ORACLE
Financial Services

Enable Customer Centricity in Corporate Banking

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CORPORATE BANKING AT THE CROSS ROADS

Evolution of companies to meet changing business demands has brought about a paradigm shift in the way companies are managing their finance planning and operations. This has led to drastic change in corporate customers' expectations from the bank. While the traditional need of maintaining excellent corporate and bank relationship remains, host of other requirements such as complete end to end solutions requiring tighter corporate bank connectivity, real time status updates and complete transparency across all banking functions, omni-channel banking and superior digital experience with advanced portfolio management and customized products and services to suit the unique industry and business needs of customers have newly come into prominence.

Over the years, dissatisfied with what banks were offering several organizations have been quite effective in building their own financial solutions in the areas of financial supply chain, superior cash flow forecasting, payment factories and risk management capabilities. Several other companies have also incorporated their in-house banks, handling some corporate banking functionalities themselves. This does not eliminate the need for corporate banking solutions from banks but it does diminish the central role banks were once entrusted with managing the financial proceedings for these organizations. Additionally fintechs are also gaining ground by providing specialized solutions with superior digital capabilities and have already captured significant percentage of small businesses customers and are slowly gaining prominence with midsized companies as well.

Banks are also having difficulty with adhering to ever changing regulatory norms. The recent regulatory requirements BASEL III, CRD IV, SEC and BCBS are forcing banks to reevaluate their cash and liquidity position. Inability to management cash and liquidity effectively and incorporate effective cash flow forecasting is inhibiting banks to allocate its assets effectively to meet these new regulatory requirements.

In order to maintain their central role in corporate customers' financial management and transactions, banks need to evolve to become a customer centric bank that incorporates key capabilities such as enhanced client selection and product rationalization, industry specialization, enhanced liquidity and cash management, pricing excellence, operational excellence, and ability to offer superior digital experience through omni-channel banking.

If banks do not transform now they risk losing their business to fintechs, corporate customers themselves and banks that leverage fintech partnership to offer differentiated digital offerings.

THE NEEDS OF CURRENT CORPORATE CUSTOMERS

The current rising business needs have enabled organizations to invest in service expertise and technology to simplify its financial and operational complexities. While this has provided unprecedented opportunities for banks with steady flow of transaction and credit revenues. If they don't evolve with the organizations at the same pace the central role banks have been playing so far may soon start soon diminishing and many of the processes and services handled by banks currently will be taken over directly by the corporate customers' themselves or non-banking digital disruptors. Below are the specific needs of corporate customers.

- **Customized and superior advisory:** Corporate clients demand customized and industry specific advisory services from their banks to enable them to carry their day to day business activities efficiently. According to E&Y, 67% of interviewees believe that advisory services provided by many of their core banks are the top benefit of their relationships[1]. Corporate Customers are not just looking at expertise on specific financial domain instead they are looking for innovative ideas that are specific to their industry and enables them to tackle their unique business situations by looking at the problem from a different angle.
- **End to end solutions:** Corporate clients require integrated end to end solutions that connect all the silo lines of business of the corporate bank ecosystem which includes the bank, corporate clients and any other parties such as vendors, partners and credit and debit bureau. This enables banks to provide holistic and complete solution with no misalignment of data and improved process efficiency.
- **Innovative products and services:** Corporate customers demand innovative solutions that cater to their specific business need. According to the survey conducted by E&Y 63% of corporate client's rate it is as important requirement to choose a banking service provider but many are disappointed with current banks in their lack of ability to provide innovative products and services[1]
- **Customized solutions:** Majority of corporate clients are disappointed with their bank's ability to offer customized offerings. They prefer solutions that are tailored to their specific industry and business needs. According to BCG, a US health care company was extremely satisfied with their bank because it offered a treasury management solution that was built for that company enabling the company to identify low value activities and cut costs and reduce errors[2].

- **Price competitiveness:** According to E&Y 69% of corporate clients mention that competitive pricing is very important1 and many of corporate clients want relationship based pricing advantage over other customers and also bundled products and services with discounts and other price benefits.
- **Transparency:** Corporate clients require complete transparency across all their transactions. According to E&Y (69%) say their banks' position and transparency on risk, liquidity and capital, and portfolio concentration are extremely important in today's volatile financial marketplace[1]. Banks should communicate the status of the every transaction to customers in real time.
- **Superior digital experience:** Digitization has raised the bar for customer experience by promising a seamless and frictionless experience across industries. Companies such as Amazon, Argos and Uber who have changed the nature of the game are providing quick, seamless and efficient service at every step of the customer journey and customers are expecting the same quality of service from banks as well. Retail banking customers have been offered such an experience though; through innovative and customer friendly digital solutions such as the ones provided by Jibun Bank which pioneered the revolutionary idea of mobile-only banking and National Australia Bank (NAB) that has a produced a host of innovative applications through NAB labs.

Such examples, however, are still few in number when it comes to Corporate Banking, where factors such as low level of digitization, time-consuming manual processes and redundancies are still at work. Corporate clients are digitally underserved, and in a world where businesses are going all out to woo their customers with a great digital experience, they expect more from their banks. Corporate clients expect 24/7 access to corporate banking services through multiple channels such as the web, mobile and telephone. They prefer to access different corporate banking products such as FX, Liquidity management through the channel of their choice and many a times corporate clients access the same product through different channels and expect a seamless experience across these channels while initiating a transaction in one channel and completing it in another.

INABILITY OF BANKS TO OFFER THE RIGHT SOLUTION IS DRIVING COMPANIES TO BUILD THEIR OWN

Inability to get the right solution from banks drove many companies to build their own solution to meet their financing planning and processing needs. This trend, initially, prevalent in large multinational organizations is also gaining prominence among midsize and small enterprises. While some regions have regulations that have restrictive control, many regions support common standards such as SEPA, SWIFT and ISO 20022 allowing corporate houses to build in-house financial solutions. Corporations have gone ahead and built specific point solutions such as in-house treasury systems, payments solutions to a full-fledged in-house bank capable of offering complete banking solutions. Banks are slowing losing their central role in many of the corporate clients' financial proceedings and can no longer rely on a steady flow of fee-based income that assured profitability.

THREATS FROM DIGITAL DISRUPTORS

Fintechs are rapidly changing the way we perceive banking functions and the momentum these fintechs are gaining is evident from the increasing investments going into fintech startups. In H1 2018 alone, an impressive amount of $57.9bn was invested into fintech startups[3].

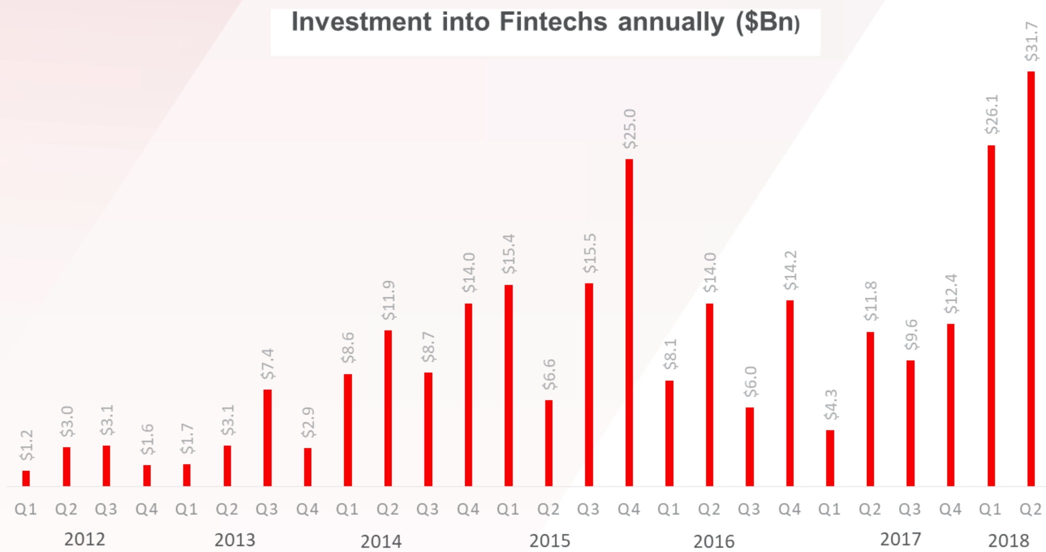

Figure 2: Investment in fintechs increasing rapidly[3]

Corporate clients in addition to building their solutions themselves are increasing using products and services offered by fintechs because they are more convenient, user-centric and flexible and this poses a serious threat to the dominance enjoyed by banking institutions. In fact fintechs are rapidly gaining market share in commercial payments and lending space.

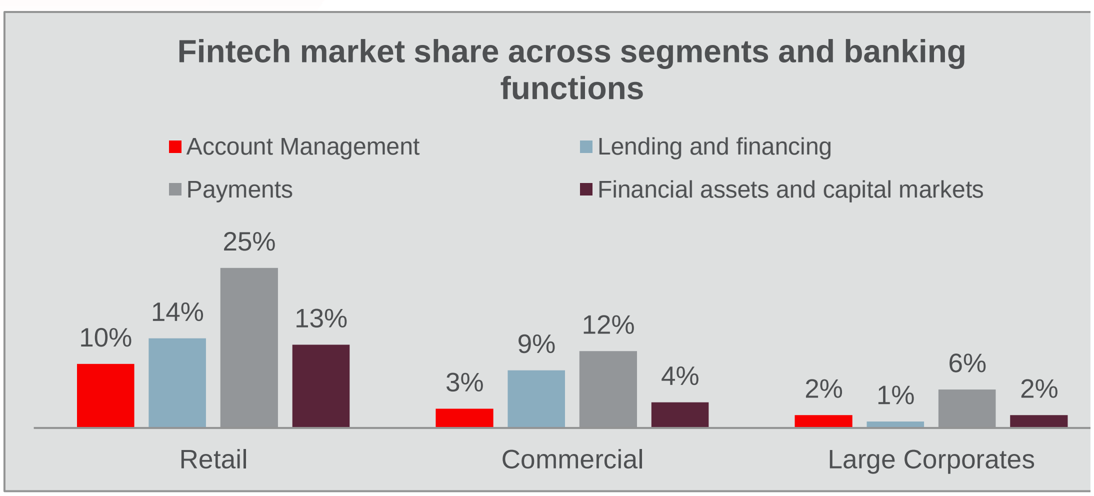

Figure 3: Fintech market share of banking clients across segments and banking functions[4]

The advantages that these fintechs bring to the table are[5]

- **Enhanced customer experience**: MineralTree for example offers a cloud-based mobile and online platform and custom products and processes served from this platform. Companies such as MarketInvoice, Viewpost and Taulia offer automated electronic invoicing and payments in order to transform supply chain financing.

- **Cost effective and quick payment solutions**: Fintechs such as TransferWise and freemarketFX undertake transactions at 75 to 80% the cost compared to Corporate Banks. Another disrupter Ripple uses blockchain technologies to cut down processing time for payment settlement which helps lower the transaction costs as well.

- **Faster processing**: A digitally enhanced, flexible and integrated architecture reduces processing time and enhances availability. Kabbage is a startup that approves loans of up to $100,000 for SMES in less than 10 minutes time while Earthport can manage international transactions in near-time.

- **Serve underserved segments better**: Fintechs such as Kabbage, OnDeck and LendingClub in the area of digital lending are targeting the 'bottom of the pyramid' - basically SMEs who are often rejected by corporate banks.

- **Superior analytics**: Nimble and technologically update fintechs are helping corporate banks sift through tons of customer data for better client selection and pricing. For example, OnDeck analyzes as many as 2000-plus data points collected from over 100 sources, while PrimeRevenue drills through thousands of data points in order to come up with custom payment terms for clients.

In short, fintech companies are changing the game by offering innovative and tailored products, more customer-centric experiences, speed, convenience and ease of adoption. They are able to nimbly enhance their business with operational capabilities driving cost and process excellence, provide state-of-the-art user experience that increases trust and builds better customer relationships, leverage data and analytics to derive insights that help them increase revenues from their customers, and meet constantly changing customer needs with new and customized offerings.

INCREASED REGULATION ADDS TO THE COMPLEXITY

A growing challenge for banks is increasing regulatory norms, which adds to the complexity and operating cost for banks. The global economic slowdown of 2007-2008 brought in a wave of new regulation such as BASEL III, CRD IV and Dodd - Frank Act. These regulations not only impact the data and reporting that banks have to maintain but also impact banks' decisions when it comes to managing assets and liabilities. This brings the bank's corporate relationships also under close scrutiny, and banks will have to do more documentation, follow KYC norms and follow stricter regulations on cross-selling. Regulations have increased the requirement for capital and liquidity, which now requires banks to hold more capital, greater liquidity buffer, all of which increases the cost of corporate banking while reducing profitability. It has brought about several structural changes to the business model of banks, making certain products more difficult to sell to corporate clients.

These new regulations have had a serious impact on banking which is evident from the fact that regulatory authorities have managed to churn out a whopping $235 Billion from banks, globally, for violation of various regulatory norms, since the 2008 financial crisis[6].

Such a highly regulated environment will be the norm in the future too, driving the need for more compliance on the part of banks. These new regulations mean that banks must keep coming up with comprehensive and cost effective strategies to manage their balance sheet, profitability, and corporate client relationships. Regulation may have an impact on overall business model, and therefore banks need to be equipped to deal with regulation today and in the future.

The current technology systems used by banks are not robust enough to accommodate these changes and meet the regulatory requirements. This can have a serious impact on banks' bottom-line, making them less competitive. Banks must ensure that the systems in place are highly efficient, compliant, and are capable of meeting newer regulatory requirements as and when they are introduced.

WHY BANKS NEED TO STEP UP THEIR GAME

As suggested by a recent study, Corporate Banking currently contributes to sizable market share for banks with a whopping 1.86 Trillion USD In annual revenues[7]. This figure is poised to grow to over 2.875 trillion USD by 2020[8], thereby creating a sizeable opportunity for banks to exploit and benefit from.

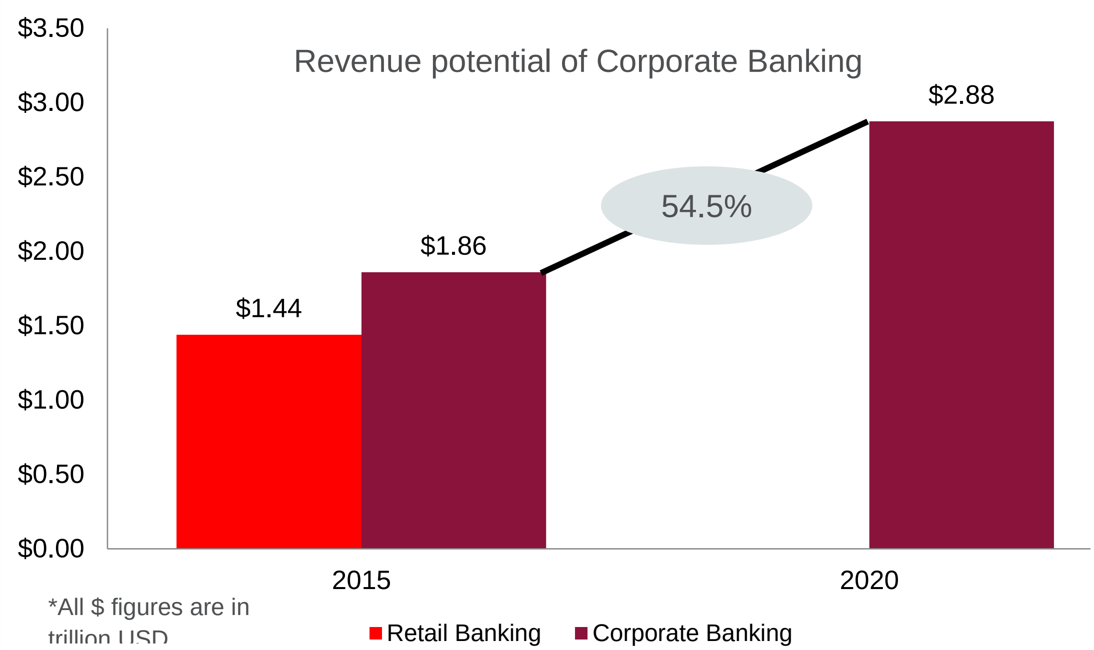

Figure 4. Corporate banking revenue potential[7, 8]

Despite this huge potential, more than half of corporate banks/banking divisions across the globe have had negative or declining profits[9].

The profitability of corporate banks varies significantly by region

Figure 5: Three-year economic profit trends of corporate banking divisions globally, 2014-16

With growing competition and pressure from not just other banks but also fintechs, the challenge is not only to capture this potential, but to survive and grow in a highly volatile business environment. If banks don't act fast and evolve to meet the sophisticated needs of their corporate clients, they face serious threat to their profitability and bottom-line.

WHAT'S PLAGUING CORPORATE BANKING SOLUTIONS OF TODAY

The current corporate banking products and services are not fully equipped to meet the needs of corporate customers of today. Below are some of challenges faced by banks that are inhibiting them to provide superior corporate banking solutions.

High level of manual error-prone processes

Banking as a function and industry is fraught with manual error prone processes. Several banks continue to use outdated legacy systems with complex and time-consuming processes. Currently, in most of the offerings, right from verification of the document to sale of a banking product, almost all processes require manual intervention to a large extent. Not only does this slow down processes, but also increases the scope of errors. Automation is required in the entire lifecycle of corporate banking – right from sales to origination of a product to servicing. Manual processes and low level of automation contributes to increased volume of administrative tasks, lower performance, customer-unfriendly processes and interface, reduced staff productivity, improper data flow and introduction of data redundancies in the system.

Poor digital offerings

Corporate clients are willing to enter into transactions and liaising with relationship managers via digital platforms including web and mobile. They are even ready to incur an elevated cost in lieu of availing an integrated service that performs seamlessly across channels. Corporate Customers have also shown inclination towards information aggregation leading to improved transaction visibility, as well as identification and mitigation of risk by way of re-designing risk operating models. However, the current corporate banking systems are not sophisticated enough to offer such digital services at the moment.

Solutions not customized to clients unique business needs

Even though dedicated relationship managers maintain good relationship with the corporate customers they are unable to provide products and services built to address the unique business problems of customers. Inability to access past customer and bank relationship data and lack of industry specialization and knowledge of customer business are the main reason why relationship managers are unable to structure the right solution to customers.

KEY CAPABILITIES OF A CUSTOMER–CENTRIC CORPORATE BANK

In order to capture the greater opportunity offered by corporate clients and be profitable in the processes corporate banks must embrace the below key capabilities

Efficient client selection and product rationalization

The ongoing debt crisis and heightened liquidity and capital requirements placed by regulations such as BASEL III and CRD IV require banks to select the right client that ensure profitability. Banks need to incorporate superior KYC and AML processing to verify client's identity, forward looking scenario based analysis to get an understanding of the credit worthiness of clients and analysis of clients and products across multiple dimensions to understand what products are attractive for which segment of clients. This would enable the bank to select the right clients and invest in right products to ensure profitability and growth.

Ability to offer right products and services

While with the help of advanced analytics banks can use internal customer data with external data to identify the right opportunities with a customer but banks should also train and deploy relationship managers to offer the right products and services that are specific to the customer's industry and business. According to BCG, banks are driving industry specialization across its products and services enabling it to offer the right solution to customers from large corporate to midsize and small businesses[9]. In addition to providing customer's business specific solution identifying the needs of the customer beforehand and providing the right solution will greatly enhance customer experience. For example while an integrated supply chain platform that connects customer, banks and suppliers enables a customer to plan its procurement, production and distribution effectively, banks should really use such a platform to gain visibility into key supply chain milestones and structure appropriate financing solutions to customers in order to reduce the overall supply chain cost, keep suppliers funded and lowers loan risk for customers. Structuring appropriate solution and cross selling the solution to the customers before their anticipated need will greatly enhance customer experience and improve revenue and profits for the bank.

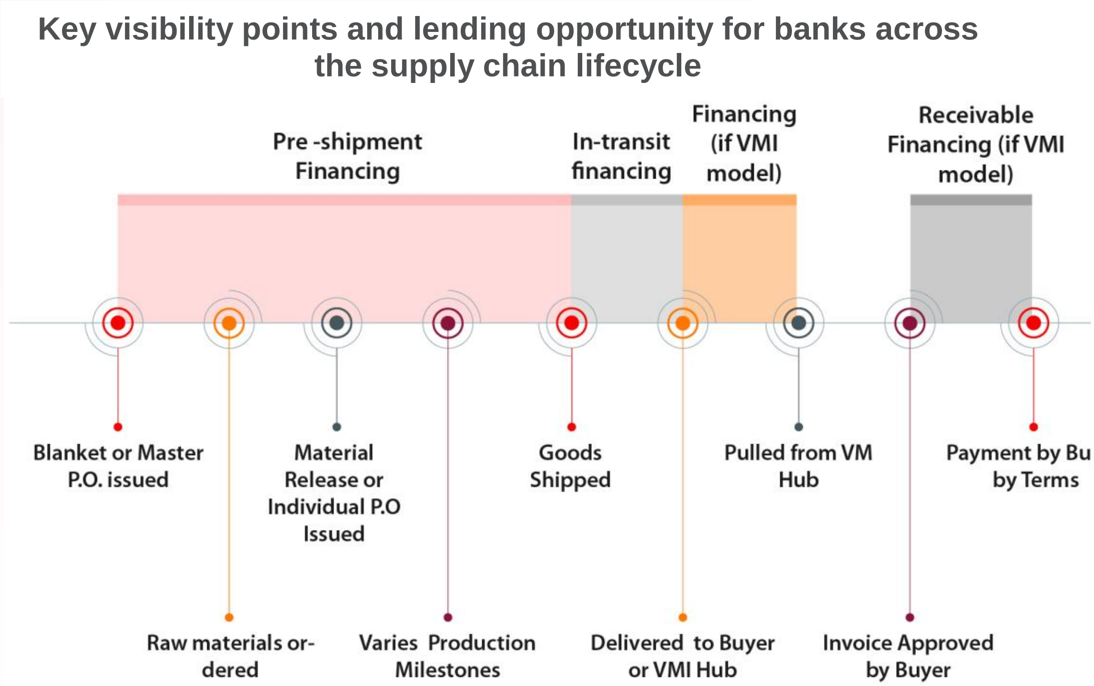

Figure 6: Efficient supply chain management solution enables banks to see key supply chain milestones and provide appropriate financing solution[10]

Superior digital experience

Given that most users are now accustomed to working across various platforms, it is important for banks to offer a seamless banking experience across multiple channels to corporate customers. Currently provision of corporate mobile banking solution is limited to only few banks. Most banks have not even rolled out the solution to their customers. According to Aite report large banks expect demand from corporate customers for mobile is going to rise by 74%[11]. While seamless experience enables CFO and corporate treasures to use the preferred channel of their choice and also initiate a transaction in one channel and complete in another, banks should also incorporate superior digital experience across these channels by reducing friction and enabling right information available to corporate customers with minimum number of navigation across screens. Certain digital capabilities such as customizable dashboards that provides 360 degree view into customer and bank relationship, complete visibility into all subsidiary accounts and solutions offered by the bank and portfolio management capability that provides insight into cash and liquidity position enabling customers to balance risk and investments are definitely good to have features that help improve customers' experience, while also instilling a feeling of trust in them. In addition to developing digital capabilities banks also partner with fintechs by integrating fintech application into customer bank IT ecosystem and offer specialized services with superior digital capabilities to gain a competitive edge.

End to end solutions

The rise in corporate customer financial needs has increased the sophistication of corporate banking solution requiring a hyper connected corporate banking IT landscape. A typical corporate on boarding solution requires at least 20 different applications to work in collaboration for the on boarding process to be a success and this number of application required increases substantially with more complex corporate banking solutions such as supply chain financing or treasury management solution. Banks cannot afford to have disparate silo based systems because silo based systems lead to lack of effective communication between different stake holders resulting in duplicate processes and data inconsistencies lowering the overall operational efficiency of the bank. Banks should aim to build hyper connected corporate banking environment that integrates multiple disparate systems of customers, service providers, partner banks, fintechs and credit and debit bureau. Incorporating Open API and also being part of the SWIFT network enables a hyper connected corporate banking IT landscape. In addition banks should ensure effective collaboration among internal stakeholders and external stakeholders for end to end solution to attain highest level of success. Banks can ensure collaboration by external stake holders by incorporate coaching and training programs and also maintain good relationship with them. To facilitate effective internal collaborations in addition to appropriate coaching, banks can incorporate professional-development recognition, and incentives making collaboration a useful behavior for employees[13].

Operational excellence

Banks need to incorporate high level of automation and straight through processing minimizing human intervention as much as possible. With automation, repetitive non value added manual tasks can be eliminated increasing staff productivity enabling them to focus more on value added tasks. Only when this is achieved can the multiple and disparate systems that have been acting as a hurdle in the way of seamless corporate banking be harnessed to their full potential. Automation simplifies the banks' operating model, enables the bank to deliver superior performance, make processing more customer-centric, and reduces costs. End-to-end process automation can digitally transform customer journeys and reduce process complexity. With digitization, the timeline for processes can be reduced from several weeks and months to just a few days. This comes along with other benefits such as cost reductions and reduced error rates, all of which help banks be more competitive and profitable. For instance corporate customer on boarding takes about 100 days to six months[12] due to the inherent complexities involved and this time can be reduced to few days with high level of automation and straight through processing.

Superior Pricing Excellence

A strong corporate and bank relationship is the key to the success of any corporate banking product or service. Relationship managers need to analyze past customer bank relationship based on various factors such as customer's business, industry, size, price sensitivity, and growth potential[12] and price products and services accordingly and offer price advantage to loyal customers or customers that ensure greater profitability in the future. Additionally RMs can also bundle products and services effectively to offer bundle discounts and other benefits to enhance customer experience.

Enhanced cash and liquidity management capability

According to E&Y 76% of corporate customers ranked financial stability as a key requirement for selecting a bank1. Incorporating an integrated cash and liquidity management capability that involves technology and expertise enables banks to get an accurate view of their cash position, predict incoming and outgoing payments and cash flows and make appropriate investments and allocate assets appropriately to reduce risks and ensure financial stability. Attaining financial stability is not just important to woo corporate customers but meet liquidity and cash requirements of BASEL III as well. Additionally banks can offer cash and liquidity management solution to corporate customers so that customers can incorporate efficient cash flow forecasting, get complete visibility and control over their cash and liquidity and allocate their working capital effectively.

CONCLUSION

Banks must tap the potential of corporate banking in order to power their growth. However, addressing this lucrative opportunity is not easy, given the stiff competition, increasing regulation and growing customer demands. Banks need to transform their processes, technology and human capital to become a customer centric bank that enables capabilities such as operational excellence, superior pricing, industry specialization, enhanced liquidity and cash management and hyper connected IT environment that empowers banks to provide end to end solutions and superior digital experience. Hyper connected IT environment also enables banks to partner with fintechs and offer specialized services with superior digital offerings. By being a customer centric bank, a bank can now regain their central position in the financial proceeding of corporate customers with assured revenue growth and profits.

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