

Tech-Enabled Relationship Banking for the Digital Age

Mary Beth Sullivan

May 10, 2023



Barlow Research's Business Banking Conference

- Relationship banking must evolve
- Empower through technology
- The speed of change is accelerating



Three take-aways

What is Relationship Banking?

Is Relationship Banking getting easier or harder to deliver?

What is Relationship Banking?



Relationship banking is a strategy employed by banks to build and maintain long-term, mutually beneficial relationships with their customers. In relationship banking, the focus is on developing a deep understanding of the customer's financial needs and providing customized solutions to meet those needs. This approach contrasts with transactional banking, where the bank's focus is on providing one-off services and products to customers without necessarily understanding their overall financial goals and needs.

- ✓ Trust and loyalty
- ✓ Sustainable over long term
- ✓ Tailored advice and solutions
- ✓ Personalized service

Ask ChatGPT

- ✓ Increased preference for digital engagement, self-directed banking
- ✓ Higher expectation for companies to understand unique needs
- ✓ Wide array of choices; enormous amount of competition
- ✓ Shortage of experienced bankers
- ✓ People-centric relationship banking models expensive
- ✓ Legacy technology integration and data analytics challenges

Challenges to the relationship banking model



Price



Connection



Personal



Relevancy



Proactive



Responsive



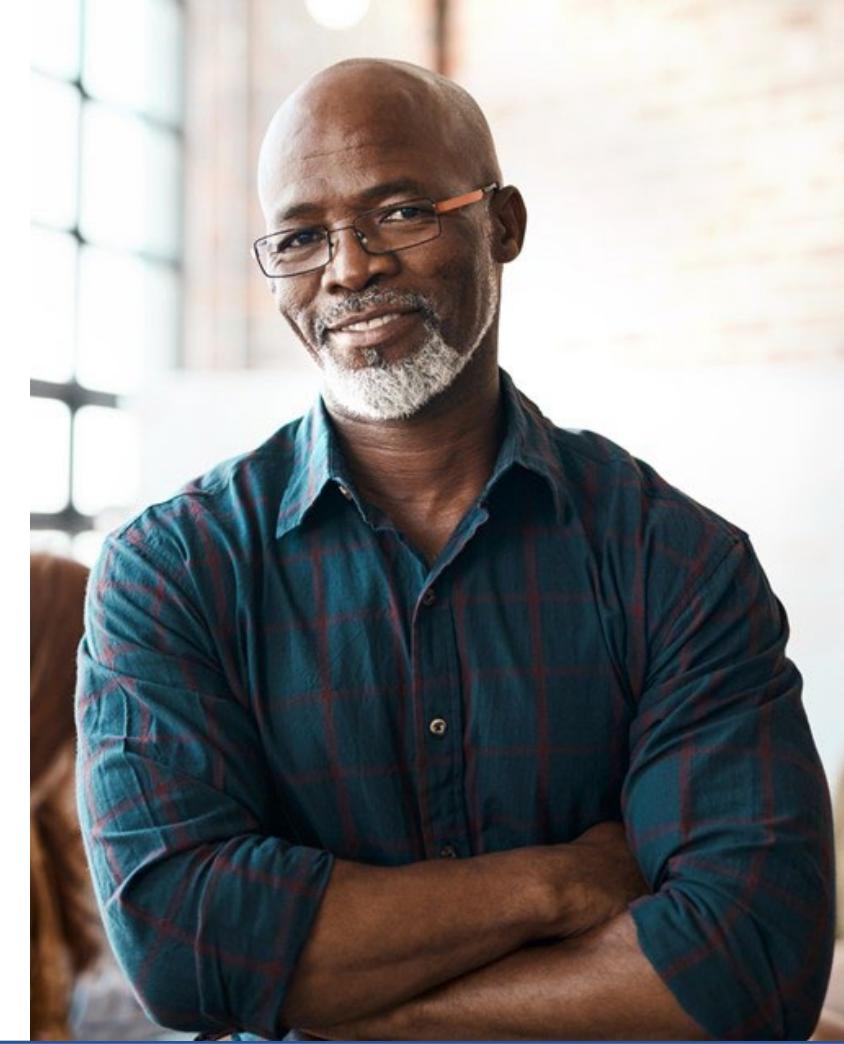
Advice



Exclusive



Expertise



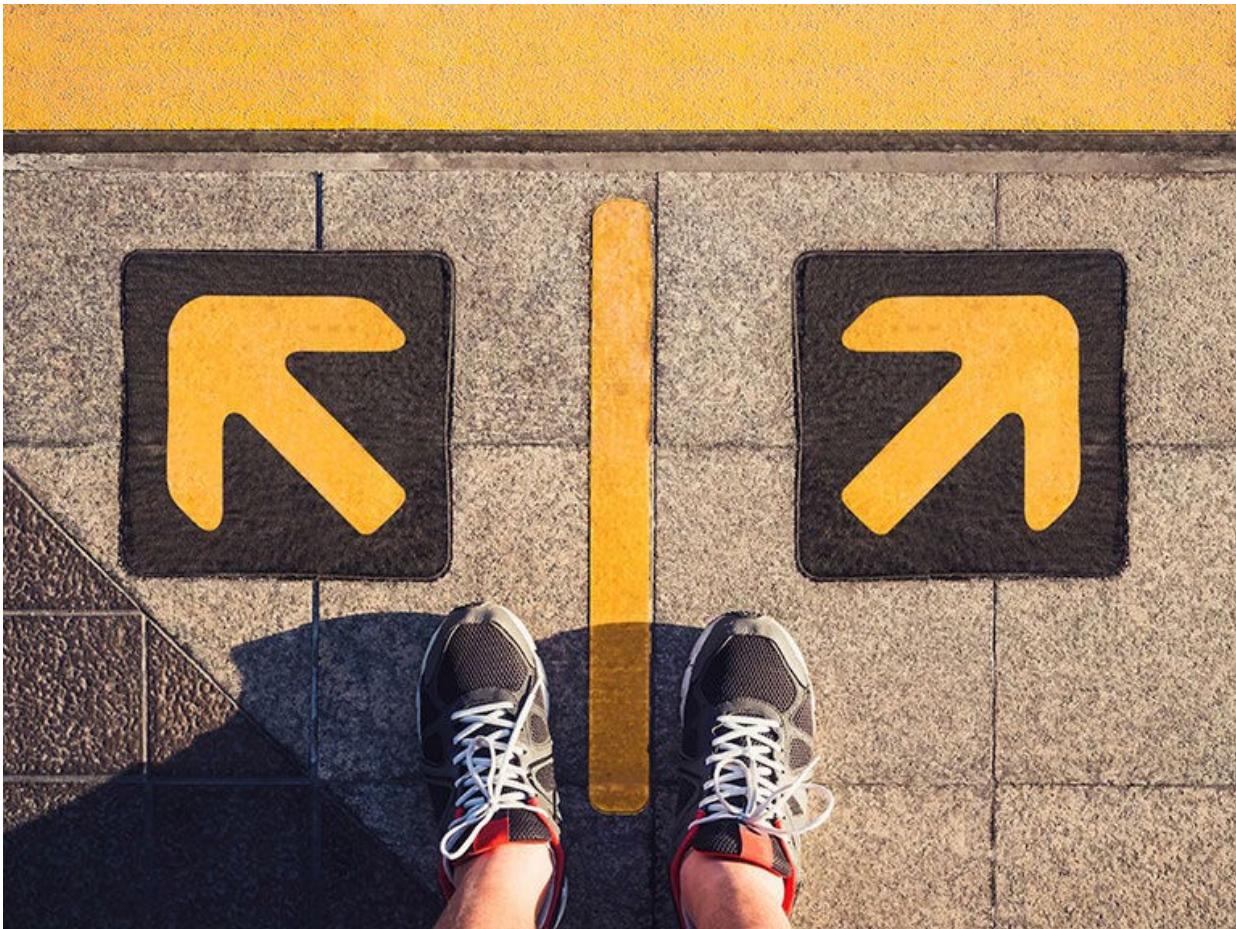
What's in it for the customer?

Parameters	Transactional Banking	Relationship Banking
Value Considerations	Transaction Profitability	Lifetime Value of the Customer
Banker role	Understand risk	Offer advice
Hiring focus	Industry knowledge, underwriting expertise, credit structuring	Industry knowledge, broad product knowledge, digitally savvy, team orientation
Biggest challenge	Not adequately understanding risk	Not hiring and developing talent that can provide a broad set of services

Source: South State Correspondent Division, Banker-to-Banker Blog, March 2023

Transactional vs. relationship banking





Long-term
and stable

“The speed of the [SVB] run – it’s very different from what we’ve seen in the past.”
- Jerome Powell

Source of
competitive
advantage

“We do not need every transaction to make economic sense — just the overall client relationship, year after year.”
- Jamie Dimon

What's in it for the bank?

Business is built
on **relationships**

Relationships are
built on **trust**

People
instinctively trust
based on **warmth**
and **competence**¹

¹Source: Vertical IQ, information from A. Cuddy (Harvard; 2015) and S. Fiske & P. Glick (Princeton; 2002)

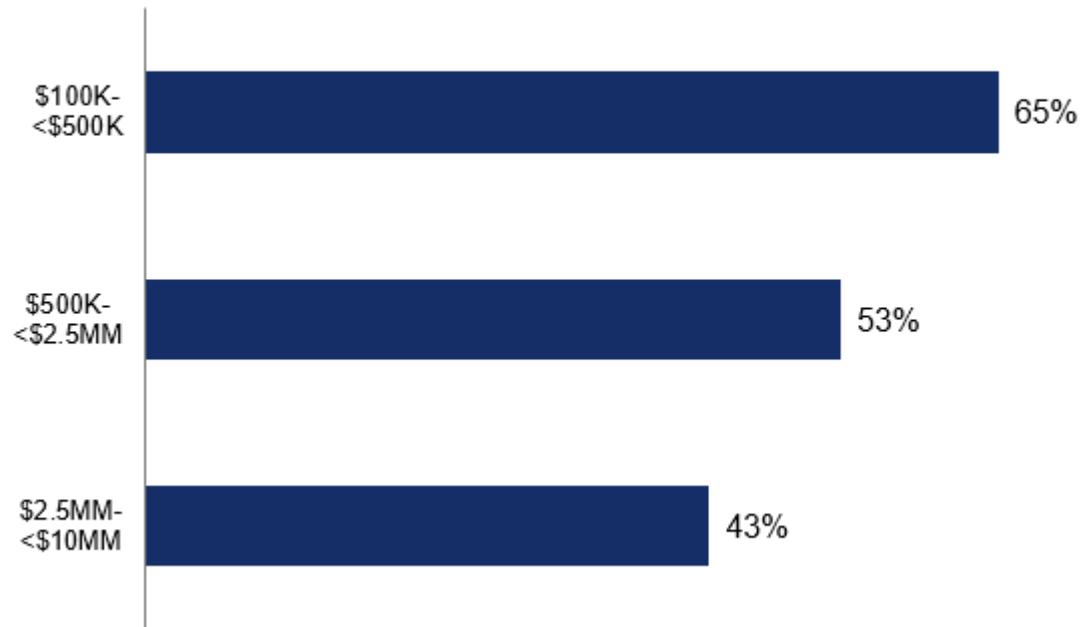
Today's simple truths

Forces Driving Change

61%

Of small business customers prefer “do-it-yourself” banking over a “consultative banking relationship”

% PREFER “DO-IT-YOURSELF” BANKING



Q: Please indicate what option in each pairing most closely represents your preferences or opinions: Consultative banking relationship / “Do-it-yourself” banking

\$100K-
<\$10MM

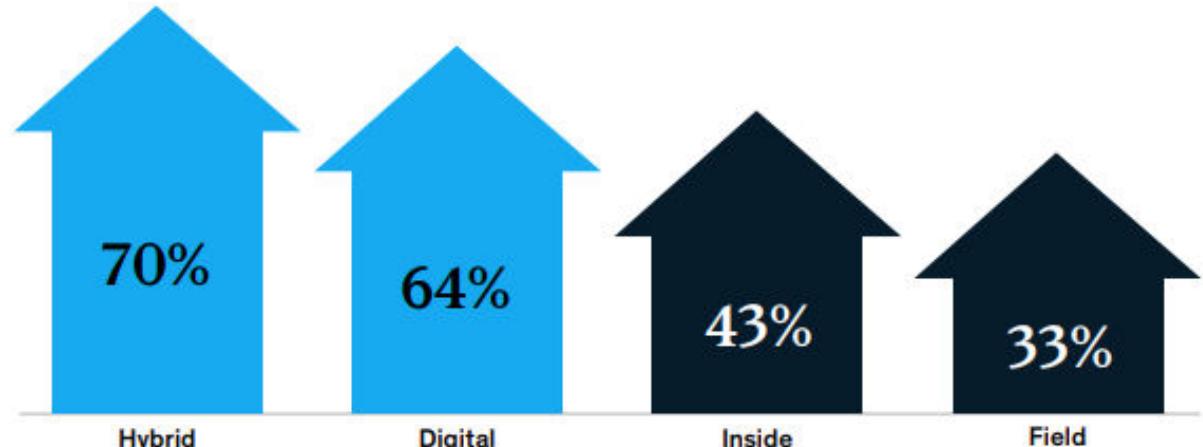
Source: Barlow Research Economic Pulse Quarterly Trending Data (ending 4Q2022)

I want to do it myself

- Self-directed with significant digital channel interface.
- Buyers prefer a cross-channel mix, choosing in-person, remote, and digital self-serve interactions in equal measure.
- Sales teams in B2B industries embracing hybrid model.

Hybrid and digital are the fastest-growing sales roles.

Net change in sales roles, percent of respondents, US only¹



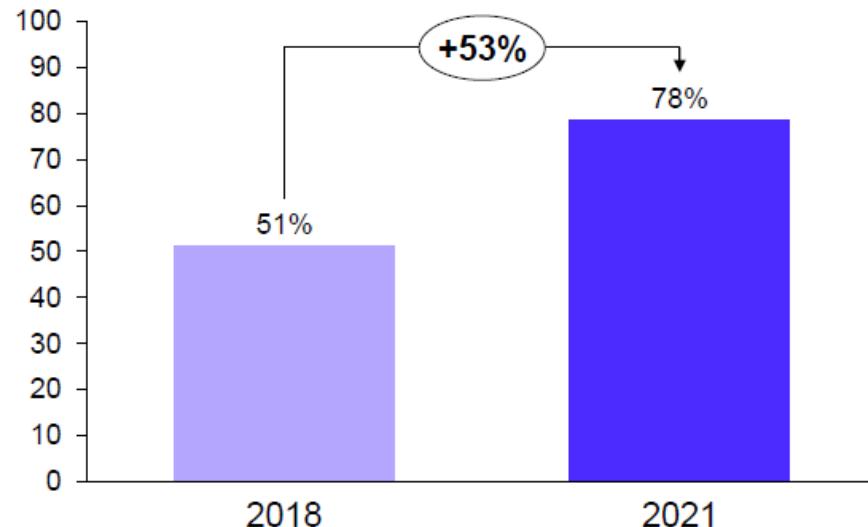
¹Q: over the past year, how has the size of your company's sales force in the following areas changed?
Source: McKinsey & Company Global B2B Pulse, Nov 2021, n = 602.

I only want to see you occasionally

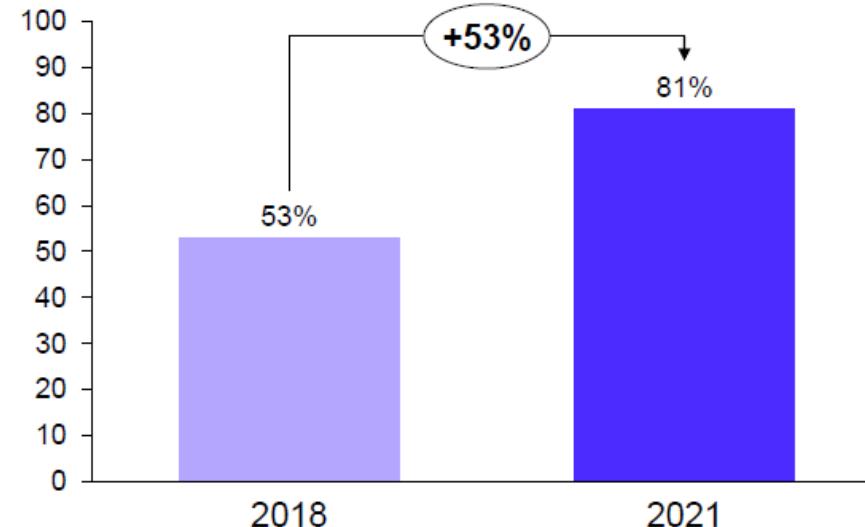
IMPORTANCE THAT CORE/PRIMARY BANK PROVIDE BUSINESS ADVICE

Less than \$5MM Revenue

Importance of Business Advice



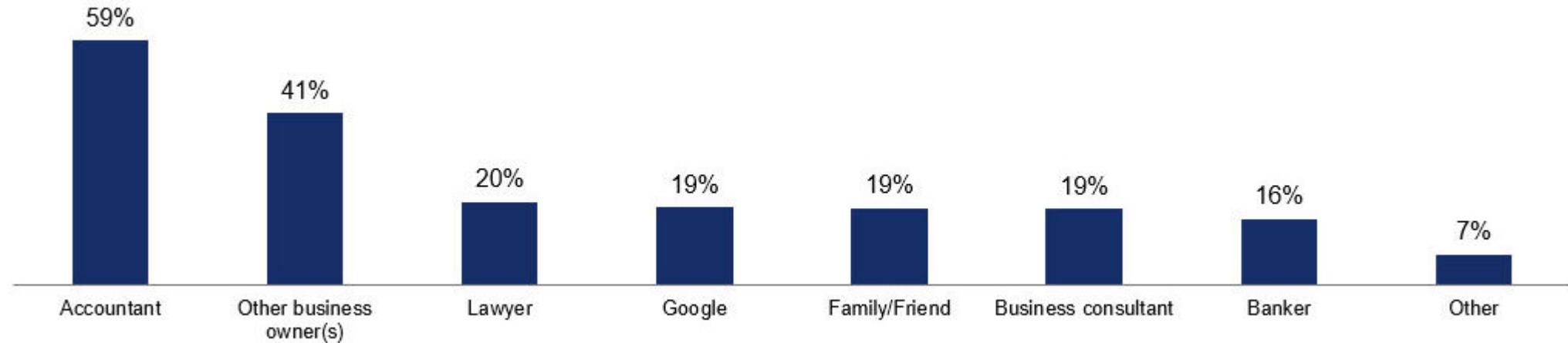
Importance of Financial Advice



Source(s): Curinos Research | 2018 & 2021 US Business Banking | Base: Total respondents (N=2,390) *sample weighted by sales size | 2018 <\$5M (N=1,245) | 2021 <\$5M (N=1,450)
Q60: How important is it to your company that its primary bank provides business advice? | Q64: How important is it to your company that its primary bank provides financial advice?

Growing importance of advice

WHERE SMALL BUSINESSES GO FOR BUSINESS ADVICE



Q: Where do you typically go for business advice?

\$100K-<\$10MM

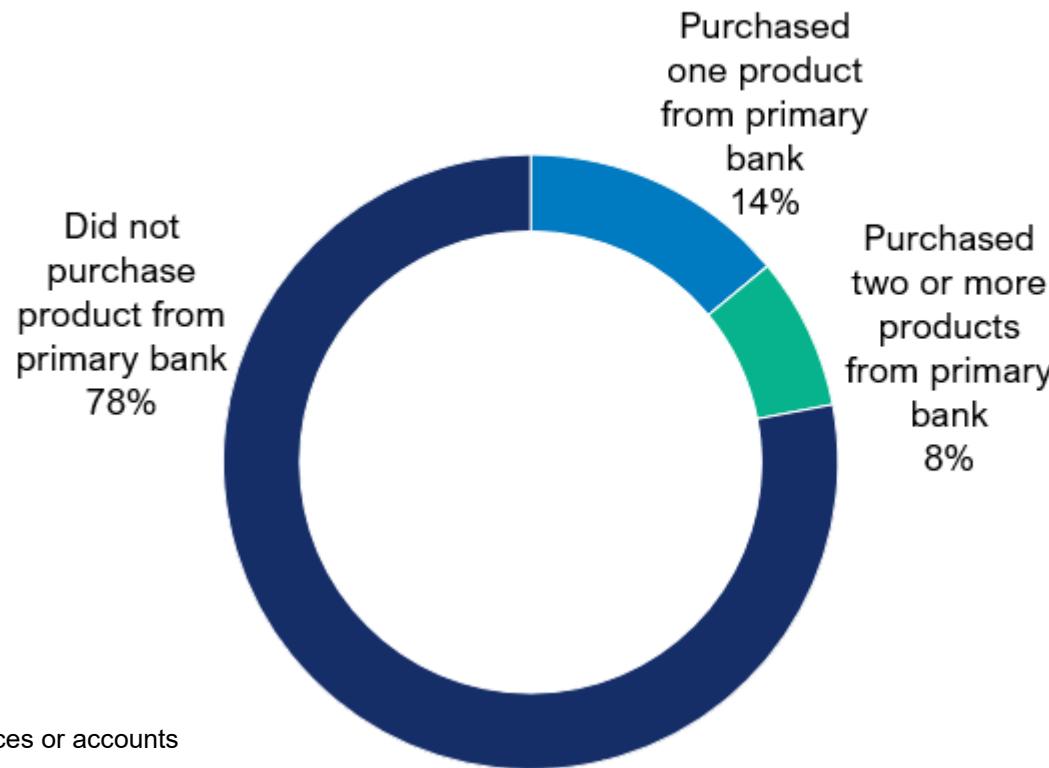
Source: Barlow Research, Economic Pulse Data 3Q2022

Banker not seen today as go-to advisor for small businesses

7%
Purchased a new financial product or service in the past 12 months



WHERE NEW PRODUCT/SERVICE WAS PURCHASED



Q: During the last 12 months, has your company purchased any new financial services or accounts from any financial provider?

\$100K-<\$10MM
Barlow Research Small Business Rolling 4 Quarter Data (1Q2022-4Q2022)

What's the value of buying from my primary bank?

Trust

81% of small businesses maintained or gained trust in their banks in 2021.

People

78% say easy access to personnel is critical or very important.

Branches

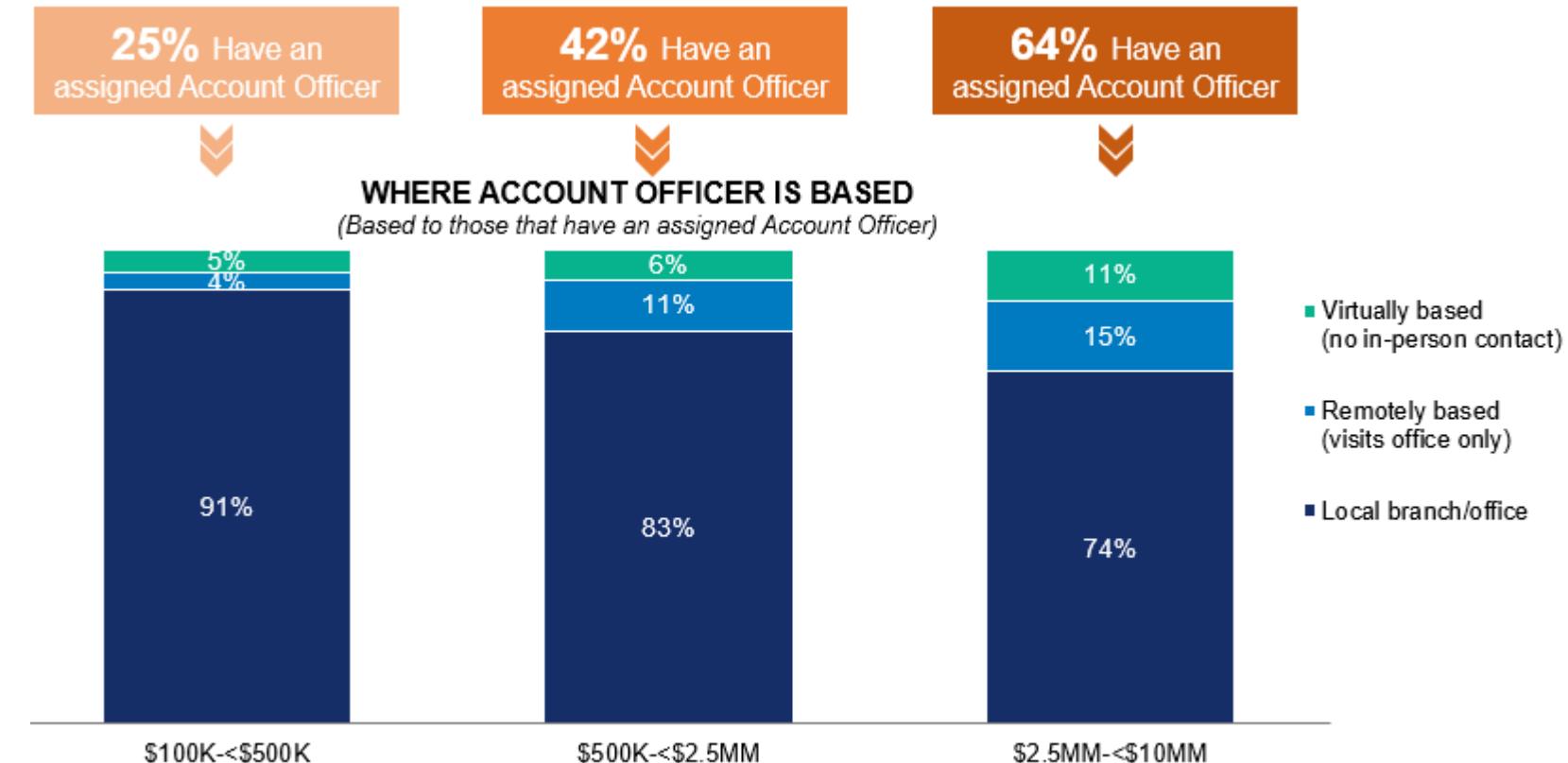
60% visited a bank branch in the last 3 months.

Source: American Banker, The Future of Small Business, 2022.

Traditional FI's have advantages



- Branch experience must be a focus for transformation
- Convey human + digital
- More collaboration, self-directed exploration



Q: Does your company have an assigned Account Officer at your primary bank?

Q: Where is your Account Officer based?

Barlow Research Small Business Rolling 4 Quarter Data (1Q2022-4Q2022)

Branches as a competitive advantage

- 1 B2B customer needs and preferences changing rapidly
- 2 Technology enabling creation and delivery of customization, personalization, advice, and knowledge
- 3 Banks are losing share to shadow banks and share of wallet to non-primary bank providers
- 4 Gens Y and Z much more trusting of fintech/big tech
- 5 Narrowing margins (and immediate expense pressures) necessitate higher case loads, tech optimization

It's time to act

Tech-Enabled Relationship Banking

A Long. Hard Slog

Illustrative B2B Buying Journey

Bold is indicative of always-on
"validation" and "consensus
creation" activities



Multi-channel buying now the norm

Increasing preference for digital, self-directed, and rep-free experiences

Increasing sophistication of banking solutions driving buyers to experience less confidence in decisions

Peer input important

Content linked to solving problems

B2B buying more complex

1

Digital channels are increasingly important in the sales process in both consumer and business banking for both new customer acquisition and relationship building.

2

Data analytics is a critical component of creating a new human + digital business model centered on knowing individual customers and delivering personalized offers, communications, and responses.

3

Trusted advisors will remain a key component of the value proposition– but delivering relationship-based value propositions built on trust requires **better linkages between Sales and Marketing** via CRM systems, marketing automation, and new working relationships.

4

The factors driving loyalty in banking are changing and increasingly center around **simple and easy digital processes** and personalized experiences – in addition to dependability, reliability, and empathy, which are factors often associated with bankers/RMs assigned to individual customers.

Relationship banking: human + digital



SEO and website optimization

Online content, problem solving,
appointment scheduling, virtual meetings

Confidence-building: case studies,
comparative graphics

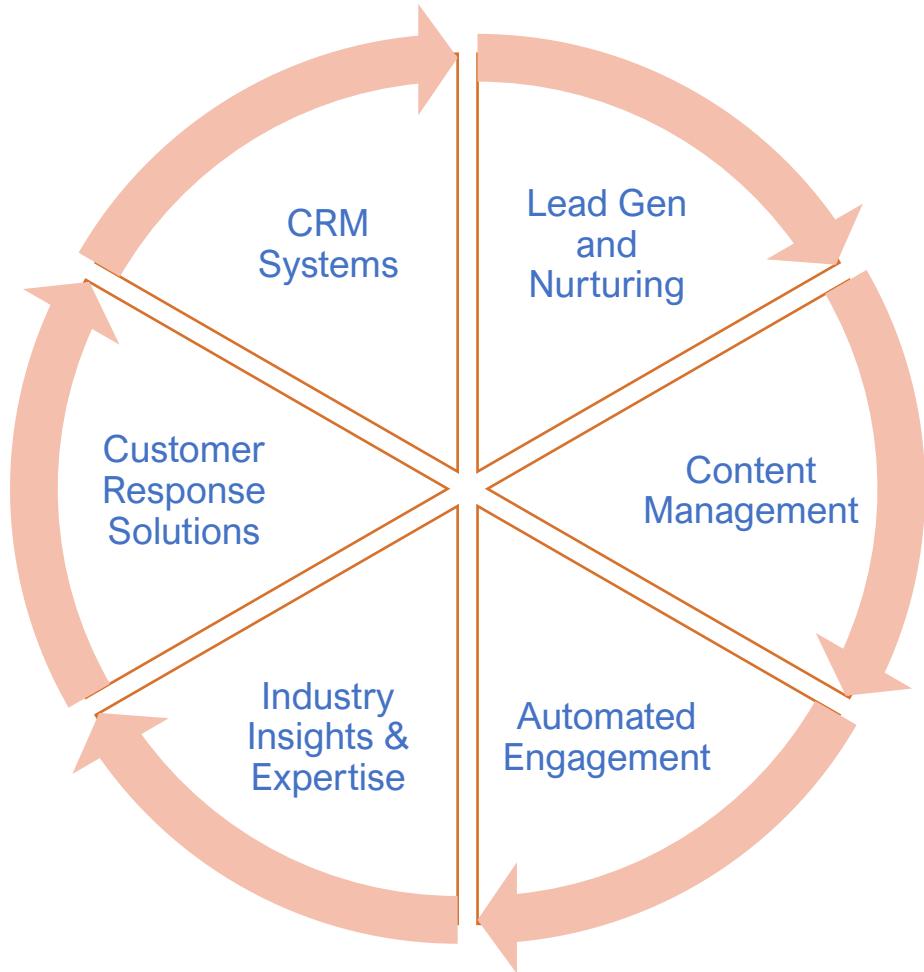
Extraordinary offers: product showcase

Getting ready to apply: checklists, demos

Ready to talk?



**#1 Improve the self-directed
buying experience**

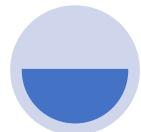


#2 Build a tech ecosystem around your bankers



Informed

Vertical expertise
Trusted advisor
Current book analytics
CRM intelligence and program management
Digitally-optimized tools: client RAROC calcs, etc.



Accessible

Accessible via text, video, email and in-person
Trained and skilled in remote selling and networking
Leverages multiple channels with individual sales prospects



Partnered

Collaborative selling with business partners and teammates; seamless video meetings
Cross-functional value propositions
Marketing viewed as essential partner in lead generation, nurturing and conversion



Supported

Customizable marketing materials and pitch books digitally-ready
Digitally accessible docs to close deal; pre-approved blocks of text to facilitate term sheets
Digitally enabled response and onboarding teams

#3 Redefine the business banker job

- Practical guidance on ways to reduce banking fees
- Tips to help improve the business' financial situation
- Fraud tools and support
- Digital banking capabilities
- Invoicing and cash flow management
- Expense management
- Accounting and tax reporting
- Treasury solutions
- ***Understanding how the bank's technology can benefit the business***

#4 Stand up advisory capabilities



Most small and middle market businesses are willing to use their bank's digital tools and services.



Q: Please indicate how strongly you agree or disagree:

Compared to one year ago, my company is more open to utilizing our bank's digital tools and services.

Small Business = \$100K-<\$10MM; Middle Market = \$10MM - \$500MM
Barlow Research Annual Payments Study 2022 Data

#5 Digital tools and services now part of the relationship proposition

- ✓ Panacea Financial: A bank for doctors, built by doctors
- ✓ Triumph Financial: “A financial and technology company focused on payments, factoring and banking for the trucking industry”.
- ✓ Mercury: A tech company, not a bank, focused on tech start-ups
- ✓ Baseline: Banking built for landlords.
- ✓ CIT’s Community Association Bank: B2B payments platform C- PropertyPay.

Liberty Bank launches digital bank for small businesses: Owners Bank

April 17, 2023



#6 Find your niches

**YOU DON'T HAVE TIME
FOR THE BS, SO LET'S
GET DOWN TO BUSINESS**

NO HIDDEN BUSINESS ACCOUNT FEES →

QUICK AND EASY BUSINESS LOANS → COMING SOON

TOOLS TO MAKE YOUR BUSINESS RUN SMOOTHER →

ACTUAL PEOPLE TO TALK TO →

APPLY NOW

ALL BUSINESS. NO BS.



MANAGE PAYMENTS

Pay your business bills faster, automate bill payments and track invoices

LEARN MORE



GET MONEY FASTER

Send invoices, accept digital payments and automate collections

LEARN MORE



PERSONALIZED DASHBOARD

Consolidate all accounts from other financial institutions in one view

LEARN MORE

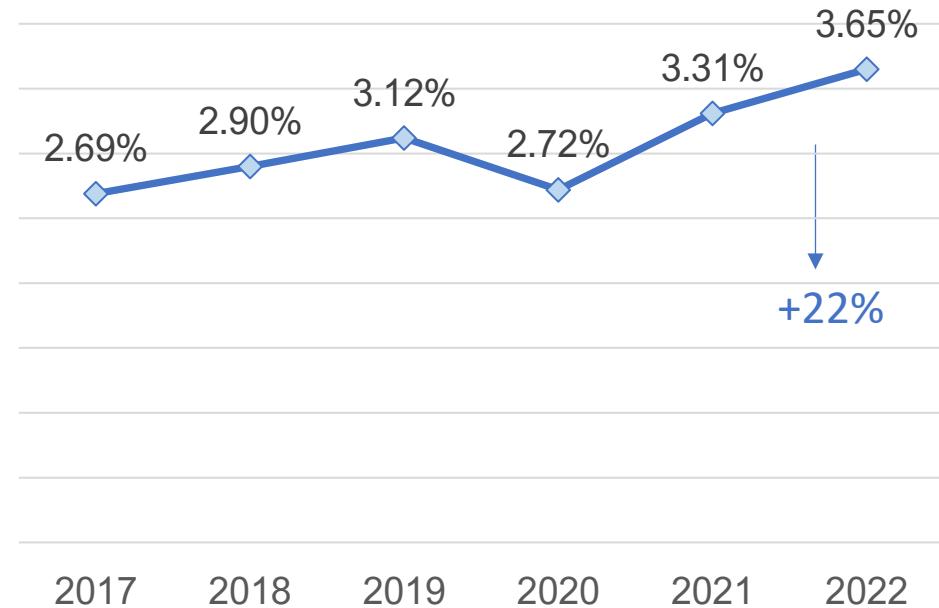
Tech central to value proposition

Banks report highest increases in marketing spend in 2023:

- Digital advertising
- Search engine marketing
- Social media
- Content marketing
- Email marketing

Source: ABA Bank Marketing Survey, October 2022.

Bank marketing spend/total revenues



Source: EMI Strategic Marketing, 2023.

#7 Sales and marketing no longer distinct functions



The Target/Offer

- Target specifications based on analytics
- Clear reason to consider delivered via direct/digital marketing and banker calls
- Assume buyer will conduct independent research



The Contact

- Appointment-setting via bank website
- Email outreach with embedded video
- Online demos/ visualizations
- Training on virtual selling is critical



Lead Nurturing

- Careful with content; relevancy is key
- Invitations to webinars: problem-specific
- Highly structured: sales team playbooks



Closing

- Reasons to believe; testimonials and client connections
- Process visualizations and expectations
- Onboarding specialists

Tech-driven selling

- Website lead capture, appointment setting and opportunity tracking
- On-line account application process
- Marketing automation and lead nurturing
- CRM and lead conversion tracking
- Onboarding automation; data aggregation and insights



Technology & product review

- Clear roles and responsibilities for lead management and conversion
- Sales enablement materials and training; sales enablement platform
- Shared goals, results tracking and reporting
- Frequent sharing of learnings and successes



Sales team activation

Expensive for the bank

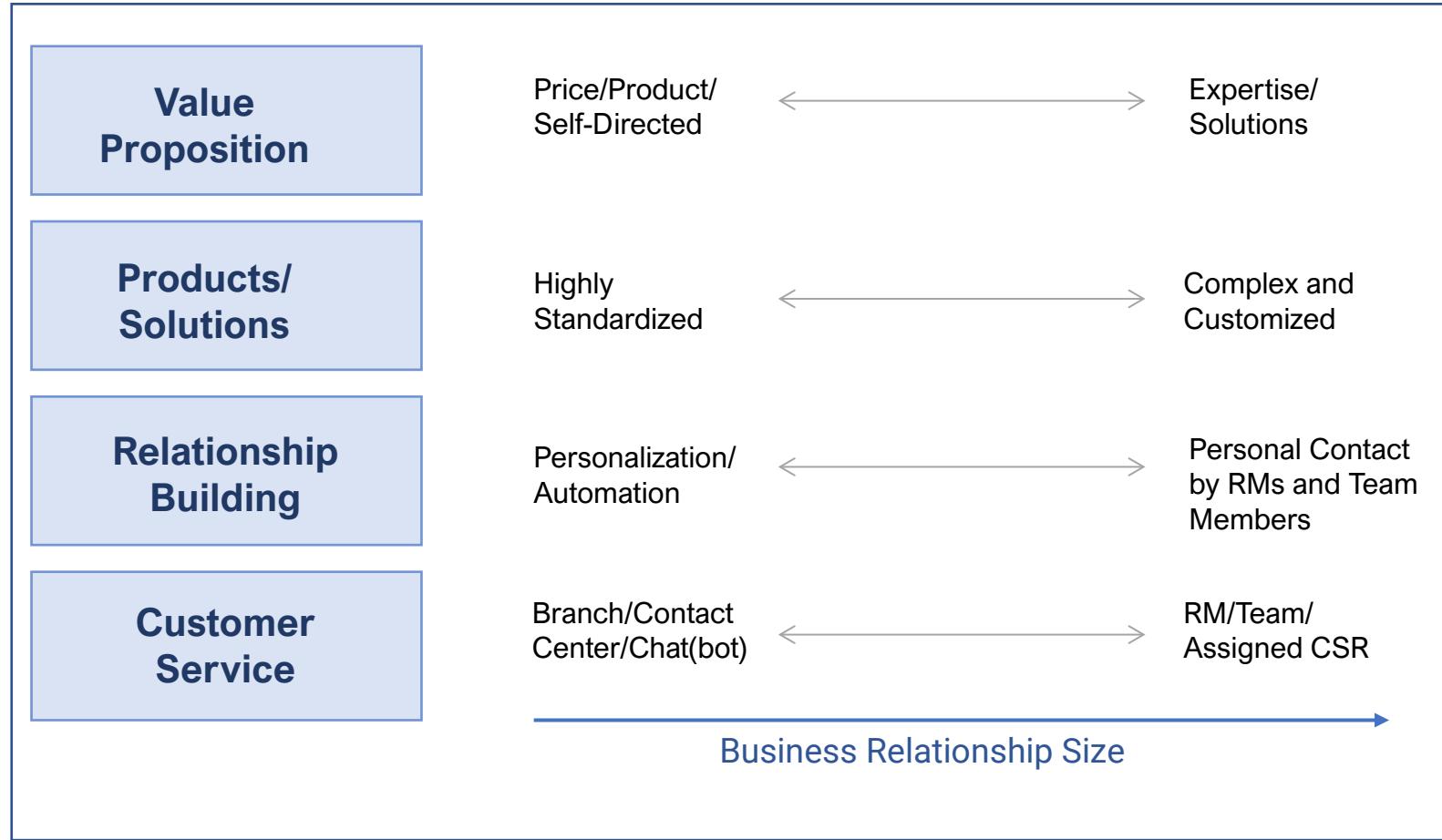
Time-consuming for the customer

Not frictionless

Data/insights don't power an expansion engine



#8 Onboarding improvements



Larger caseloads
for bankers

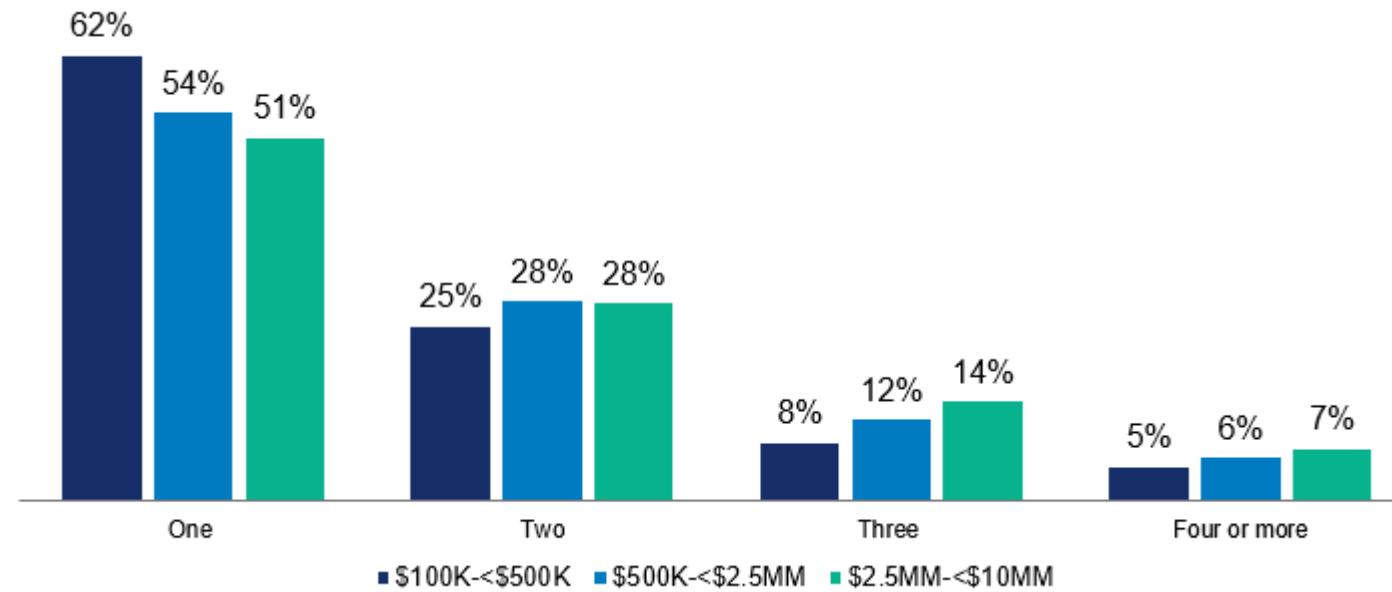
More highly
automated
engagement

Centralized support
and expertise

Self-directed
support and
expertise

#9 Creating scale

NUMBER OF FINANCIAL INSTITUTIONS USED BY COMPANY



Q: Including your primary bank, how many financial institutions are used by your company for any deposit or loan relationship?

\$100K-\$10MM
Barlow Research Small Business Rolling 4 Quarter Data (1Q2022-4Q2022)

#10 Move faster

Size of the Financial Sector/Industry

(\$ in trillions)

		2010	2022
Size of banks in the financial system	Global GDP ¹	\$ 64.9	\$ 89.5
	Total U.S. debt and equity market	\$ 57.5	\$ 123.2
	Total U.S. broker-dealer inventories	\$ 4.1	\$ 4.4
	U.S. G-SIB market capitalization	\$ 0.8	\$ 1.2
	U.S. bank loans	\$ 6.6	\$ 12.1
	U.S. bank liquid assets ²	\$ 2.8	\$ 7.5
	Federal Reserve total assets	\$ 2.4	\$ 8.6
	Federal Reserve RRP volume	\$ <0.1	\$ 2.6
Shadow banks	Hedge fund and private equity AUM ³	\$ 2.8	\$ 9.0
	Top 50 sovereign wealth fund AUM ⁴	\$ 3.6	\$ 10.3
	Total private direct credit ⁵	\$ 14.0	\$ 22.0
	U.S. money market funds ⁶	\$ 3.0	\$ 5.2
	U.S. private equity-backed companies (K) ⁷	1996	6.0
	U.S. publicly listed companies (K) ⁸	7.3	4.2
	Nonbank share of mortgage originations ⁹	2000	9%
	Nonbank share of leveraged lending	54%	82%

Sources: FactSet, S&P Global Market Intelligence, Assets and Liabilities of Commercial Banks in the United States H.8 data, Financial Accounts of the United States Z.1 data, World Federation of Exchanges, Pitchbook, Preqin and World Bank

AUM = Assets under management

GDP = Gross domestic product

G-SIB = Global systemically important banks

RRP = Reverse repurchase agreements

K = Thousands

Competition from shadow banks, fintechs, retailers, and large tech companies continues to pose a threat to traditional banks.

Competitive challenge intensifying



Products as Solutions

Digital Marketing

Intelligent Content

Training

Tools

Sales Team Enablement

Networking/
Referrals/
Partnerships

Embedded Solutions

Advice

Critical CX Processes

Team of Experts

Branch Transformation

Relationship banking tech transformation roadmap

- Easier to do:
 - Make tech and tools more front and center in the value prop
 - Create SMEs in the sales force and contact center
 - Build content for self-directed advice
 - Arm bankers with customer, prospect, industry insights; retrain for digital-first customers
 - Digital sales and marketing lead gen, nurturing, engagement platform optimization
- Harder to do:
 - Reposition branches to serve small businesses
 - Build out a true teaming capability across product specializations and partners
 - Vertical specialization, with payments and tools at center of platform
 - Expand the product/solution set via fintech partnerships
 - Enhance marketing/sales compliance, data collection capabilities

It's time to act



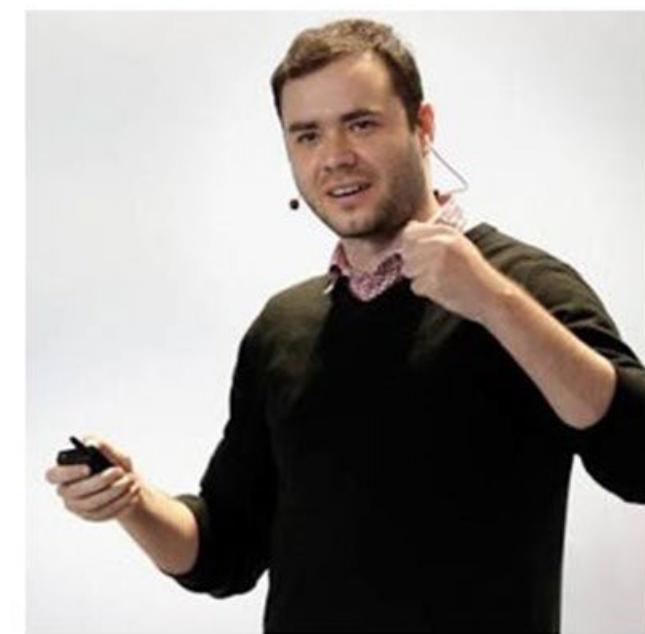
Game Changer?



“Software is eating the world.”



“Software is eating the world,
but AI is going to eat software.”



“The hottest new programming
language is English.”

Artificial intelligence poised to reshape relationship banking

Salesforce Announces Einstein GPT, the World's First Generative AI for CRM

March 7, 2023

Morgan Stanley Wealth Management Announces Key Milestone in Innovation Journey with OpenAI

Mar 14, 2023

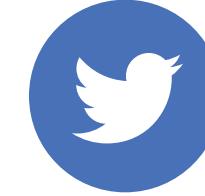


AI

OpenAI and Stripe ink technology partnership

UPDATED 14:17 EDT / MARCH 15 2023

AI already changing CRM, advice, payments, CX, and more



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