



Branching Out: A Retail Banking Podcast Series

Episode 7: What a year for Retail Banking: Looking back on 2023 and ahead to 2024

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Bill Dworsky: Hi everyone, welcome to *Branching Out*, the podcast where we explore trends in retail banking through conversations with leaders from across the financial ecosystem. I'm your host, Bill Dworsky.

Kristin Korzekwa: And I'm Kristin Korzekwa. And on today's episode as a wrap-up to 2023, we're going to do a bit of a look-back at some themes we saw from the past year and a look ahead for what we expect to come in 2024. We are excited to welcome a special guest, colleague, leader, and friend to join us in our conversation today, Michelle Gauchat. Michelle leads Deloitte Consulting's Banking Capital Markets practice and has worked with financial institutions large and small over the years. Michelle, thanks so much for joining us today, and please introduce yourself.

Michelle Gauchat: Kristin, Bill, thank you. Honored to be wrapping up 2023 with you both and excited about this podcast. I have been a banker for nearly 20 years. I started my career at First National Bank of Omaha, where I spent a lot of time in retail branch and operations across Nebraska and Iowa. And then I joined Deloitte in 2007, where I focused on building and extending our Transaction Banking and Wholesale Payments practice, advising and selling a number of solutions across digital channels, new service models, and product implementation. So, nice to be on with both of you.

Kristin Korzekwa: Wonderful. Well, thank you. And as we think about 2023, what a year it has been. So, of course, we launched our *Branching Out* podcast earlier this year, which [was] certainly a highlight for Bill and me. It's been great to hear our listeners feedback and input on the topics we've covered and to get their thoughts on other topics that are important to them, and we've certainly had plenty to cover. Michelle, as you reflect on this past year, if there was one word you could use to describe banking in 2023, what would that word be?

Michelle Gauchat: Oh, dear. OK, well, I'm actually going to give you guys two words, but let's start with the first word as we think about 2023, and that word for me is fragile. I think fragile from a number of—we've had a confluence of different factors that have impacted the banking industry. I won't go in those in detail, but we know what those are. Those are high interest rates, those are inflation and what's going on in the economy, the cost of deposits, capital requirements coming on the banks, lost market value, and the list kind of goes on. I think banks have had to respond to this confluence of attributes, and for them, it's put a lot of pressure on their earnings. So, if I were to sum that all up, banks have had to make a lot of strategic choices this year of where they want to play in the market and how they want to win in that. And that's caused it to be very fragile, I think, for them. The second word I'll give you, though, is—and a word that I think about looking towards the future is—resiliency. I think all of this will make the banks and the bank environment better, but resiliency from an operation standpoint and hopefully continuing the digital adoption that we've seen over the past two years will just continue.

Bill Dworsky: I love that, Michelle. I think those are two really appropriate words, and it's totally OK to take two words versus one, will give you that to start with here. I want to come back to on the fragile side of 2023, the deposits topic that you mentioned. That's been kind of, in our view, especially for our retail banking clients, one of the biggest hot topics and disruptive elements of the year. And it's obviously been a battleground of fierce competition for customer loyalty. Kristin, you co-authored a point of view on the stark rise in interest rates and implications for deposit, strategy, and pricing specifically a little bit earlier at the beginning of the year actually. How do you think that's played out over the year? Did you have a crystal ball at that point in time?

Kristin Korzekwa: Yeah, it would seem that way. It was certainly a timely piece but agree on the points that have been made. It's been a top three, at least, item for enterprise of course and especially for retail banking executives and has really helped to separate some of the top performing institutions and retail banks from the laggards. And ultimately led to bank distress in certain instances, as we saw play out earlier in this year.

Bill Dworsky: So, do you want to take a shot at forecasting again, either on the resiliency theme from Michelle or anything distinct from that? What does the future of deposits hold for 2024 and beyond?

Kristin Korzekwa: I think there's a prevailing view that the rise in interest rates should moderate but that price competition is going to remain fierce. And certainly, I think the average deposit costs will continue to remain very challenging for retail banks—that, amid everything that we're seeing from digital-only and neobank competitors, that is not going away. And many of our traditional banking institutions will continue to be really challenged to hang on to deposits. When I think back to probably a couple of conversations, Bill, that you and I had earlier this year on earlier episodes [which] kind of tie into this topic. So, first with Liz Wolverton from Synovus, if you recall, we talked with Liz about how banks can deepen their relationships and achieve what she referred to as "primacy" in unique ways. And we all know that that used to be rooted in a depository relationship. Transactions, how do you define loyalty and being a customer's primary bank, and that probably will not be the case going forward. I think a lot of banks will start to rethink that definition of primacy beyond just the depository relationship. And then second, the conversation we had with Paul Dilda, where Paul talked about how BMO continues to be focused on helping their customers make real financial progress towards their goals. And when you think about, again, deposits from this lens, trust in an institution and trusting that your bank can give you advice and guidance when and where you need it, oftentimes that is really rooted in what institution

you trust to place your deposits and hold your deposits. So, from that perspective, it's quite relevant to what we continue seeing from a deposit rate perspective. And I think those banks that can provide that personalized service will continue to build that trust with their customer base and ultimately have a leg up on competition.

Michelle Gauchat: I think it's really relevant, Kristin, that you bring up the advice piece. Because we're seeing, I mean, every day there's a new kind of offering coming out from a bank being announced, whether it's like advice in how to buy your car, advice into how to manage your personal finances. So, I think that advice-driven paired with the digital offering is going to be critical, as you said.

Kristin Korzekwa: Yeah, agree. And how you do it. How do you actually generate the insights and equip your bankers and your team members to provide the advice, either in person as well as in that digital setting.

Bill Dworsky: Yeah, agree on all of the above. And especially for individuals that also have some type of small business or entrepreneurial endeavor that they may be also championing. One of the very important deposit bases and segments for our retail banking clients is small business customers. Each financial institution organizes around small business a bit differently, yet all attempt to bring some type of blend of consumer and commercial banking-like offerings to that segment regardless of how they define or classify it. Michelle, from your experience talking to banking leaders consistently about ways to best serve the different types of businesses and commercial segments, what do you think will be trending in 2024, either resiliency-oriented or otherwise, for banks as they think about small business as a segment?

Michelle Gauchat: It's a good question, Bill, and I think I'll channel my transaction banking wholesale payments lens on this. It's still really hard for small businesses to get paid. It is painful for them to get paid. And what that creates for them is cash flow struggles, limiting their growth, time. Small businesses have very few employees, and that's exhausting their time. It's exhausting their ability to stay organized. So, I'll say, I think one of the trends we're starting to see, and we're going to continue to see next year, is how banks make it easier for small businesses to get paid. And that's not only the different rails, the different methods; that's the seamless tools for small businesses to use to manage their revenue, invoicing, bookkeeping, the integration across all of the software and tools that small businesses are using—and we know that they are increasingly going digital. And I think the other thing that comes along with that is transaction monitoring and fraud prevention. We know that there's still so much work to get done here, and banks are investing a lot with their partners to advance fraud detection, make it easier using biometrics, AI to be able to prevent fraud in the first place. That also comes to very related to payments is the tools around which banks give small businesses to make sure that a payment when it goes out the door is the right payment to the right person. And that increasingly gets to the point that you guys have made in previous podcasts around how to make those attributes of that experience easier, like a consumer experience, but more sophisticated, like a larger corporate or wholesale experience. And I think we'll just see that continue next year, but I think it's going to even elevate with some of the reasons that we talked about banks [doubling down] in digital and that resilience play. I'm going to ask a question back to you both because on the topic of retail, we know that Deloitte just published the 2024 banking industry outlook—you both were contributors to that. And I would love to know, if you were to tell readers, what should they pay closest attention to looking ahead in retail?

Kristin Korzekwa: Thank you for that plug, Michelle. I would certainly echo a number of the points that we've talked about already, and what we've seen: interest rates, implication for banks on their core deposit and lending businesses, which we really didn't get into in this conversation. I think a lot of opportunities around AI, it's sort of the topic du jour, but truly I think there are a lot of opportunities for retail banks to leverage AI to really unlock some of this opportunity. And I think back a few years ago, we also published a future of retail banking point of view, and I know Bill and I and others have been reflecting on how some of those themes have played out and what the new future of retail banking will look like. And to that end, if I could tease some of the topics that I think our listeners can expect to hear from us, I think continued improvement on the path towards omnichannel customer engagement. Thinking about how do we really truly create a consistent experience and an amazing experience across

channels for consumers leveraging game-changing technologies from core modernization and cloud migration to unlock some of that digital experience and thinking about what is on the next horizon from a digital banking perspective. But I think we are in a kind of a new era of what is the role of the bank branch. I think we'll see a wider variety of formats and offerings and more distinctive alignment to local neighborhoods and geographies. So, we'll talk a lot about that in 2024. Bill, what would you add to Michelle's question?

Bill Dworsky: Well, I think related to the evolution of the bank branch, the evolution of omnichannel, my view also: new opportunities, expectations, and even development paths to a certain extent for the key talent and the critical humans that still lead the retail banking frontline. We'll have a few of the future of the retailing frontline, whether it's relationship managers, the kind of classic teller position, other have customer service agents. All of those people play pivotal roles in interacting with customers on an everyday basis, but their roles are changing, and they'll continue to be very important regardless of how much technology comes into the picture, so to speak, for retail banks. I think the other thing that I would highlight is a lot of related themes around industry convergence and how retail banking customers, who are ultimately still humans first before they're retail banking customers, continue to be influenced and bring their mindset from experiences outside of their interactions with the bank and use those experiences to set expectations for what they want and what they need and what they get from banks. All in all, I think retail banking will continue to be the foundation and lifeblood of large and small financial institutions. And I think that's ultimately kind of this sort of the resilience, Michelle, that was part of your outlook.

Michelle Gauchat: I would love to ask you both, because you kind of hit on it with industry convergence and also omnichannel, but as a consumer of banking, we want to experience it in many different places, whether we're in the store, we're shopping on Amazon, we're at—I happen to be in Florida right now, so Disney World is two hours away! But any of those kind of experiences, how are you both seeing kind of banking play into that consumer experience from just a retail—and I use retail as a broad umbrella term, not a specific banking term. But where are you guys seeing those experiences kind of come together?

Bill Dworsky: Kristin, curious for your thoughts, but the initial theme that is on my mind is really about, in some cases, invisibility, embedded finance, and seamlessness for customers. When a customer's at Disney World, to your point Michelle, they don't want to be thinking about their bank. They want to be thinking about the rides, the characters, the family atmosphere, and they want any and all financial aspects to be all covered, all taken care of, and whether that be automated or carefully planned for previously, or otherwise sorted. And so, different ways that that manifests, depending on the consumer environment, whether it's credit and payment solutions at a point of sale that make shopping very seamless, or whether that's—Kristin, as you talked about a little bit earlier—more of kind of embedded in real-time advice and insights on financial well-being and planning for key points where customers may be making decisions about what to buy, how to buy, where to buy, etc. Those are the things that I think are increasingly important. And for retail banks thinking about, well, if invisibility is important, does that mean we're going away? I think that means actually more that partnerships, alliances, joint ventures, and figuring out the right ways to collaborate across these industry boundaries are really increasingly kind of the name of the game, so to speak for retail banks.

Kristin Korzekwa: Bill, I couldn't agree more. The two words that I thought of as you were talking, and Michelle when you asked the question, is seamless and integrated. And look, we all live and breathe banking all day, every day. Many of our listeners also are living and breathing banking every day. It doesn't mean it's not important. We just need to think more from a customer and a consumer-centric mindset and think about what does that consumer actually want to experience? What do we want to experience when we're out shopping or enjoying our everyday lives, and how do we want our financial services, our transactions, our payments to be more integrated and seamless into those experiences as opposed to front and center and separate from.

Michelle Gauchat: And I think back to, kind of, in our strategic choices—where to play, how to win—that's why we're seeing a lot of banks get a little more narrow than maybe they have been the past 10 years in thinking about those businesses and where they play, knowing that what we just talked about

is the key to how to win and honestly it's not easy to do at all. I like this where I ask you guys questions. This is fun. So, I'm going to keep going because I love that you both do the rapid-fire questions with guests. So, maybe we can do a little lightning round with the two of you, and I'm going to reverse it and ask you both questions, so here we go. First question: When did you last visit a bank branch, and what for?

Kristin Korzekwa: So, this is a fun one for me, maybe a little bit of a cheat response. But I used to work at a bank branch that is now a restaurant, a really great restaurant, and I had an amazing opportunity last weekend actually visiting family and friends in Cleveland, Ohio, to dine at my old bank branch. So, little bit of a cheat, a different purpose, but that's the last time I was in what I still think of as a bank branch. Outside of that, gosh, I would really have to dig back and think about when and why. Bill, what about you?

Bill Dworsky: My answer's a little bit more humdrum, but I actually came back from being overseas and had some extra paper currency from India and had a bunch of extra rupees that didn't know what to do with, so went into the bank branch and exchanged them for good old dollars. But couldn't do that elsewhere.

Michelle Gauchat: Nice. OK. Second question: When you pay for things, what payment method are you using? And there's a second part to this. I'm curious how it varies based on the type of purchase you're making or who you're paying, the beneficiary.

Kristin Korzekwa: For me, credit card, all day, every day. Want to get my rewards. I am notoriously guilty of never having a single dollar in cash on me, always credit card. However, I will say that I unfortunately find myself still writing a check every now and again when a provider—and it usually has something to do with a home repair—wants to charge me a fee to use my credit card, and therefore I will pull out my checkbook.

Michelle Gauchat: Bill?

Bill Dworsky: I will echo the credit card usage and rewards are a very valuable proposition. I do have some cash on hand just in case, never know when it may be helpful, to encourage or in some cases accommodate similar types of kind of unique payment requests, Kristin, that you were describing with a check. But I don't carry a checkbook around, that's for sure.

Michelle Gauchat: OK, last up: What's the top thing on your holiday list?

Kristin Korzekwa: Oh, gosh.

Bill Dworsky: I'll go first on this one, Kristin, while you take a moment. There are a couple books actually that are on my holiday list. Some interesting ones this year that I'm keen to dig into. Elon Musk biography—big Walter Isaacson fan, so curious and excited to dig into that. And then Michael Lewis. Not to go too far into the topic, but I'm also a Michael Lewis fan. He just published a notably topical book that everyone should check out. So, those are the things for me.

Kristin Korzekwa: Well, shoot, I was going to say "rest and relaxation" right after this year of fragility, Michelle. I just want to take a nap. That's high on my holiday list. Outside of that, I'll go with the book theme. I've been baking a lot of bread lately. I am probably two years behind everybody else in getting on the sourdough bread-baking kick. So, I've got a couple of bread-baking books on my wish list this year.

Michelle Gauchat: Whoa! Does this mean you have a bread machine?

Kristin Korzekwa: I do not have a bread machine. I use my hands, I do it all manually. But I've got my sourdough starter going, and it's good stuff.

Michelle Gauchat: Bill, I'm hearing 2024, we need to be invited over for bread at Kristin's. OK.

Bill Dworsky: Yeah. All things rising!

Kristin Korzekwa: Careful what you wish for. Lots of people get bread from me these days.

Michelle Gauchat: On my list, let's see. I love the book, *Push*. Not a lot of time to read lately, so I'm actually going to try to read a book. It's probably going to be fiction though, Bill, and I hear your books sound more nonfiction. I'm going to go with fantasy land for my allocated days of reading, so I've got to find the right one.

Kristin Korzekwa: Alright. Are we off the hot seat?

Michelle Gauchat: Loved it. You're done. That's it.

Kristin Korzekwa: Alright.

Bill Dworsky: OK. Outstanding! Well, Michelle, thanks so much for putting us on the hot seat, for spending some time with us more generally today, this was great. Thanks to our listeners out there for tuning into today's conversation of course, as well. We want your input and requests for next year. Kristin and I teed up a few topics, but we'll definitely look for your feedback and suggestions as well. Reach out to us and share those at *Branching Out* at deloitte.com. If you're looking to go deeper on some of the topics we talked about today with Michelle, check out our podcast webpage online at deloitte.com/branchingout, where you'll find some short show notes, relevant links, including the 2024 banking outlook that Michelle referred to. And we look forward to exploring the future of retail banking with you again soon. We'll be back with you in 2024.

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