

REGIONAL BANKING — A PERSONAL AND DIGITAL TOUCH TO GROW IN THE FUTURE

U.S. regional banks have grown in market share and size, but accelerated digital transformation can help them retain or further expand their customer bases. This effort — along with a strong focus on customer relationships — will allow banks to optimize costs to fight recessionary effects and capitalize on the economy's bounce back.

Key points

- Regional banks are focused on enhancing customer relationships through technology.
- Digital investments are funded through partnerships, the efficiencies of which are reinvested to pay for the next wave of investments.
- Growth will be led by aligning employees' personal "why" with the corporate purpose.
- A combination of trust, security, and customer experience can make the relationship with the customer very effective.
- Traditional bank customers are becoming more confident in the solutions offered by fintechs.
- Banks and fintechs are collaborating — rather than competing, transforming the traditional financial operating model.
- Branches will be fewer and more digitized. Bankers at branches will be financial advisers and solution providers.
- Environmental, social, and governance (ESG) and diversity, equity, and inclusion will become more important, led by demand from both internal and external stakeholders.

Regional and midsize banks with less than \$100 billion in assets make a meaningful impact on the U.S. economy, accounting for nearly 30% of the banking system's assets.¹ More important, they have a large stake in building communities and enabling them to thrive, especially since the outbreak of the pandemic.

However, regional banks have amassed legacy infrastructure and piled up technical debt. This now hinders their progress, making it difficult to adapt and scale. Regional banks are faced with competition on two fronts: (a) large firms that benefit from scale, affordability, and diversified balance sheets, and (b) new fintechs that are technologically light, nimble, and agile. With this pressure, regional banks are focusing on the basics — keeping the customer at the center of their transformation journey, enhancing services to their communities, building personal relationships, and growing employee engagement. These are done alongside improving efficiencies.

In July 2021, Infosys hosted a panel of six leaders in banking, technology, and research to discuss growth drivers in a post-COVID-19 world and the future of regional banking. The [CEO Leadership Panel](#) was moderated by Dennis Gada, the Industry Head Financial Services, Infosys. The panelists included:

- **Jim Ryan** — *Chairman and CEO, Old National Bank (ONB)*
- **Ira Robbins** — *President and CEO, Valley National Bankcorp (Valley Bank)*
- **Nitin Mhatre** — *CEO, Berkshire Bank*
- **Albert Ko** — *CEO, Zelle (Early Warning Services)*
- **Debbie Bianucci** — *President and CEO, BAI*
- **Peter Esparrago** — *Co-founder and Executive Chairman, FinLocker*

The panelists discussed how regional banks are accelerating their digital agenda by offering direct banking services, new products, and customer experiences while reducing costs and increasing operational efficiency. The industry leaders also explained why regional banks are collaborating rather than competing with fintechs, the future of the branch, and how technology amplifies relationship management with customers.

Throughout the discussion, the leaders pointed out that digital transformation is not only about transforming business and technology but is also about transforming customer and employee engagement and understanding its impact on society. The panel sought to answer questions about how regional banks balance growth-led investments and

stakeholder expectations, how digital interactions can enhance customer relationships, and how banks' balance data governance and privacy while drawing out the best insights.

1. Strategic transformation: A precursor to digital transformation

Digital technologies that strengthen human relationships serve as the foundation for regional banking's strategic transformational efforts. Banks accelerated their digital transformation amid the pandemic, with an urgency to modernize their infrastructure and better serve their communities.²

Status quo is not an option anymore.

Jim Ryan,
*Chairman and CEO,
Old National Bank*

Ryan said that ONB began its transformation journey prior to the pandemic. Since becoming CEO in 2019, Ryan said he's believed that status quo was not an option for the



187-year-old bank to grow organically. A strategic transformation was required to better serve its community clients and team members. The “ONB way” laid the foundation for the bank’s digital transformation as well. This included reorganizing the bank’s business segments and its support systems around clients’ businesses. This helped the bank support its clients better, increase standardization, improve the bank’s speed to market, and strengthen governance and risk management. Fewer resources were needed to support clients. Next, the bank invested in talent — people with data skills to gain better insights into clients and people with relationship management skills to help grow and expand into markets.

Next, the bank modernized its digital infrastructure. The change reduced friction, improved system integration,

and increased self-service options for clients. ONB fortified its technology stack to improve resiliency and self-fix issues. The last stage of modernization was to speed the use of data to better serve clients and strengthen governance and risk-management practices.

2. Building digital investments through creativity

Infosys’ Gada noted that large banks spend billions of dollars on technology transformation. JPMorgan Chase, for example, spends \$12 billion annually on technology — that’s nearly four times the technology spend of regional banks (banks with assets between \$10 billion and \$100 billion).^{3,4} Gada was curious

about how regional banks balance stakeholder expectations while pushing for more digital investments that drive efficiencies and generate financial headroom.

Regional banks must be more creative while selecting projects that can generate near-term savings and self-fund new investments.

Jim Ryan,
*Chairman and CEO,
Old National Bank*

Ryan said there’s often a mismatch between making investments with long-term payoffs and investor expectations about time horizons. Regional banks must therefore

be more creative while selecting projects that can generate near-term savings and self-fund new and long-term investments. He viewed the fintech ecosystem as research and development (R&D) units for regional banks. While large banks invest in their own R&D, regional firms have the flexibility to rapidly adopt proven technologies. While these need to be funded too, Ryan cautioned that the only way to self-fund investments is through partnerships. ONB's partnership with Infosys started out with basic building blocks, but modernizing the infrastructure was a large part of it. Ryan added that the partnership generated savings that was reinvested in more data governance opportunities and digital options for clients. Regional banks will not build solutions themselves when they can rely on partners, he explained.

Mhatre described how his team embarked on its Berkshire's Exciting Strategic Transformation (BEST) strategy, built on three pillars — optimize, digitize, and enhance. The first pillar aims to optimize processes, procurement initiatives, and the balance sheet to improve return on equity. These savings are used to fund the two other pillars. The next pillar includes digitizing end-to-end customer journeys for account opening, marketing, customer insights, and fintech integrations enabled by application programming interfaces (APIs). The enhance pillar requires improving relationships, deepening banker-customer engagement, and strengthening capital allocation and deployment to improve return on investment.

3. Driving growth through relationship-building

Gada observed that firms have focused their transformation on growing the business. He asked how regional

banks plan to accelerate growth through transformation in a post-COVID-19 world.

Since Robbins took over as CEO of Valley Bank four years ago, the firm has grown its balance sheet from \$23 billion to \$43 billion. He said the bank has been focused on ensuring that infrastructure can support that growth. Valley Bank's strategy was to align their employees' personal "why" with the corporate purpose — this alignment guided how the bank thinks about technology spending. The firm has relied on technology to enhance its relationship with clients. However, Robbins noted that banks must also balance shareholder and bank priorities. When the corporate strategy and purpose also prioritizes customers, employees, and their communities, the shareholders benefit as well.

Regional banks must deliver the at-market digital experience without losing the personal touch.

Nitin Mhatre,
CEO, Berkshire Bank

At the 175-year-old Massachusetts-based Berkshire Bank, Mhatre believes that purpose and performance can coexist. He observed that all U.S. banks aim for a trifecta of growth — growth in return on capital, growth in customer satisfaction, and growth in employee engagement. What makes regional banks different is that they focus on the positive impacts their growth have on communities they serve. Berkshire Bank aims to become the leading socially responsible community bank. This target includes being in the top quartile nationally on ESG scores and the top quartile in New England for customer satisfaction and net promoter scores. Mhatre added that another unique feature of regional banks is delivering the at-market

digital experience without losing the personal touch. At Berkshire, they call it the "Digi-touch" experience.

4. Customer experience-led personal and digital offerings

Gada observed that millennials want their primary bank account to be with a traditional bank, but they also want to experience opening a secondary account with digital-only banks because it is easy and frictionless. He asked the panel how banks are competing on customer experience.

The customer-banker relationship is strong, but it's also something that you can't take for granted.

Albert Ko,
CEO, Zelle

Ko, CEO of Zelle, said customers have a greater trust in and perception of the security and privacy of their banks than in technology companies. Yet, customers often choose a fintech. However, if banks use their strengths of long-standing relationships, trust, security, and privacy, and deliver experiences similar to a fintech, the combination is very effective. In the future, Ko sees customers using only three or four applications for financial transactions. Any bank or fintech that owns the relationship with the customer will gain a significant mindshare.

Bianucci of BAI research said there is a shift in consumer confidence in technology companies from a fraud, risk, and security standpoint. As individuals become more familiar and comfortable with technology solutions, they are more likely to do business with technology companies.

Robbins agreed with Ko and added that being "everything to everyone"



is not optimal. Instead, banks should look at becoming “everything to someone,” and understand who that someone is and the value proposition it creates. Robbins said that banks should look at owning the experience, not only for customers but for employees as well.

Our view surrounding technology has been to own the core as to how we think about those individual relationships.

Ira Robbins,
CEO, Valley Bank

Mhatre observed that exceptional customer experience can be delivered irrespective of the bank’s size because technology has been democratized — a decade ago this wasn’t possible. Maximizing customer experience will also help drive revenue streams that create efficiencies. Berkshire

Bank’s Digi-Touch strategy includes both an at-market digital experience and a personal touch. An example is the firm’s My Banker experience, where a personal banker working remotely reaches out to the customer through a device while still offering the familiarity of working with a live person whom they trust.⁵ Another example is the bank’s Interactive Teller Machine, where customers can bank on their own schedule, beyond banking hours. Customers can cash checks, make deposits, transfer funds, and make loan payments with more flexibility.⁶ These seamless transactions strengthen the customer relationship and improves their experience.

5. Collaboration rather than competition

While fintechs were once seen as a threat, their place in the financial ecosystem has evolved. As banks and fintechs collaborate to harness

new opportunities, they are also transforming the traditional financial operating model. Fintechs represent an opportunity — promising new markets and the delivery of better products and services.

Gada turned to Ko to talk about his experiences partnering with banks. Early Warning Services is owned by seven of the country’s largest banks and runs the Zelle Network. Ko said Zelle has onboarded 1,700 banks and credit unions to its network, with nearly 50 new institutions being added each month. Last year, these partnerships enabled Zelle to move nearly \$500 billion on its network through 2 billion transactions. Zelle users perform nearly 10 additional transactions a month — this digital engagement allows banks to gain insights into customer data and act on it.

Esparrago said that many banks have partnered with FinLocker because it is white label, but more

importantly because banks have not invested much in technology addressing low- to moderate-income individuals. FinLocker's technology helps bank customers create goals, save, budget, monitor credit, manage debts, and receive net worth and cash flow analysis. In turn, banks receive Community Reinvestment Act service.

6. Branches to convert into advisory centers

Gada asked the panel about the fate of branches — Is there a future for brick-and-mortar branches or can banks marry the online and offline environment to create a physical/digital hybrid (or “phygital”) experience?

Bianucci observed that there is still a place for the branch, but it will look and feel different and also be integrated. BAI research shows that digital-first doesn't mean digital-only; consumers expect to have a consistent experience across all channels, both physical and digital.

Mhatre sees the role of branches evolving. While there will be fewer, smaller, and more digitized branches, he believes there could be various models — for example, a “thin” branch or a hub-and-spoke model. More important, he said the role of branch bankers will change from processing transactions to being a digital ambassador and providing financial advice and solutions.

7. Data to drive personalized offerings

There are challenges and opportunities ahead regarding data, privacy, and data retention. Esparrago said that in wealth management, banks need to find access to consumer-permissioned data. He added that consumers want a digital financial assistant or adviser, with interactions similar to those of Siri

or Alexa. Individuals also want advice that's personalized and brings value to the data they share.

Today, technology is very data-driven, and banks have a lot of data on their existing customers, Esparrago said. Yet firms lack access to consumer-permissioned data outside the banking system. If corrected, this could help provide a hyperpersonalized recommendation and offer. He believes banks are headed in that direction — consumer-permissioned data complemented with analytics. Esparrago also said that data helps banks cross-sell. For example, most small-business owners have some form of wealth. Through personalized insights, these customers can also be persuaded to become wealth management clients.

8. Retaining and attracting talent

Strategic transformation typically results in a transformation of talent, culture, purpose, and workplace. BAI research shows that there is an employee turnover tsunami on the horizon and that a turnover level of 30% might become the norm, Bianucci said.

There is a turnover tsunami on the horizon, with 30% turnover levels becoming the norm.

Debbie Bianucci,
President and CEO, BAI

Banks cannot transform without the right talent in place. And retaining that talent requires commitment and investment to be able to accomplish innovation and transformation. Balancing the needs of employees with what is required to accomplish goals is difficult. Research also shows

differences between what executives want and what the employee base wants. While a reconciliation must happen, it is important to attract and retain talent with a clear purpose that correlates to the corporate mission, vision, and values that people can believe in.

Employees went the extra mile to support customers during last year's Paycheck Protection Program (PPP), which brought significant volume of loans to banks. Yet a clear philosophy on flexibility is needed so that employees understand what this future of work will be and will remain committed throughout a bank's transformational journey.

9. Serving small- and medium-sized business through feedback-driven offerings

Gada asked the panel about how they serve small- and medium-sized businesses and how digital technology trends are evolving in this area.

Robbins said that Valley Bank hires relationship bankers to cater to this growing sector. Businesses often have questions and prefer to talk to people. In these cases, a personal relationship helps but is frequently supported by technology. Robbins said that most small-business customers are multitaskers — taking on human resources, marketing, finance, and procurement roles. Yet without conversations with the business owners, it is hard to understand their sensitivities and the level of support they need. These interactions will provide an understanding of the breadth of technologies that can support, expand, and grow their individual businesses. Customer feedback — not bank employees — should drive the improvement of processes.



Ryan said that ONB wanted to optimize branch utilization to support small and medium businesses after the firm's merger with First Midwest Bank. They planned to convert branches from transaction centers to advice centers, with technology supporting them — especially when the physical banker is unavailable during off hours. Regional banks are optimizing branch-physical presence with people who can have relationships with customers, and enabling them with digital tools to support clients in their absence during off hours.

10. Technology is an important enabler

Everyone on the panel agreed that technology gets baked into contextual initiatives, and the focus is on the outcomes that technology can enable.

Mhatre said that while regional banks may not have initially adopted cloud solutions, they are leveraging it now

that the technology has become democratized. Esparrago explained that cloud must be embedded in the infrastructure to benefit from cost efficiencies, something that most fintechs are doing.

Cloud as an enabler is not even a decision. It's just got to be embedded as part of the cost efficiencies.

Peter Esparrago,
Co-founder and
Executive Chairman, FinLocker

Robbins shared an example of how technology acted as a differentiator at Valley Bank. During the PPP's first round, the bank lent \$2.3 billion through 13,000 loans. Yet market share dictated that they should have done only \$720 million in loans. Each loan, Robbins said, was led by a relationship. The relationship was built

by talking to the business customer, understanding their requirements, and walking them through the process. Technology at the back end enabled the bank to build applications in two weeks, onboard customers in one day, and move loan applications into the bank's core processor the same day. This is the technology differentiator, where the agility existed to support the relationship. Valley Bank originated nearly 30% of PPP loans for minority-owned and female-owned businesses because this is important to its corporate purpose.

11. Regional banks — An opportunity for ESG investors

In the panel's final topic, Gada noted that the banking industry's progress on ESG has been led by internal and external stakeholders.

Bianucci observed that banks are making strong commitments to diversity, equity, and inclusion. She said that evidence suggests that if banks adopt these principles widely, it is a better way of doing business. Now, most banks have the support of their customers and employees on this journey. Banks, for their part, are focusing on it in three ways — being deliberate and intentional, funding it operationally and measuring it with goals, and communicating it internally and externally. Banks are increasingly focusing on environmental issues, in terms of understanding risk frameworks and customer implications, and managing risks around ESG decisions from a transition standpoint. Focusing on ESG also brings strategic opportunities for banks.

Esparrago said that banks can help increase financial inclusion within the low- to moderate-income categories. He added that TransUnion has

identified 140 million mortgage-credit-eligible consumers in this segment that banks can tap into. According to him, the key strategies and actions that banks are taking include:

- Employing a diverse set of employees and engaging in the community.
- Expanding mortgage products.
- Applying data analytics for tailored marketing, messaging, and education.
- Applying technologies to address consumer engagement, education, simplification, automation, and cost reduction.
- Utilizing tools that nurture consumers and get them mortgage ready.

Ryan added that regional and community banks are actively involved in ESG since their purpose is to support and serve their communities, help them thrive, and make them

better. He pointed out that there are opportunities to improve within each community they serve that also drive long-term shareholder value. ESG-focused investors should invest in regional banks since social factors are a part of their daily operations, Ryan said.

Strategic digitization to help grow in the post-COVID-19 world

To grow in the post-COVID-19 world, regional banks are organizing their businesses around their clients. Balancing investments and revenue growth is tricky, especially in a time of cost pressure. While larger banks can afford the financial headroom, regional banks need to carve out space in their investment budgets even with the digitization imperative. This requires them to become creative and save costs that can be reinvested in the business.

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