# AMERICAN BANKER WEBINAR: COMMERCIAL BANKING TOP TRENDS FOR 2024

## VIDEO TRANSCRIPT

**Danielle Fugazy:** Hello everyone. Thank you for joining us and welcome to the fifth annual Accenture Commercial Banking top trends live broadcast. My name is Danielle Fugazy, and I'll be your host and moderator today. I'm so looking forward to talking about the latest trends that were identified, and I'm sure our audience is also anxious to get to the trends as well. I look forward to this now every year. But before I introduce our guests and have them take us through the six trends that they believe will shape commercial banking in 2024, I would like to provide you with a few very important, quick tips that will help you maximize your experience during our time together today. First, we recommend you consider enlarging your screen and can do so on the upper right hand of the video window on your console. You can maximize the window size partially or to full screen. To remove full screen viewing, simply click the escape button on your keyboard. Second, and also very important, you can submit questions using our Q&A module on the console. Please feel free to ask your questions throughout the broadcast. Your name will not appear on the console, so your privacy is respected. We'll save time at the end of the broadcast to answer as many questions as we have time for. Please remember to submit them. Okay, so with the housekeeping items out of the way, let's get to the Commercial banking top Trends report of 2024. I'm very excited to once again welcome back our two experts from Accenture. First, please welcome Jared Rorrer. Jared is a Managing Director and Global Commercial Banking Lead, as well as North America Banking Lead at Accenture. Jared, I see you have a new title, so I think a congratulations is in order. Can you just tell us a little bit about how your role has changed?

**Jared Rorrer:** Sure. And thank you. Yes, I've recently been asked to take on additional responsibility overseeing our broader North America banking industry business. So, rather than just focus on commercial and corporate, it really is the whole gamut from retail to risk and regulatory to cost technology, wherever it may be. I retain my other role, as you mentioned, as the Head of Commercial Banking globally. So, excited to continue to pursue that work as well.

**Danielle Fugazy:** Great. Well, thanks for being here with us today. Also joining us is Chris Scislowicz, who is a Managing Director and the Global Lending Lead at Accenture. Chris, welcome and thank you again for being here today.

**Chris Scislowicz:** No, thank you for having us. It's always a pleasure.

Danielle Fugazy: Okay, so, as I said, it's great to be back with the two of you, and I'm excited to hear your views for 2024 for the top trends in commercial banking, as we do every year before we get to the trends, Jared, can you give us a little overview of the 2024 trends as a whole, please?

**Jared Rorrer:** Yeah, sure. And first, happy Valentine's Day to both of you. It's nice to be here on Valentine's Day with you guys, especially my work sweetheart, over here. It's nice too.

**Danielle Fugazy:** How sweet.

**Jared Rorrer:** Can't imagine another way to spend my day. There's a lot I'd say here. It was kind of funny. I was thinking about today as both Ash Wednesday and it's Valentine's Day. And when I think about kind of our reports it is a little bit of like getting religion about the things that banks need to do, but also some things that are kind of fun and whimsical. So, I think you'll see some of that. But I think when I look at the report in particular, what I see is it feels a lot more dense than it has in the past. And that was deliberate and by design. Right. We wanted to ensure that bankers, practitioners out there had an opportunity to really understand in depth what we're thinking. Some more detailed case studies, additional analysis and I hope that that brings true. Right. We've been publishing this report for some time, and while the theme sometimes can remain the same, the examples and the prioritization and the energy enthusiasm around them is pivoting. And we're going to see a lot of that as you go through the discussion here today.

**Danielle Fugazy:** You know, I also noticed that you guys divided the trends into two different categories, right? So, the first three trends seem to be around operational and regulatory themes. And then the latter three trends are more about technology advancements. Why do you guys make that distinction this year?

**Chris Scislowicz:** So, we crowdsource the trends and then we go through and say, okay, which ones do we think are the most relevant and are going to be most impactful in the coming year? And as we just were reviewing those, sort of condensing them, reviewing the list, we realized that there were two sort of overarching themes. There was this run the bank theme of economic regulatory realities that banks were facing. And then there was still this transform the bank hope for the future. So, we structured the report, and rather than just hopscotch around, we structured the report in a manner that grounds everyone in what's going on in the world around us and then close the report in the hope and looking forward for tomorrow.

**Danielle Fugazy:** Okay, that makes good sense. So, thank you for setting that scene and let's get going and talk about these trends. So, trend number one, from tactical cost takeout to strategic cost transformation. So, it seems that banks today are looking to improve their cost income ratios. With IT costs expected to rise and interest rates expected to fall, where are banks looking to take out the costs and increase the spend? Jared, I think I'll go to you with that.

**Jared Rorrer:** Yeah, thanks for the question. I think that the world, Chris, sort of framed it nicely. We have to run the bank and we have to reinvent the bank. And no time like now is that more true. The acceleration of everything around us is forcing us to do all of it at the same time. But in order to pay for the future, cost has to come out. And that's in operations risk, operational risk in particular. Even though you'll hear Chris talking a little bit about how the risks and the issues are growing as well as technology. So, all those areas are kind of growing, but how do we continue to be focused on those? It's interesting when I look at a couple of statistics. So, year over year in North America, revenue is up about 17%, almost all of it attributed to a rising rate environment. Costs are up like almost 15%. And that's a bit of a more sustained cost increase in some respects if you're going to continue to grow the technology. In Europe, a little different story, where revenues up about 15%, costs are more controlled around 3%.

That tells you one, that as the rate environment in Europe decelerates like here, those banks are not looking at this cliff of cost that we're seeing in North America. But it also says there is a step up in investment in North America as well as opportunity to bring down the efficiency ratios. Across the board, we've seen banks take, either because they must take the opportunity to reduce headcount, or because everyone else is leveraging that opportunity to reduce some headcount. We've seen that as a trend this year, but again, very tactical in nature, trying to drive that kind of cost out. How do I do there? But what's been different now is a push to really fundamentally think about cost differently and change that long term view of cost where efficiency ratios can take a dramatic step down. And you're going to hear us talk about generative AI today, technology, all those kind of things. But we're looking at banks to think very different around that. Today, banks are still spending 75% of their tech spend on BAU. But we need to see that flipped around where 75% of it spent on new initiatives and innovation. A couple of things we're seeing that I think are interesting and worth pursuing is as you look at technology in particular, a few large banks have really focused on reinventing the way their technology and business teams go to market together. A joint team driving true on innovation, thinking about how that changes your future and your talent, which we'll come back to, but also a refocused purpose on BPO and offshoring, and importantly, not as the landing zone. Not just lift, shift, and you're done. But shift, stabilize, improve your data, improve your processes, simplify and standardize your controls, and then transform both your technology and your processes from there. So, it's a way to take that step to get the cost out immediately and then reinvest that cost back in. And we're seeing that trend really as a focus point across the board where how do I actually take those costs out to put it back into my business and then figure out how I'm taking that technology cost down, even though costs for tech appear to be on the rise in the short term, and if they are, and they're going to continue to be, you've got to pay for it somewhere.

**Danielle Fugazy:** So, I think Jared touched on a lot of pieces here. But Chris, I did want to turn it over to you a little bit in practice. What are the banks actually doing at this? How are they actually approaching this right now?

**Chris Scislowicz:** Yeah, I mean, Jared alluded to it. I think historically the answer would have been lift and shift BPO. I think a lot of that low hanging fruit has been moved in a number of institutions, and the ones that haven't, that's a short-term fix. What we're really talking about is how do we address the underlying cost elements or infrastructure, the things that are driving the cost. And while that lift and shift still exists, the leading banks are taking entire units, entire business units, and thinking about how do I think about those differently? How does a multi-shore capability fold into my operation? How do I apply the transformation, the modernization? How do I bring the platforms together? How do I embed technology and how do I look at these costs as a holistic factor and address the underlying elements rather than picking off very specific points just to move the needle?

**Danielle Fugazy:** Let's move on. We have a lot of trends to get to today, so let's get to trend number two.

**Jared Rorrer:** I think that was a nudge to hurry up.

**Danielle Fugazy:** No, no, not at all. Trend number two, new regulations shift capital allocations into the spotlight. So, I think this trend is really on everybody's mind today. Right, Chris, I think we're going to you with this, with what's going on in the regular I want to know what's going on in the regulatory landscape. Now capital requirements for banks have been raised and there's been a lot more scrutiny where it feels like there's a lot more scrutiny today. So where does that leave us?

**Chris Scislowicz:** Well, I think you're right, Danielle, on that. I mean, regulatory is always on a bank's mind, but I think it's going to be more prevalent than usual in 2024, like Jared did actually start in Europe. I think what the European Central Bank did around their review of internal models is pretty profound in terms of what that does for some of the specialized asset classes that a lot of our European banks are using to drive profitability. You combine increased scrutiny there with what's going on in the ESG space. And while sustainability in particular is a little bit geographically diverse in terms of the focus areas, it's certainly at the forefront in northern Europe, also in places like Australia and New Zealand. And while it may have dialed back a bit in the US, we've got our own legislation we're dealing with, whether it's the 10 71 reporting or whether it is, if you think about the expected increased capital holding requirements from the Fed. We're talking about some banks, particularly smaller banks, could be looking at double digit increases in capital holdings which are going to have a material impact on how they do business. And all of that is set against the backdrop of a looming Basel IV regulation, which is expected to have more impact on risk weighted assets. So, when you think about the compounding effect of all of those things, and oh, by the way, as we alluded to, we're in a cost cutting environment. So, banks are being asked to cut costs while they're adding costs to handle the technology advancements. So, technology will certainly provide medium and long-term benefits, but in the short-term, you are talking about additional policies, additional infosec requirements. So, you've got banks who are having to add cost in the short-term to handle a pretty complex regulatory environment just to get the cost takeout that they want in the medium and long-term.

**Danielle Fugazy:** Go ahead Jared.

**Jared Rorrer:** Yeah, I mean, it really is run the bank, inspect the bank, protect the bank, and doubling that up. Right. I think that the bank failures early this year, both in Europe and in the US, have just heightened that view around scrutiny and what good looks like the push downward of capital requirements is messy. Right? You've seen in the last couple of weeks the pressure on yet another regional bank who's right at that threshold trying to figure out how to deal with the regulatory challenges and the scrutiny that's coming with that and the impact on their share price. That is a real thing. I mean, if there's anything, it's a good year to be a risk professional. Unfortunately, too often in banking, it always is. But I do think, unlike in other years, this will be, to Chris' point, a place where expenses are going up, focus is going up, and the pressure to drive automation, leveraging tools like generative AI to do better inspection without more headcount, will be critical. But it's a very important dynamic that has to be really thoughtful, as banks are thinking about how I make the right focus evident in my run the bank portfolio.

**Danielle Fugazy:** Okay, so let's move to trend number three, doubling down on deposits. You kind of alluded to this in the last trend, but I think everybody knows that in 2023, the Silicon Valley failure was one of the big stories, which has now left the largest commercial banks in favor. What does that mean? How are they set to fare in 2024, with interest rate cuts expected? Chris, I'll turn this over to you.

**Chris Scislowicz:** Yeah, sure. Well, yesterday's inflation report certainly didn't help with that. But that aside, I think there were two fundamental shifts regarding deposits that happened in 2023. The first was actually the fact that deposits are now the focus. Right. The cash is king again, so to speak, which is the decade of dominance that, and I say this is a lending professional, that lending had has certainly taken a backseat to deposits, and rightfully so. So there already was this mindset shift around. We have to focus on deposits, and then you add in and layer on the fact of the SVB collapse and the associated banks, and you certainly had this dichotomy or this divergence, where this perceived flight to safety, where deposits were rushing away from smaller banks into the larger banks. And that had a compounding effect. For one, the big got bigger, the rich got richer. Pick your analogy. But not only did they get larger and the smaller banks get smaller, the smaller banks were having to pay more to retain the deposits that they had. So, they got hit with a double whammy there in terms of losing deposits and paying more for the ones that they had. And now you layer on the compounding effect of that, which is that large banks now have more dollars to invest, whether that's in product innovation, whether that's in technology advancements, or whether that's just in other banking products to clients they have more money to play with. So, if you're a small bank, what can you do about that? Well, the one thing really, and we started to see this trend emerge in late 2023, and we think it'll accelerate in 24, is around product innovation in deposits. And we have some examples in the report. But for the first time in probably the better part of a decade, if not 15 years, we saw real innovation around term deposits, around business deposits. So, we think there's some creative things that can be done in that area. And then the other kind of complementary area, if you will, is treasury management. So, we saw, for the first time, again, major investment moves into the modernization of treasury management platforms, particularly the channel side, and how you more closely interact with clients, whether that was enhanced portals, whether that was deeper integrations with ERP systems. But we do believe that treasury management, enhanced treasury management capabilities, really offer an opportunity for banks of all sizes to deepen and retain their relationships.

**Danielle Fugazy:** I feel like that was a trend last year that you guys had identified. There you go.

**Chris Scislowicz:** Every now and then.

**Jared Rorrer:** We did miss the one about banks collapsing last year.

**Danielle Fugazy:** Anything you want to add to that?

**Jared Rorrer:** You know, I think, just to put a fine point on it, right. When we look at SVB's collapse, 40% of those deposits went to a single bank. And I think that's a fascinating point, right. That bank, a big, powerful bank with all the dollars and technology that Chris talks about, and when they arrive, they see the investment in digital and technical capabilities that are much stronger than what you're seeing in the regionals in general. Right? Not everyone, obviously, but the question becomes, with that separation with the Goliaths and the regionals, is, what does the 10-year arc look like and how does that change things? Right? And I think that very specific point, clearly a flight to safety. But when you get there and you see this, how do you go back to a smaller bank? And if you're a smaller bank, how are you driving that innovation, that relationship management, all those capabilities that are going to allow you to compete? Right. It's a big, fundamental, existential question that has to be asked.

**Danielle Fugazy:** I might want to get back to that, but I also want to ask you another question. How do impending interest rates cuts maybe impact things for the larger banks?

**Jared Rorrer:** Another year of uncertainty? I think it's the easiest way to put it, unfortunately, right. In the rising rate environment, we were all sitting here waiting for the economy to collapse and fortunately, it hasn't, and we don't think it will, which is wonderful. But that led to an environment where everything was a bit slowed down, right? Banks unwilling to lend, corporates unwilling to invest, and now we're in an environment where on the lending side, in particular, there's an expectation that rates are going to go down. Right. So, if I hold off, am I going to have a better rate and what does that do in the market? Right. So, I think it just drives additional uncertainty as to where we're going and what happens next.

**Danielle Fugazy:** I know you don't have a crystal ball on that, but do you have any feel for any confidence starting to come back?

**Jared Rorrer:** Yeah, I think yes. Right, so do we see more confidence? Absolutely. Our first trend around cost management remains a very big focus point for all banks. And there is no longer this tailwind around rising rates. So now that we've collected all that interest rate, all the interest rate on spreads income. The question now is how do I continue to drive that in this new environment? It's just a tough environment and you'll see us as we sort of pivot toward the second half of the trends. All this need to invest, all this needs to kind of drive prioritization while I'm running the bank where resources are more finite than ever and the cost of doing nothing is greater than ever.

**Danielle Fugazy:** Just staying on this for one more second, one of the points you made was about the small banks and the struggle that they kind of face now. Where do you see them kind of gaining that confidence and kind of getting the customer kind of back with them?

**Jared Rorrer:** Yeah, I mean, I think a couple of things. We see some banks, some really strong regional players pushing decision making all the way into the branch, as low in the organization as possible to recreate that it's a wonderful life branch environment where you know the person making the decision, they know the customers, those simple things as a true value add differentiator. And when you compare that to three to four years from now, where there's a gen AI bot driving, that there's value in that, there's that human element that's really, really important. So, I think that that's an important component of what we see. Price differentiation, consolidation of different back-end technologies. Some of the vendors out there that are providing plug and play capabilities, because I think the key is your capabilities don't need to be as advanced as the top three or four. They need to be on par with basic capability. And from there you're leaving it up to your pricing strategy and to your RMs to drive it forward.

**Danielle Fugazy:** Chris, anything you want to add to any of this?

**Chris Scislowicz:** I think the only other point I would add is we've seen banks, particularly some of the smaller banks, go on offense in marketing. Marketing is not really something we talk about often in these trends, but the brand matters, especially around this idea of safety and soundness. So, we've seen a number of banks start to really invest in getting the message out that, hey, we're a well-run bank, we're here to stay. And I think there's power in that because I do think instilling or restoring perhaps confidence in your clients is important right now.

**Jared Rorrer:** And I do think like I'm pulling my crystal ball back out of my pocket here. I do think we'll see more consolidation, right? Not necessarily in the next three months, but there will be more bigger banks to capitalize on the idea that a larger technology budget is important to me. It doesn't mean there isn't room because there will always be room for the smaller banks and the regionals. But I think we will see further consolidation and a strengthening of that second tier of banks. Just take that massive divide between the top four or five banks and the next five and start to see that together and the same happening between the ten and 20 mark. So, you'll see some of that coming forward, I think.

**Danielle Fugazy:** All good stuff. So, we're going to actually transition to the last three trends here where we're talking more about technology. I also had an idea when we started this trend. We should meet at the end of the year and talk about the trends and see what you guys got right. Because you just nailed that treasury management one.

**Jared Rorrer:** That's good. Well, maybe somebody will call us out on the Q&A session.

**Danielle Fugazy:** No, you guys, I'm sure, have it right. So, let's move on to trend four. And again, moving into the latter half here. So, trend four is commercial payments wake up call. Commercial payments account for 35% of total payments in revenue and are growing faster than consumer payments. Yet most commercial banks are missing out on opportunities to grow market share and revenues in this space. That's according to the report. So, what's this about?

**Jared Rorrer:** Yeah, first of all, you say wake up call, and I'm thinking about my 06:00 a.m. flight tomorrow. That's unfortunate, but there's something in here that's meaningful and Chris alluded to deposits. I think about commercial payments as an extension of your business. I mean, lending is core to everything, but good treasury management capabilities are important. And good treasury management capabilities include great payment capabilities. And what we're seeing is a push in this space. Over half the banks that we've surveyed in our recent payments research said they're spending significant money here in 2024, and that wasn't what we've seen over the last couple of years, that's a big shift. And this comes back to this reprioritization in a new rate environment. We're not going back to a zero-rate environment. So, the capabilities around payments, cash management, treasury services, all are going to matter. So, I think that that's sort of what we're getting at. There is a lot to be had here. This is where the retention is going to happen and where the investment needs to happen. Now, what's interesting in this research, and when we send out this report, we'll send you a link to this research as well. So, you have it, is that when we surveyed banks, the things they're working on, no surprise here, but security, accuracy and somewhere down the list are like new capabilities and data and analytics. Clients care. Their list was a little different. It was interesting. Certainly, they cared about fraud, security. But data and dashboards, value-added services, are front of their minds. And importantly, and I think a positive note for banks is these clients don't want to leave you, right. So, they want you to build these capabilities so they can stay. And I think that's an important thing to share. It's like the clients are expecting and you guys know your products are hard to get out of, which is great, but it is important to think that the clients do want to stay with you. So how do you build those value-added services they need? Importantly, like real time payments we talk about all day long. It's way down on the list of important things for our clients in the research and same with costs. Right? So, what are those value-add services? Better integration between tax and accounting. We've been talking about for some time, improved capability to have different payment methods from the onset, making that simple, allowing the data and the dashboards to be front of mind, making that a value-add capability. You get into the SMB space in particular, and having real time analysis of your cash flow based on payments coming in. That's the difference between succeeding and failing on a day in an immature business. So how do we help provide that information, make it that these SMBs are coming straight to their major bank provider? Because those capabilities are sitting there, easy to plug in, easy to understand, easy to train on all those types of things.

**Danielle Fugazy:** So, in your findings, is any of that surprising that they want to stay with the bank? I mean, that they're looking for the solutions and they want to stay. And two, that dashboards and data is most important thing here.

**Chris Scislowicz:** I think more and more we see the convergence of, I'll call it buying behaviors, I think between the consumer and the business, and that is convenience is just key right now. I mean, seamless money movement. The expectations of tap and go, just all the things that exist in our retail experience as consumers have crossed over now into the commercial space. And I think we always have to have that lens of, it's the same person, right. Regardless of whether they're buying for themselves or buying for their business, it's the same person. And that same expectation of convenience exists regardless of the purpose. And I think we always have to keep that in mind. Nowhere is that more front and center than in payments.

**Danielle Fugazy:** Makes sense. Okay, so it's time for trend number five, the next generation of automated data-powered lending. So again, I pulled this from the report. The report starts this trend by saying easy money is over, and the numbers bear that out. Banks have tightened their credit standards, and that is coupled with the higher interest rates. So that's all made lending challenging. I don't know that that's necessarily such a surprise. But the question really comes down to how can banks be successful lending partners to their customers today? Chris, I'll send this over to you.

**Chris Scislowicz:** Yeah, I mean, as you mean, interest rates are up, credit risk is up. As a result, credit availability is down, both, frankly, for banks and their clients. You compound that with a CRE problem. I won't call it a bubble because I don't really believe it's going to burst. But there's absolutely a CRE problem, particularly here in the US, where banks both own an outsized portion of commercial real estate and commercial real estate is an outside portion of banks balance sheets. So, you've got a double problem, particularly at some of our kind of regional players. So, we have all that as a backdrop. But as you said, none of that's necessarily new. It's not really a trend in and of itself. That's been the market reality for the better part of 18 months. So, what's new? Or why do we include this as a trend? It's because we really started to see in late last year, and we've already seen it accelerate this year, leading banks leaning into data and AI. And we're not just talking about automated underwriting. Right? Everybody's been talking about that for years. But that's not the only thing we're focused on overall automation and commercial banking and commercial lending in particular, is way below what we see in other segments. So, commercial and corporate is way below what we see in retail, mortgage and small business. And everyone wants the site complexity. Okay. But there are still plenty of areas where we can harness automation to improve commercial and corporate lending. And the backbone of all of that is data. It's harnessing the data both inside the four walls of the bank and outside the four walls of the bank and applying that data to things like advanced credit analytics, early warning systems, automation in the back office, enhanced customer service channels or engagement channels with your clients in the back office. So, there are opportunities that exist across the value chain and we're really seeing leading banks lean into these aspects of lending. So lending, as Jared alluded to it earlier, is always going to be a staple of a bank, regardless if it's in the forefront or not. And you can't forget about it. So in an environment wherein you need to lend in a more capital efficient manner, it's imperative that you focus your investment dollars, your opportunities, around harnessing the power that technology provides in today's world.

**Danielle Fugazy:** So, you did just touch on the data aspect, Jared. I wanted to throw it over to you, see if you had anything to add and really if we could dig down a little bit deeper on the data play and what that sort of looks like.

**Jared Rorrer:** Yeah, sure. The first thing that comes to mind is cost still, right, cost and data. Right, cost to achieve cost reductions, you must improve data and automation in lending. Right?

Any bank out there listening, you know, in your corporate commercial bank, the largest cost structure you have and the most inefficient business you have is commercial corporate lending, right, people, intensive, paper intensive, checking, checkers, confirming over and over again, taking too long to get cycle times, all these taking too long to get cycle times for both time to yes and time to funds, right? So all this is out there, we all know that. I chuckle. I go back to over a decade ago when I was at a big corporate, big global bank and we sat here and talked about the same vision, right? Drive automation, leveraging our data, simplify, automate, definitely ensure that we're compliant, all those kind of good things. And what we're seeing now, I'd say in the last six to twelve months, is a true acceleration of how we're bringing all that data together. External data cleaned up internal data to drive a decision, ensuring that you're still going to be compliant, even compliant to things like jp10 71, if that ever becomes real. Right? But all this data is coming in in a much more simplified and streamlined manner into decision engines and then providing a bit of a more of a queue to clients, to underwriters to make those decisions. And then that data then is prepopulating in the best underwriting capabilities, the narratives and the data elements then are just being queued and checked. And if you go forward from there, you can see how quickly AI and generative AI can take over and really take out all of that cost. It's just sort of been sitting there. We've seen a lot of cost, or some cost, I'd say, come out with the lending transformation over the last five to seven years, where banks have done a nice job of simplifying their operating model, standardizing their processes, improving their data quality. But now it's a matter of harnessing all that, leveraging the data, driving the automation, the efficiency to get those decisions made, still not change your risk tolerance and your risk profiles, and get much more through the pipe with less bodies. Right? So that's what we're saying. It's real this time. It's the only difference.

**Danielle Fugazy:** So, we are actually at trend number six, and we've left a good amount of time for it because it's probably the biggest trend that everybody's always thinking about now. So, trend number six, generative AI and commercial banking, there is really no way to get through six trends and not talk about Gen AI. as you just talked about, it's coming for banking. And the good news is it seems like the banks are embracing it already. So, a lot of questions here, but why don't we just start with why is AI good news for commercial banking?

**Jared Rorrer:** Yeah, I'll start with the good and some of the bad and the ugly as well, I guess. But the good news here is it does give you the opportunity to harness the whole new future. And it allows us to think about every single thing differently. I know last year we talked a lot about the relationship manager and one of the things that was important in that discussion is this idea that if I am relying solely on my relationship, I am falling behind, because those insights and the data that are being driven through these banks who are investing in these spaces is driving better market trends, better call reports, better insights and when you're having that conversation and you're walking in, you have the value add capability sitting right there with you. It changes everything. Right? So, when I look at AI and generative AI, the use cases in the front office, the automation, the full on pre population of an underwriting approval memo, these things are, we're seeing right now as basic use cases. But when you think about the future, all this becomes fundamentally automated and the value add is on the edges, and we're certainly seeing some really exciting things. Now, on the negative side, this is a place that's really tough, right? It seems really easy. I can go out and write an email, that's probably better than one I write my own using Chat GPT or for my Microsoft friends, their tool, right? But the reality is when we look at AI and generative AI, it all comes through data, right? And banks have been notoriously slow at improving their data quality, simplifying their data API structures in a way that this data can be harvested and trusted. And when I take that and think about that very much in a gen AI type future, when I look at that, it says to me, my goodness, if I don't have my data, right and my people aren't even taking ownership of data today, specifically in the front office, how do I start to train data scientists in the future where I need to go, because I can even get into the use cases is hard, right? So, I think that this goes back full on into people transformation from the onset. We have training Friday morning here for all of our banking leaders to do a three-hour session on data training and data AI and generative AI, because we strongly believe in three to five years, every single consultant needs to have baseline data skills, understanding of generative AI. And figure out how those two things come together. Because this idea of I've got to fix the data and I need to understand how data empowers and drives my business, then it allows me to start thinking about what the use cases are. But all of that is where we're going. And I think the same is even more true in a bank, right, the front office, all the way through your product organizations and your underwriters, the best and most important skill is going to be data, generative AI and how do you start training them now? So, I don't know. I'm kind of throwing it all out there. But Chris, what would you like to add to that?

**Chris Scislowicz:** I think there's a pretty broad implication for talent, I would say, and how, I think while there's absolutely cost takeout opportunities. I think the real interesting point is the efficiency and the power that it brings to your individual employees. I think your associates, everyone benefits from gen AI, if you haven't read the report, the Centaurs and cyborgs report that kind of hit the airwaves last summer, you really should spend some time with it. It's a really fascinating study. It was with one of our competitors, who will remain nameless, but it had some pretty profound impacts where they gave Gen AI to a large number of their consultants and what they found was that it helped the highest performers the least. What it did was it leveled the playing field. So, it really brought up your weaker or your moderate performers up to the level of a high performer, which has pretty profound impacts for an organization. If you had your whole organization operating at the level of your top performers, think about what that does. So, yes, there's going to be opportunity to take cost out, but what there really is opportunity is to reapply knowledge and reapply time to value added activities. So as a bank, you need to be thinking through, how am I going to harness, how am I thinking forward? And if I can gain 18, 20, 25% productivity from some of my kind of average employee, what am I going to do with that? Right? Yes, you could choose to put it to the bottom line, or you could be really creative and lean into it and start thinking about all the new products, the new capabilities, the new offerings that you can create.

**Danielle Fugazy:** So lots of follow on questions here. So just quickly, on that point, do you feel that banks are starting to forward think, or be forward thinking about this, like you were just suggesting?

**Chris Scislowicz:** Depends on the bank. This is a case where we've seen, I think, the largest kind of multinationals, global banks, have really leaned in and have said, I know this is coming, I know this is real, and I better get prepared for it, and have moved beyond the science fair, exploratory projects, and are actually creating teams, investing energy, setting up centers, building their own models, their own internal models, and really leaning in, I think, for some of the smaller banks that just don't have that sort of both investment dollars and global technological horsepower, I think there's been this fear and this aversion, and I don't think Gen AI is something you can be afraid of. You have to have a healthy respect for it. And there absolutely are policies and controls that need to be put into place, but it needs to be done in a manner of respect rather than fear.

**Danielle Fugazy:** So that was my next question. There's these perceived risks, and there's always this talk about compliance. Do you think that that's holding banks back, or do you think that it's just a perceived risk and there's really no risk?

**Jared Rorrer:** I think it's a bunch of. I mean, first of all, Gen AI is not the metaverse, right? So you need to take it more seriously. Can I start there? But it is, to your point, it's very important. It's changing everything. It's accelerating everything. As you look at what that means for a bank, you can't ignore it. It will eat you up if you ignore it. And I think that has to be the way to think about this, is, yes, we don't know everything, right? Absolutely don't know everything today, but we got to lean into this. And if you're focused on just trying to get your data right, trying to focus just on your core platform replacements, these things, and not at least parking part of your teams here, you will fall behind and it will hurt.

**Danielle Fugazy:** Okay, so I do want to get to some questions. Thank you, guys for going through the trends. We are going to get to as many questions as we can in the time that we have left. So, as I said, people have been submitting their questions since the beginning of the broadcast. I want to remind people that there's still time, they can still submit questions and maybe we'll be able to get to them. Okay, so first question, why is it important for commercial banks now to invest and adopt Gen AI? Jared, I think it's going to what you were just talking about.

**Jared Rorrer:** Yeah, I'll try and answer it a bit briefly, but I think it's sort of what we just talked about. The idea I was talking with a client just this morning, which I was late getting here, but nonetheless, I was talking to a client this morning, and this very specific question came up. They're like, I have cost problems, I've got to change out all of my technology, be, my data is terrible and you're telling me I need to work on Gen AI at the same time? Or like, in fact, it was like, and I believe I need to work on Gen AI at the same time. And I think that the truth just sits right here. You'll see this in the report. But the movie from last year won best picture was everything everywhere all at once. That's where we are. And generative AI is bringing all of that to bear right now. And when I think about what generative AI is doing, it really is bringing everything together at you all at once, right? Even as you stand up a generative AI COE, what you really are trying to think about is how you do all of it at once that at a patient never had to before. You're standing up new technology. You're testing and validating it. You're figuring out the use cases. You're failing in days, hours, weeks, right. Not nearly as long as you had before. You're managing capacity and change across the enterprise. You're trying to figure out how are divisions working across? Should it be independent, should it not? How do I validate and test it doesn't have bias. And you think about all the things we just talked about, that is a ten-month program for most of the things we do. And now we're trying to do all those things in eight weeks, five weeks, three weeks, and deploy it all together. So, the operating model is changing, or it's the same, but it's just accelerated. But if you don't spend the time now figuring out how to get your training wheels, it's going to be too late.

**Danielle Fugazy:** So not surprising. A lot of AI questions popping up here. This I think kind of... Jared: Yeah. I'm going to pull my phone out and answer them.

**Danielle Fugazy:** Yeah, where's that Chat GPT? So, you did touch on this in trend number five. Is a clean, structured, and sanitized data. Is clean, structured and sanitized data a prerequisite for Gen AI to work?

**Chris Scislowicz:** Prerequisite? No. Does it help? Certainly, right. I mean, it's certainly going to improve the reliability of the results. But you can't wait. I think there's always going to be a thousand reasons to say I can't do it yet or not yet, or this needs to be fixed and you can't do that. And I think, I'm going to preempt what I suspect is a question that's coming, which is how do I get started? And Jared alluded to what you can do tactically as a bank, but I think even beyond that, you've got to encourage your associates to just get on the tool and play with it. Find that use case, find that wow moment. For me, it was, I do some acting on the side and I was trying to research a role and I was like, let me see what this. Let me see what Chat GBT has to say. And then 30 seconds later it had a result and the expletives started coming out of my mouth as I was like, that would have taken me all weekend. If I was doing that myself, that would have taken all weekend, and it took 30 seconds. So, I think until everybody has that wow moment, you don't really appreciate what it can be. And I think the more you do that at a personal level and experience that you'll really understand what the power is. And then you can start to fast forward and say, how do I apply this to what I do at work? How do I apply this to my business? How can I really bring this forward? Because I think you need to start understanding what is really good at. This isn't a calculator. This is an opportunity to advance thinking, to pull in, to do, to expand your creativity and expand your ability to think or put things into words or put ideas into context that you might not otherwise be able to articulate. So it has such profound impacts that go beyond trying to do math.

And while data is absolutely critical, it can't be a barrier, it can't be an impediment.

**Danielle Fugazy:** Okay, so the next question, I think, Chris, you had said this in regards to that report that you referenced. If Gen AI can level the playing field, then what would be the real differentiator between the competitors? Is it whoever has the most capital just wins?

**Chris Scislowicz:** It's a great question. I hope it doesn't come to that. Right. I mean, let's not kid ourselves, right? The big banks have advantages here, but as Jared alluded to, we're in the early, we’re in inning one, inning two. This is a long-haul game.

**Jared Rorrer:** We’re only at the first pitch.

**Chris Scislowicz:** Yeah. Fair. Yeah. We might still be in warm ups.

**Danielle Fugazy:** Spring training.

**Chris Scislowicz:** Yeah. So, spring training there, you mean this is an innovation game, right? It's like anything, I think if we allow it to become.

**Jared Rorrer:** I think that's right.

**Chris Scislowicz:** If we kind of let it get to the least common denominator, then it will be the one that will be the bank with the most capital wins. So, I think it's your opportunity to lean into what does your bank do that is different than others? And if you don't have a specialty, then you are at risk. What is your bank known for? What is your brand? What is it that you do differently, and how do you use generative AI to lean into that and take advantage of? Again, the starting gun just went off, right? It's anybody's race.

**Jared Rorrer:** I think the risk here is complacency. Right? Everything you said is spot on. We just don't know the answer to a really great question. I wonder what Chat GPT somebody at home, please let us know. But it does have a profound impact on competition. But the way in which leaders are born, trained and how you grow the next generation of talent is fundamentally different. And I think that is the way I would want you to walk away and think about this. If I'm not looking at fundamentally shifting what it takes to be a successful senior leader or a mid level leader, or even who I'm recruiting right now because of the impacts of AI and generative AI, that's where you're wrong. You have to focus on this right now because it is driving every bit of change. If you don't take those steps on your talent profile, what it means to be successful, and think about how you're going to operationalize AI and generative AI to some level, then you will indeed lose. I think we can guarantee that.

**Danielle Fugazy:** So, you bring up almost the next question. It is like we have Chat GPT here.

**Jared Rorrer:** We did start with a crystal ball today.

**Chris Scislowicz:** We did? Sounds like we got one. Right.

**Danielle Fugazy:** Well, talking about talent. You were just talking about talent. Sure. How's it changing the landscape, the hiring landscape and moving forward?

**Jared Rorrer:** I said something to my team about a month ago, and I was joking. I just turned 50, which I just said to the whole group, which I can't believe I did, but I was joking and not joking all at once. And I was like, look, here's the deal. I'm close enough to retirement that people at 50, I guess, are close enough to retirement that we're going to be able to coast out of here, right? And we will make our way through it. It'll affect us. It'll be an impact for us, but we'll probably get through the rest of our career or the majority of it. But if you're like 48 or lower, it is changing everything, right. And it should scare you and energize you all at once. Because there is no getting away from what it will do to humanity. And every single thing we touch will be different. So, from a talent profile, again, I don't know what it means other than our business leaders need to understand AI, generative AI, have to be well versed in data, have to be comfortable getting into things they thought were someone else's job, have to be comfortable thinking about technology and use cases, have to think about all of these things converging altogether right now and then thinking about how you harness all of humanity through these generative AI tools and figure out how those two things come together in a way that is good for you as an individual, as a company, and how we think about ourselves as a civilization. Not to get too dreamy and crazy.
Danielle Fugazy: But it's very daunting.
Jared Rorrer: So big, right. So, all those things kind of come to mind. But if you don't pay attention right now to your talent profiles and think about looking ahead, if you're 30 and you're looking at somebody who's 40 and that's

your talent profile, it probably isn't. Same with 40 to 50. Those things, some of those things are going to be key, but those baseline attributes are, how do I think about leveraging technology and AI to think about everything I do in a different way? Because the first question out of an analyst, like one of our analysts in two or three years should be my first question. I want them to be seeing is, let me ask Chat GPT. Let me ask any of our other tools out there what it should be starting there and then going into the question, and that's crazy different.

**Danielle Fugazy:** So, some more questions here on AI. Is there opportunity to harness AI in banks less than 1 billion with limited budgets and tech talent?

**Jared Rorrer:** Absolutely. Right? I mean, you don't have to have your own private language model in, has to make this powerful, right? Go out and get a couple of Chat GPT, four licenses for a handful of folks and let them start going town on it, right? I mean, I think it's where we, you know, it's the whole how do you eat an elephant? Right? One bite at a time thing, right? Which is this whole idea of it doesn't have to be just, it goes back to some points Jared made, which is you have to embed Chat GPT in your daily life in the same way that I use the analogy of when we were kids and you were in the car driving somewhere and you asked your parents a question, if they didn't know the answer, you didn't find out the answer, right. And now it's like, give me 5 seconds and I'll look it up and tell you what the answer is. Because I'm going to google search it. Well, now it's going to be the same thing, but with activity. Right? I got to get home, I got to go send this note or I got to go do this item. Well, no, you don't. You can do it right now on your phone, pop it open, type it in your phone, and there it is right now, click send on it. So, I think it's this. How do I embed Gen AI? How do I embed chat, GPT, copilot, whatever your tool is, into your daily life, right? And I think if you start to do that again as an individual, it will carry over into your business life, regardless of what segment of banking you're in, regardless of what department you're in. There's an opportunity to leverage that. And yes, I know there's always the risk of is it reliable, is it risk? But you've got that risk with everything. I think we can talk ourselves into a corner that there's so much risk and so many issues that we can't use it. And I think that's just not an excuse. It's not completely irrational, but you've just got to get over it and get going on it.

**Jared Rorrer:** You can come check me on this in the future because I think this is mildly crazy, but I believe these tools are going to get infinitely cheaper in a fairly short amount of time. And I think that levels the playing field. It's the idea that everybody's got a $200 tv in their home today and the fact that everybody's going to have access to this. There is no way of getting around it. It will be everywhere. It will be free. It will touch everything you do. So, I think that the question remains for banks. How am I going to operationalize it? How am I thinking about talent? How do I not avoid getting into this today by getting under the burden of regulatory and cost and all the big, hairy technology projects I want to go do is I still got to find a way to do this right now. And I think that's where it all goes back to. It's like there is an action right now, and it's really thinking about how this will apply, even though it's extremely early. Nobody would have dreamed back in 1790 that we would sit here after the invention of the steam engine with the technology that we have today. Right, but ten years from that onset, you already saw a dramatic amount of innovation and change from there 30 years after the steam engine was the cotton gin, and then everybody moved to the cities. And now we have Internet in our pockets and a collective humanity inside of that machine in our pocket. So, it's just all coming together really quickly. Sorry to kind of, like, feel like we're out there a little bit on this topic.

**Danielle Fugazy:** No. Yeah. It's exciting, and obviously people are excited about it. I'm going to ask one more question, and I'm not going to ask one on Gen AI.

**Chris Scislowicz:** We got another one.

**Danielle Fugazy:** I'm going to switch topics a little bit. I'm sorry. How will regional banks close the gap on embedded bank capabilities when compared to the larger national banks?

**Jared Rorrer:** My perspective is they will. Some will consolidate, some will find technologies that help level the playing field. And some will say that my advantage is not going to compete there. I'm going to drive parity in my technical capabilities, but I'm going to think about how I bring the humanity back in an environment where that humanity and that human touch and that element will become even further removed from many of the things that we do as a differentiator.

**Danielle Fugazy:** Anything you want to add, Chris?

**Chris Scislowicz:** No, I think you hit on it. I think you've got to decide if you really want to try to compete across all channels or if you're going to specialize. Right. And I think you have to decide where your bank is, who your client base is, and what your opportunities are. But I do believe most banks have something that they believe they're known for, and I said it earlier in the broadcast, which was lean into that. Find a way to lean into what you're known for, what your specialty is.

**Danielle Fugazy:** Okay? So, I want to ask you one last question off here very quickly, and then I want to ask you guys just for, just some takeaway thoughts. So, I think this is an important question. How important are fintech partnerships to remain competitive? Kind of the question of buy, verse, build, think.

**Chris Scislowicz:** Look, I have no false pretense that Gen AI is going to give some CIOs the thought that I can do this all myself. And I mean, there's some degree of truth to that. But look, you're a bank first and foremost, right? And I know there's a couple out there that claim their technology companies will remain nameless, but you're still a bank. And let's let the folks, I believe in specialization, I believe in going out to the kind of best of breed concepts, and the fintechs are really good at this. And do I think the partnerships are going to change? Yes. Do I think some will die out? Yes. Do I think new ones that we can't even imagine are going to emerge? Yes. And I think you need to be partnered with that. You need to have your eye open, ear to the ground, whatever you want to say. But I think you need to be aware that fintechs are real. They're not going away, and they're absolutely necessary for long term success.

**Jared Rorrer:** I agree. You can't fully reinvent banking from within. You have to have that outside in perspective. It's essential to your growth.

**Danielle Fugazy:** Okay, thank you. So, I'm sorry, we cannot get to any more questions because we're almost out of time. I would like to just ask you both 30 seconds, if you wanted to tell somebody, this is the thing that you should be taking away from this conversation. What's the one thing you think that they should leave here thinking about?

**Jared Rorrer:** I'll go first. So, we've just gotten all excited about generative AI, which is super good. But let's go back to the way we categorize these trends. Right? You've got to run the bank and you have to make time for generative AI. Right. Don't walk away. Please don't walk away thinking that's what we're saying is generative AI is everything you should be focused on. You've got to do the hard work around cost takeout. You've got to do technology transformation at its core because dramatically improving your core will enable better generative AI. Right? You've got to focus on regulatory. You've got to run your bank and make room for these new capabilities so you can take that 75% of your tech budget spent internally today and turn that into 75% spent on innovation in the future.

**Danielle Fugazy:** Thank you, Chris.

**Chris Scislowicz:** Volatility is the new normal, and I think waiting for stabilization waiting is a death sentence. I think you've got to learn how to navigate your way through the volatility, through the uncertainty, place your bets. Some will be right and some will be wrong. But I think you can't just sit back and wait because inaction is going to be unacceptable and will not be tolerated. Right? I think you will find yourself rapidly falling behind everyone else if you sit still.

**Danielle Fugazy:** Chris, Jared, thank you both so much for coming today and sharing the commercial banking top trends in 2024. I know that the audience finds this super valuable, and we will be sure to share the report with you via email in a couple of days. So, on behalf of American Banker, I want to wish you both a very happy Valentine's Day and a big thank you to our audience for joining us. And once again, thank you, Chris and Jared, and to Accenture for making this session possible. Have a great day, everyone. Thank you.