through online and mobile digital channels, customers have direct access to receive notifications, access loan data, and initiate self-directed transactions

Think of data integrity therefore as the collective set of policies, "minimum requirements," functional automation, controls and process integration that define and promote accuracy in data, and whose interaction, under the "right" rules and restrictions, delivers predictable results with an expected small tolerance of error. The more factors in the credit process that contribute the requisite conditions for accuracy, timeliness, consistency and authenticity in data, the stronger the data integrity that is built into the process, and therefore the stronger the likelihood of high quality data as a result.

In focusing on data integrity, we are changing the nature of the discourse about data. No longer is it only about data "quality," which is an abstract and subjective term, and removed from the real and everyday concerns about competition, customer retention, growth and financial performance.

The discourse has turned to the very real concerns about the generation, movement and usage of data, and whether banks have in place the appropriate systems and tools to capture, validate, access, analyze, report and deliver "one version of the truth," both for the customer and for internal management purposes. See graphic above.

"Digital commercial lending," therefore, is likely not to be a defined end-state, but rather a set of operating principles and objectives. It is also going to be an ongoing journey, as opposed to an implementation.

It will comprehend the entire ecosystem of networked players and functions in commercial lending – everything from executive sponsorship and leadership, to responsiveness to the expectations of potential new customers, to the efficient collection of data and financial documentation, to faster underwriting and approval, to onboarding and servicing, and to the subsequent management, analysis and reporting of all the pertinent data aggregated throughout that process.

What will be important will be taking a holistic approach to the lubrication and liquidity of this entire process – namely, the data flowing through it.

Greenwich and AFS will be exploring these aspects in our initiative, with the objectives of benchmarking banks' progress in meeting them – not for the purpose of competitive jockeying, but in order to help banks better understand the integrative benefits of digitization. We have several related goals:

- to ascertain what "best practices" are delivering or are likely to deliver stronger performance results
- to align "digital" with customer delivery expectations;
- and, in the process, to keep a central focus on how to construct the most effective digital edifice and business model, one that builds data integrity into its very fabric through standardization, automated controls, straight-through processing, and digital data management.

We invite all interested banks to join us in this digital "discussion," and to discover together the most effective and productive route toward digital transformation for commercial lending.

Lee Kidder is Director at AFS and can be reached at lkidder@afsvision.com.
Duncan Banfield is Managing Director at Greenwich Associates and can be reached at Duncan.Banfield@greenwich.com.