Corporate Banking 2.0

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Introduction

Corporate banking has had an interesting few years, with significant challenges around technology either being recognised or being solved. For the past decade in corporate banking, there has been a wide gap between technological desire and capabilities, with 86% of treasurers asking for better customer experience while only 25% of them have digital transformation projects underway (Burnmark, 2020). Some of the challenges still remain - primarily product management, real-time cash management and consolidation of data. Our research however indicates that this gap is narrowing faster than ever before.

Retail banking customers have always been quite vocal in their demands for better customer experience - expecting banking apps to look and service like Google or Uber. Corporate banking customers are now demanding a superior customer experience along with increased functionalities and better capabilities to play an active role in the partnership ecosystem. The corporate banking cash management landscape has adapted to these challenges by, of course, utilising digitalisation, which we have looked at in detail in this report.

NRD / unsplash.com

Introduction (continued)

A new group of customers in corporate banking

We have seen some interesting changes that are driving trends in the corporate banking space. According to the World Bank, domestic credit to the private sector by banks (as a percentage of GDP) has risen from 82.3% in 2010 to 98.9% in 2020. The hugely underserved SME banking space has grown exponentially in the last few years, generating 90% of all economic activity in Europe, forming a key segment for corporate banks to target. New revenue opportunities are also opening up from partners of corporate banks - fintech startups, technology companies and digital players from other industries - enabling new revenue streams and better monetisation of existing capabilities for large corporate banks.

New priorities for corporate treasurers

As digital transformation and automation in corporate banking are creating new efficiencies, corporate treasurers are also facing shifting priorities and needs. Corporate treasurers are increasingly looking to real-time data and cash visibility as a key area of focus, along with the existing demands of liquidity management and costs of funding. Technology has been very good at making this possible as well, with the ability to provide real-time insights for decision making being brought in through partnerships and in-house projects.

The changing core

While the demands placed on the corporate banking tech stack is changing, the technology systems are also evolving to support wider and more varied partnerships as well as offering a better customer experience. The types of data available to corporate banks have changed drastically in recent years, with new use cases coming out to support new availability of data.

This report looks at use cases of corporate banking to identify where the opportunities and challenges lie in the ecosystem. We have also identified the changes we expect to see in the coming years, especially with feedback from experts in the corporate banking industry, including Barclays and BNY Mellon.

All these trends are making banks re-evaluate their technology stack to offer a strong suite of products and services, while mimicking the customer experience already in place at retail banks. The report also looks at some of the technology stacks available in banks globally, to understand what trends may be driving corporate banking technologies in the future.

The journey has just started; we have accelerated so fast during the pandemic. The market moved online and corporates cannot avoid considering their presence on digital channels.

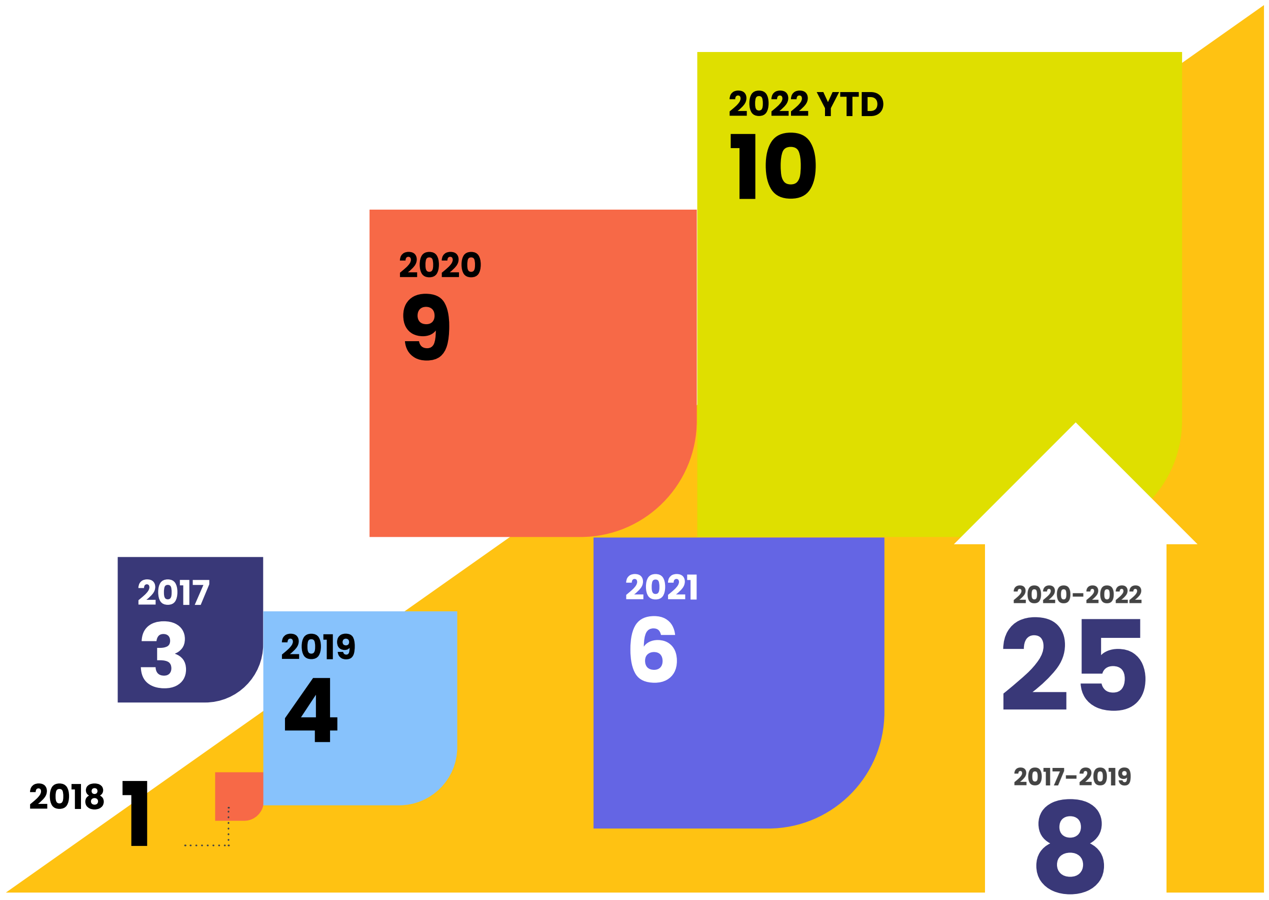
Technological change in corporate banking is here to stay, meaning corporate bankers must constantly assess how best to utilise technology – and how the competition might be using it, too.

Stefano Favale
Intesa Sanpaolo
Apr 2022

Corporate Bank-Fintech Collaboration

Burnmark has researched corporate bank-fintech partnerships formed by tier 1 banks in Europe, to understand the extent of external collaboration that exists in the corporate banking innovation space. The first set of corporate bank - fintech partnerships were formed in 2016, with only 3 announcements in 2017, rising up to 9 announcements in 2020.

The focus on bringing innovation from the outside has steadily improved over the last five years, along with the number of partnership deals - and the pandemic has seemingly further accelerated this outward focus for innovation. 2021-2022 has definitely been a turning point for corporate banks stepping up to partner with fintechs.



2021-2022 has been a turning point in terms of corporate banks forming partnerships with fintechs, with many partnerships having been announced by tier 1 banks already this year

Products and segments

Chapter 1

Corporate banking today

The first step in our research was to analyse tier 1 banks and their offerings from around the world. We looked at the segments, sub-segments and categories of product and service offerings from corporate banks in 6 countries. Every one of these corporate banks offered products and services individually to their customers - as separate units. Cash management, Cards, Financing and Trade Finance were the most popular individual offerings. Sometimes there were multiple sub-segments - for example, one large multinational bank did not offer Financing as a product, but offered Invoice Finance and Growth Capital Loans. Some banks offered Cash Concentration and Notional Pooling within Cash Management.

Some tier 1 banks also offered unique products around Commercial Real Estate or Real-time Trading, along with the other more common products and services.

Regardless of the way segments or sub-segments were arranged, a customer of a tier 1 corporate bank is only able to take an offering in the form of an individual product or service, essentially a 'silo'.

This section looks at some of the trends and use cases within the corporate banking world as it exists today. We look at the segments of Cash Management, Financing, Accounts and Cards and Payments, which were featured prominently by all the corporate banks we looked at.

We also look at every segment to understand the challenges and opportunities present today, and then move on to the rest of the report to look at some of the expected future trends.

Ricardo Gomez Angel / unsplash.com

Cash & Liquidity Management

Cash and liquidity management products form one of the key segments within corporate banking and are offered to enable cash flow forecasting, comprehensive reporting, settlement on time, disbursal of funds and efficient management of liquidity. Digital cash management will aid in the centralisation and effectiveness of all aspects of capital management.

- Cash Concentration
- Reconciliation
- Cash Pooling
- Interest Enhancements
- Liquidity & Accounts
- Liquidity & Investments

Despite the pandemic, cash management still provides the largest profit margins for corporate banks.

Cash management in 2022

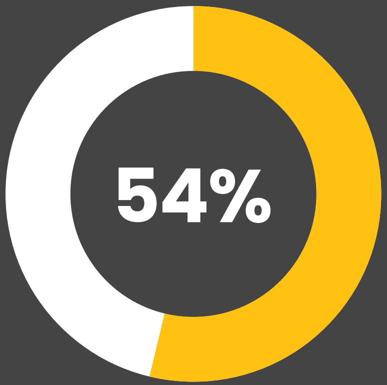
1	Overall size	$300 billion
2	Revenue contribution to corporate banks	10–30%
3	Expected CAGR up to 2028	12%
4	Desire for better cash visibility (survey)	44%

Source: Euromoney, Reuters, EY, Citibank, BNP Paribas

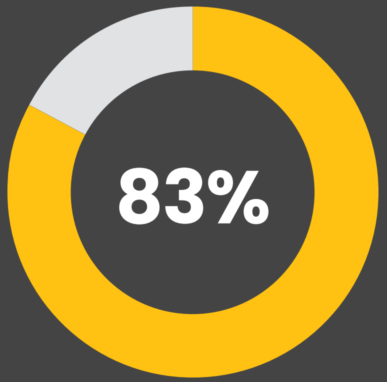
Digitalisation is helping cash and liquidity management function in many ways

- **For corporates**
- **For banks**

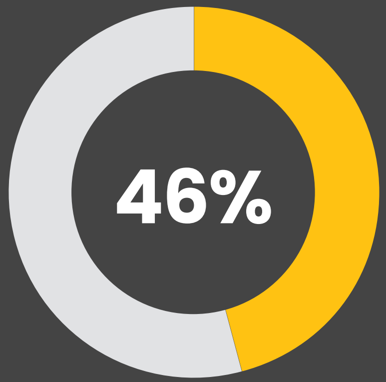
Corporate treasurers routinely feel underserved and are actively looking for digital tools to obtain a better customer experience



of CFOs consider liquidity and cash management their top challenge



of corporate treasurers consider cash visibility as their biggest challenge



of corporate treasurers consider digital servicing and a better customer experience

Source : Corporate Cash Management Playbook (PYMNTS, Red Hat, Infosys Finacle and Intel collaboration), April 2021. Celent, 2021

Technology has started filling some of the gaps observed in cash management

Bank of America

Cash flow monitor

The US bank introduced Cash Pro, a forecasting app, in collaboration with a fintech that uses artificial intelligence and machine learning to more accurately predict future cash positions across clients' accounts. The usage on its existing app Cash Flow Monitor has increased 34% year on year since its launch in March, 2021.

Deutsche Bank

Cash pooling

Deustsche Bank introduced a target balancing cash pooling service that helped its client Weiland, a Germany-based copper and alloy specialist, to access funds from US operations. This enabled a significant amount of liquidity to be concentrated at the group level rather than being split across multiple bank accounts across US locations. These funds were channelised to reduce debt and also cost of capital. October, 2021.

citi

Cash concentration

Citibank introduced a multi-bank target balance solution that automates cash concentration of balances held with third-party banks into a single header account at Citi, providing visibility and control across banking relationships. The client was Digicel, a Caribbean-based mobile phone network and home entertainment provider operating in 33 markets. February, 2019.

Challenges

- Legacy software and systems and the associated costs of replacing them
- Support for customers' cash management challenges
- Fraud and security concerns
- Manual processing of credit and cash management decisions leading to delays and inefficiencies
- Lack of in-house skills to cope with digital systems

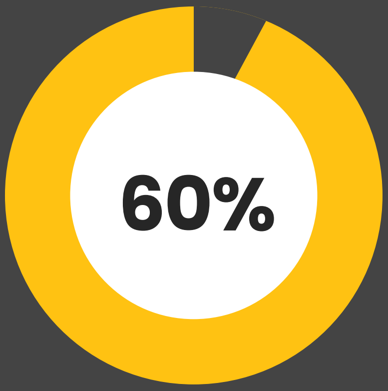
Opportunities

- From a 'nice to have' value-added tool, to a 'vital' tool
- Access to data that can be analysed for insights
- Becoming a strong business partner with a one-stop provision of services
- Centralised view of cash flow
- Reduced costs and errors with less human intervention

Financing

Corporate financing includes a host of products that provide sources of funding to businesses to meet daily business needs with support for working capital and third party obligations. Digitalising corporate lending and financing will enable all functions of the credit workflow to move out of silos, be integrated and become more transparent.

Working Capital	Business insurance and guarantees	Invoice finance
Loans	Trust & agency services	Supplier finance
Overdraft		Specialized finance
		Commercial real estate
		Asset-based lending & finance
		Sustainable finance



60% of global tier 1 banks reported an increase in its corporate loan book compared to retail between 1Q2022 and 4Q2021.

Source : Burnmark, 2022

Working capital

HSBC

Introduced a new trade working capital solution that reduces time and enables corporates to access working capital faster. The platform enables customers to submit data directly and complete the process digitally within minutes which earlier needed 48 hours. December, 2021.

Commercial real estate

Regions

The Alabama (US)-based banking entity launched a digital solution aimed at homebuilders and developers for construction lending. This was done in collaboration with a construction finance company and a payment technology provider that gave builders and developers new construction loan management options through a cloud-based platform. July, 2021.

Supplier finance

mastercard

The US-based financial services company has launched virtual cards for instant B2B payments that uses machine learning and straight through processing for instant payment of supplier invoices. January, 2022.

Crypto products

Silver GATE

A blockchain bank and a financial infrastructure provider of cryptocurrency solutions for institutional and commercial customers announced the issuance of a $205 million loan collateralised by Bitcoin. March, 2022.

SYGNUM

The Switzerland-based digital assets bank has partnered with an independent asset manager to tokenise its portfolio of loans worth EUR 5 million to Italian SMEs. March, 2021.

Invoice financing

LLOYDS BANK

The UK-based bank partnered with a payments fintech that provides end-to-end digital single invoice finance and whole-book invoice factoring solutions on a single platform. The partnership is expected to expedite access to short-term finance for its business customers. March, 2022.

Asset financing

BARCLAYS

The British bank has partnered with a specialist asset finance provider to offer equipment and vehicle financing via an online platform to one million customers. September, 2020.

Sustainability

ING

The Netherlands-based multinational bank was among the first institutions to launch sustainability-linked financial products for its corporate clients. It extended 139 such loans in 2020 and 54 loans during January to April, 2021.

Bounce Back Loans

paragon

The UK-based bank tapped into digital business onboarding, automated due diligence, real-time financial crime decisions and risk rating technology services from a UK-based RegTech firm that will enable the bank to speedily disburse bounce-back loans to corporates coping with the impact of the pandemic. September, 2020.

Challenges

- Outdated legacy IT systems which are difficult to replace
- Cost and complexity of acquiring relevant systems and connecting them
- Data silos within product and decisioning groups
- Difficulty to partner with external technology firms
- Competition from bigtechs and fintechs offering bank-like products to corporates

Opportunities

- Faster and efficient onboarding with no need to provide redundant data
- A cloud-domiciled platform to significantly reduce time-to-market for banks to release its products
- Integrated front-to-end lending cycle meeting credit pressures
- Comprehensive and holistic view of its finances and cash flow cycles
- A superior customer experience

Accounts and Cards

Business bank accounts and cards are essential products for accounts receivables and expense management while also handling aspects of financial identity and escrow services.

This category of corporate accounts refers to products that help corporate employees and business partners / customers seamlessly navigate through day-to-day business activities. These products help with instant payments, escrow services and virtual accounts creation in order to manage employee/customer transactions.

Cards	**Escrow services**
Online banking	**Virtual account management**
Open banking	**Business bank accounts**

Reconciliation of reimbursement claims

Multiple and high fees structure for multiple business accounts

High minimum balances to be maintained in multiple business accounts

Difficulty in opening business accounts in overseas markets due to AML/CFT norms

Spend without visibility and possibility of misuse

Delayed payments due to the challenge of reconciliation, impacting credit rating

60%

Spend management and reconciliation are an identified pain point for businesses - agreed by 60% of corporates surveyed.

(Source : Businesswire, June-2022.

Accounts and cards within corporate banking face a significant number of challenges, leading to rising costs and a high amount of manual processing

Virtual account management

J.P.Morgan

The implementation of virtual account management solution at HP in 2019 has enabled the US-based information technology company to decrease the number of bank accounts it manages by 40%. The virtual branch solution enabled to digitize the documentation process for tax and cross border payments. 2019.

Royal Bank of Scotland NatWest

The two UK-based banks introduced a new virtual account platform for corporates which will allow them to segregate the clients' cash supply appropriately and experience enhanced cash management using one centralised platform. 2019.

BARCLAYS

The UK-based bank has teamed up with Oracle to launch virtual account management projects for corporates with account reconciliation and rationalisation features. February, 2022.

Escrow

Standard Bank

The South Africa-based bank has launched a first-of-its-kind digitised escrow service in the country. May, 2021.

ICICI Bank

The Indian private sector bank in collaboration with an Indian fintech has launched the country's first white-label digital escrow solution which includes eKYC and eAgreement with a significantly lower turnaround time. July, 2021.

Open Banking

KB Kookmin Bank

The South Korea-based bank has initiated open banking services for individual businesses while enabling B2B2C services to manage accounts of all other financial companies in one place. May, 2021.

AMERICAN EXPRESS

The American multinational payments card service provider has formed an open banking partnership with a Swedish open banking platform provider to improve the onboarding process for prospective card members to help seamlessly connect their bank accounts and verify income, identity and account information. May, 2021.

BNP PARIBAS

The French banking group BNP Paribas, in collaboration with an open banking payments platform, launched an online payments service to combine PSD2 APIs and instant Single Euro Payments Area (SEPA) features. The open banking platform provides pan-European connectivity to banks to benefit from open banking capabilities. March, 2021.

Online Banking

Santander

Santander Bank Polska has launched an e-banking platform for large companies and corporations including features like enhanced notifications, customisable dashboards, group workflow management and automation. May, 2021.

Cards

The US-based bank launched virtual cards to digitally pay invoices of business payments with the security and control of a credit card. November, 2020.

The US-based financial services company, in collaboration with a UK-based business payment platform provider, has launched virtual cards to cater to B2B firms to enable automated payment processing and expense reconciliation. It features on-demand virtual card issuance to employees' mobile devices via an app. November, 2020.

The California (US)-based bank has launched virtual cards in the UK to cater to payments and working capital needs of its corporate clients. Payments can be made in USD, Euro or GBP. February, 2020.

Digital Platforms

The Japan-based bank has partnered with a Japanese personal finance management fintech to launch a cloud-based B2B billing agency that acts as an agent for credit and billing for inter-company payments and also as a guarantee for credit sales. November, 2021.

The Japan-based bank provides a deposit and withdrawal details management platform for customers of corporations and individual business owners. This enables the central management of the balances and deposit/withdrawal details of multiple business accounts, including from other banks, making it possible to easily deposit and withdraw money, check balances, and visualise overall finances. May, 2022.

Challenges

- Lack of technological capabilities to support virtual account creation
- Competition from fintechs offering similar services
- Verification and AML
- Connection between virtual and physical accounts, and associated pricing differentiation
- Limited to online transactions

Opportunities

- Increased safety and privacy
- Ease of control and tracking
- Better and faster cash flow and working capital management
- Integration with ESG goals of corporate client
- Cost-effective for centralising their accounts payables and receivables.

Payments

Payments includes a bundle of products used by banks to enable its clients to remit and transact funds. Sectors such as retail, ride hailing and hospitality are some of the sectors that have experienced a major shift to digital and real-time payments, accelerated by the impact of the pandemic.

- Mobile wallets
- Global wallets
- Foreign exchange portal
- International payments and receipts
- Loans
- Batch ETF – International payments
- Cross currency overdraft
- International payments tracker
- Internet and mobile banking

Around 70% of all countries have not adopted real-time payments yet, due to technological and governmental challenges.

Moving payments to the cloud

A cohesive regulatory framework

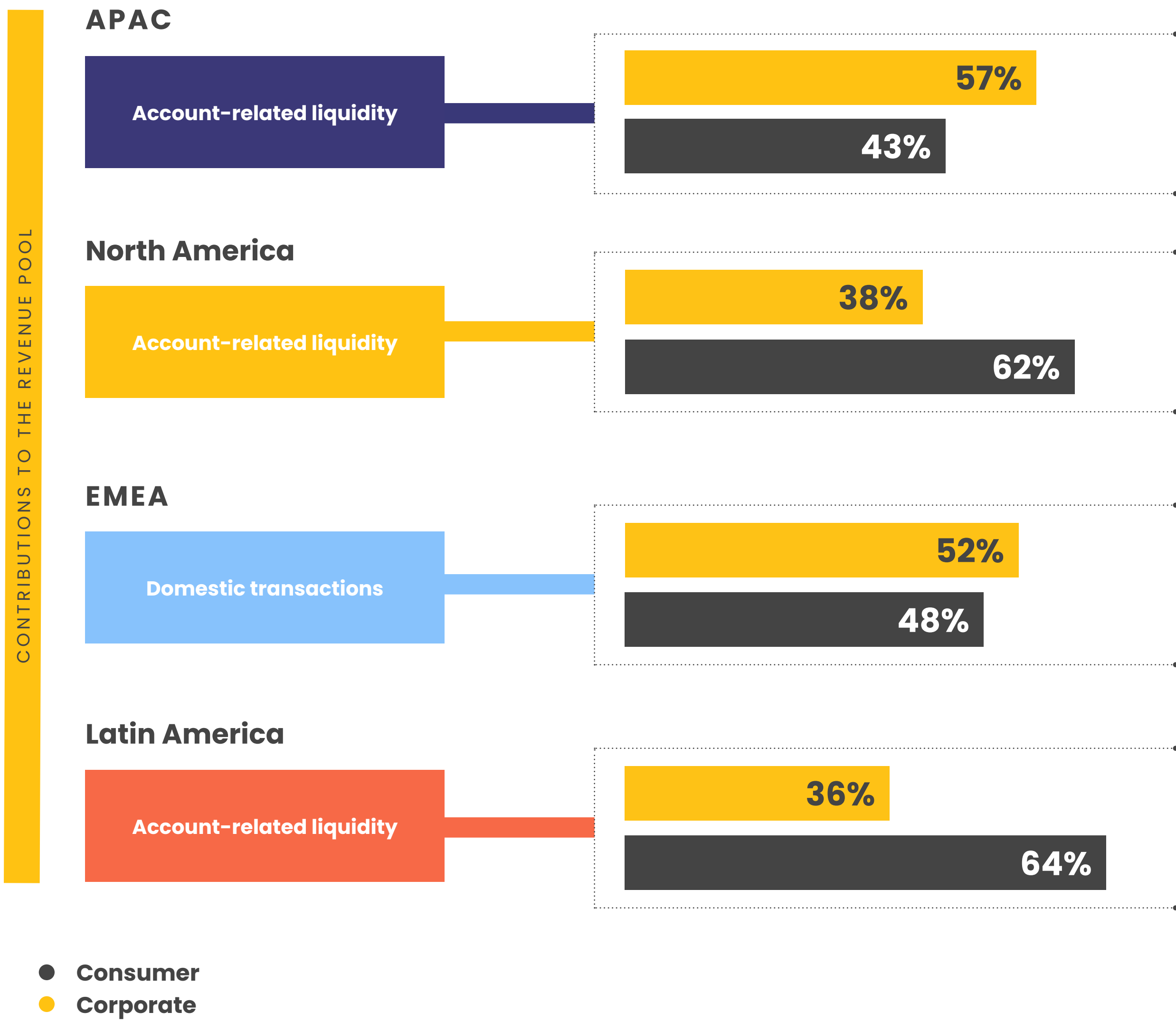
Support for open banking and APIs

Seamless cross-border payments

APIs to enable real-time FX rates

Real-time payments volume globally is up by 50% (2021) but is still tied to Asia (led by India and China) and the UK

Payments revenue share % for corporate vs consumer banking (2020)



Payments revenue fell only by 0.31% for corporate banking while it fell 11% for consumer banking between 2019 and 2020.

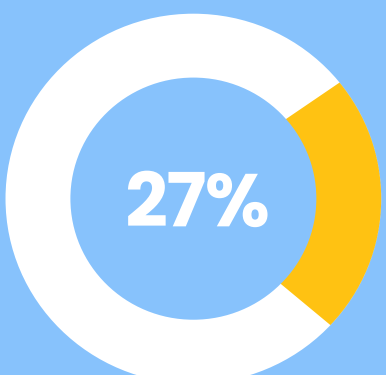
Source : Burnmark, 2022

Cross Border Payments

$23.5 trillion

Transaction volume of **wholesale payments** done by global corporates in 2020

Source: OliverWyman



of global GDP. The size of global GDP in 2020 was $85 trillion

Source: IMF Data

Goldman Sachs

The transaction banking arm of the US-based commercial bank in collaboration with a London-based payments firm has introduced a solution that delivers foreign exchange in 124 currencies across 163 countries. April, 2022.

J.P.Morgan

Introduced JPM Coin in early 2021, a digital token representing a fiat currency using blockchain technoloy that will facilitate the transfer of payments between institutional clients, enabling 24/7 business-to-business money movement. It was used commercially for the first time in October 2021.

LLOYDS BANK

The UK-based bank invested in a payments technology firm to develop a cloud native Payments as a Service (PaaS) platform. July, 2020.

Customers Bank

The US-based bank in collaboration with Tassat, a global provider of blockchain technologies for digital payments, launched instant payments to cater to B2B clients to facilitate OTC desks, liquidity management and other business operations. October, 2021.

Santander

Santander UK piloted an international payments tracker for UK-based companies. This provides an interface accessible on the platform or via an invitation email, that leverages the SWIFT GPI tracking service as well as other payment data sources, including the platform's own data. September, 2020.

HSBC

HSBC Malaysia launched a global wallet, the country's first multi-currency digital wallet for small and medium enterprises, to make and receive international payments from one single global account. January, 2022.

بنك مسقط bank muscat

The Oman-based bank launched payments via QR code that will allow merchant partners to accept e-payments from customers irrespective of their bank or wallet. May, 2022.

AXIS BANK

The India-based private sector bank partnered with a fintech with capabilities in digital payments to introduce the digital services for merchants and deployment of smart POS devices across 1600 cities. October, 2021.

Challenges

- Struggling to transition from legacy infrastructure
- Declined payments and associated costs with reputation damage, in a low margin space
- High-cost payments tools like cash and cheque
- Concerns around cyber security and data theft

Opportunities

- Partnering with third-party solution providers
- Significant jump in incremental revenue
- Significantly reduced cash handling costs
- Payments data that can be analysed to enable better product design and cross selling

How are global banks handling a new era of corporate cash management?

Conversation with David Shinkins, Global Head of Cash Management Sales, Barclays Corporate Banking

What are some of the challenges you are addressing in this space at the moment?

We are seeing demand for real-time access to banking through the use of APIs, giving our clients alternative options for connectivity. This leads to improved payment processing and more timely access to information (and better informed decision making). Ultimately, we want to give our clients connectivity options that suit their needs and business processes. This is all about making it easier for our clients to interact with us by enabling direct integration between their workflow tools (TMS, ERP, CRM, etc.) and the bank for core cash management functionalities.

What does the partnership ecosystem look like to your team? Do you work closely with external technology providers or fintechs to obtain capabilities around innovation?

There needs to be a balance on how we deliver solutions to our clients. The Build, Buy or Partner decision is a critical one in any delivery. However, the Partnership approach has a strong ethos at Barclays and we are very active in this space. This allows us to deliver innovative solutions that may not necessarily be core to us.

We have several active partnership initiatives at the moment - some are still conceptual, some are in play and some are live. It's also worth mentioning that we have a strong relationship with the fintech sector, and support many of them by providing them access to accounts and banking services. We also have our Rise programme, which supports early stage fintech start-ups with mentoring and office space.

Are there any interesting use cases you can share around partnerships that have helped address some of these challenges?

We have partnered with a company called Transfermate to develop a solution that allows our clients to collect funds from their clients based in overseas locations. The solution is now live and we have initially looked at Universities in the UK that need to collect fees from overseas students. The service is promoted by the Universities to their students, giving the students a cost effective and easy way to pay their fees locally and at the same time help the universities to track and reconcile their receipts.

Barclays has recently announced a new project around virtual account management. Why is this important to your clients?

Virtual Accounts provides clients with greater visibility and control of their account structures, giving them the ability open/close accounts themselves in real-time. VA allows clients to segregate clients' funds, allocate cash and reconcile payments more effectively. Ultimately it provides a way to centralise cash and liquidity management to support Treasury concepts like In House Banks or Shared Service Centres. Sub-entities under a parent entity can be created within a virtual structure, each with their own addressable virtual accounts and all linked to a single physical account per currency. POBO/ROBO is made possible through the central Treasury entity making and receiving all payments on behalf of the sub-entities.

This achieves significant cost savings and operational efficiencies, lowering of bank account fees, self-service and automation for opening and managing bank accounts and a far more efficient reconciliation process that lifts out a lot of manual exception processing.

How are global banks handling a new era of corporate cash management?

BARCLAYS

Payments is another area seeing major transformation. What do you think will happen to payments technologies in the medium term?

Certainly, it is an exciting time to be in payments, change and innovation is happening all around. What we are seeing is a stronger emergence of instant and real-time payment schemes around the world, albeit domestically. It will be interesting to see if these domestic platforms can be linked together creating interoperability. Open Banking is making big strides in payments, the use of PIS (Payment Initiation Services) is steadily growing, especially in the UK, and we can see more opportunities developing in this space. We are also seeing the convergence of functionalities of traditional payments and cards.

Also, the use of DLT/Blockchain and Digital Assets has the potential to increase the visibility and speed of payments, and mitigate risks (e.g. in wholesale PvP (Payment v Payment) and DvP (Delivery v Payment) scenarios. There is also potential for cross border payments, in real-time, with atomic settlement between parties.

Alternative data is a major topic of interest in the retail banking space - do you see any applications of alternative data in the corporate banking cash management space as well?

As you have mentioned, Alternative Data can be used in the onboarding process of Corporate clients. This can help with KYC processes, for example, understanding company and legal entity structures, identification of beneficial owners etc. We also see the benefit of combining financial and non-financial data together, providing much richer information so clients can make better informed decisions.

As Open Banking moves more into the realms of Open Finance, and then, ultimately, Open Economy, data will prove to be central/integral to all new use cases that develop in this field. Collecting information, with the data owner's express permission, applying machine learning/AI analytics tools to it and playing the findings back to customers and clients in insightful ways will open the door to a wealth of new opportunities.

How big of a challenge is ISO 20022 with so many different types of data formats having to be dealt with?

ISO20022 will, ultimately, simplify the entire landscape as all variations of legacy schema and formats will converge on a single, globally agreed standard. However, getting there will create significant challenges for all players – take, for example, something as seemingly simple as the need to express a remitter or beneficiary address in a payment instruction. Many systems today will hold address details as a simple block of text, or at best, split it into basic lines: Address line 1 , Address line 2, etc. but specific requirements may exceed that where the structure demands very specific data points to be isolated in specific tags. The migration burden should not be underestimated.

What do you think will be the key trends to watch out for (in the wider corporate banking or cash management) space?

As Corporates strive for greater efficiency they will look at automating the simple and repetitive tasks. The use of APIs will continue to grow in value, giving clients real-time connectivity and direct integration into their TMS/ERP/CRM, etc.. And when this is coupled with instant/real-time payments and data, you create the perfect storm for opportunity. The use of data, both by banks and Corporates, is also changing. Gone are the days when banks will just issue a vanilla bank statement. Corporates will expect greater insights from the data they hold, both internally and externally.

Chapter 2

Corporate Banking 2.0

Corporate Banking 2.0

The current corporate banking product view is centred around individual segments as we have seen - the core banking and technology systems individually deal with a variety of products - payments, cash management, lending, working capital, liquidity management, etc. individually and separately. This approach is increasingly becoming inefficient due to the introduction of new digital offerings like virtual accounts and virtual expense management that combine multiple products to enable the service.

While corporate banking innovation is taking hold with a customer-centric view, the lines between individual products and segments are blurring; with multi-segment connectivity and integrated use cases clearly the way forward for corporate banking.

We have analysed four multi-segment use cases where we see heavy investments being made by corporate banks. Each of these use cases could potentially be products of the future; but today, they work as a connected combination of separate products within the banking ecosystem.

These use cases are just a small representation of multi-segment use cases. What stands out, however, is that cash management is still at the centre of all emerging use cases.

Embedded Finance

- Payments
- lending
- insurance
- wealth management

Working Capital

- Liquidity
- cash management
- treasury operations
- asset liability management

Virtual accounts

- Accounts receivables
- accounts payables
- transaction and liquidity
- cash management and reconciliation

Intra-day liquidity

- Cash flow management
- transaction advisory
- working capital management

Corporate banking 2.0 will bring together disparate product segments to work together in customer-centric use cases

Embedded Finance

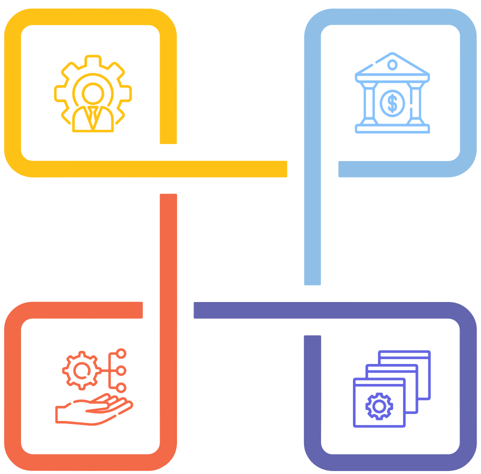
Banks are beginning to observe and adopt embedded finance as a way to unlock partnerships, new revenue opportunities and better monetisation of existing offerings.

Data managers

Shuffle data and information between the solution provider and platform

Product originator

Banks and FIs whose products are extended by the players to the platform

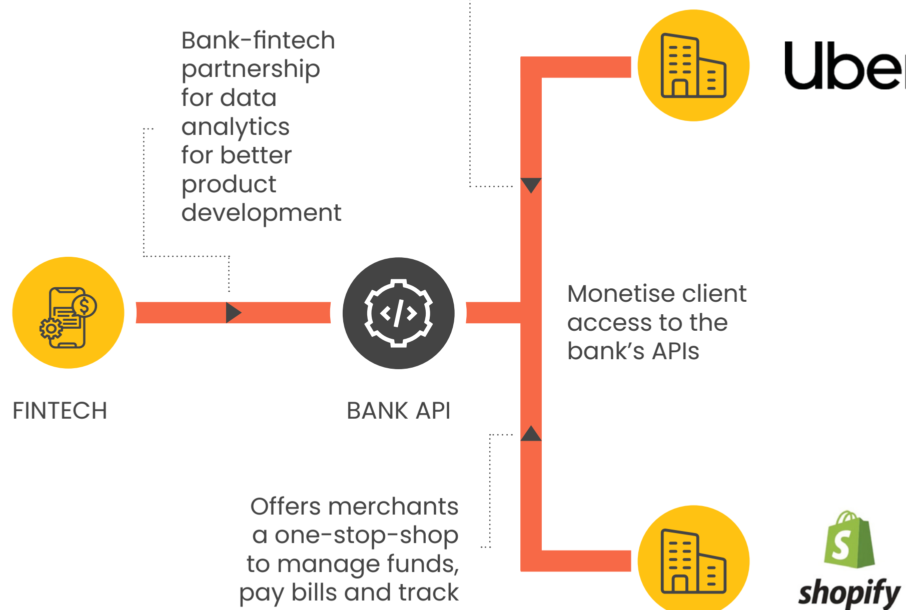


Players

Players embed, plug and play financial solutions onto the platform

Platform

Website or network where the solution is embedded and provides access



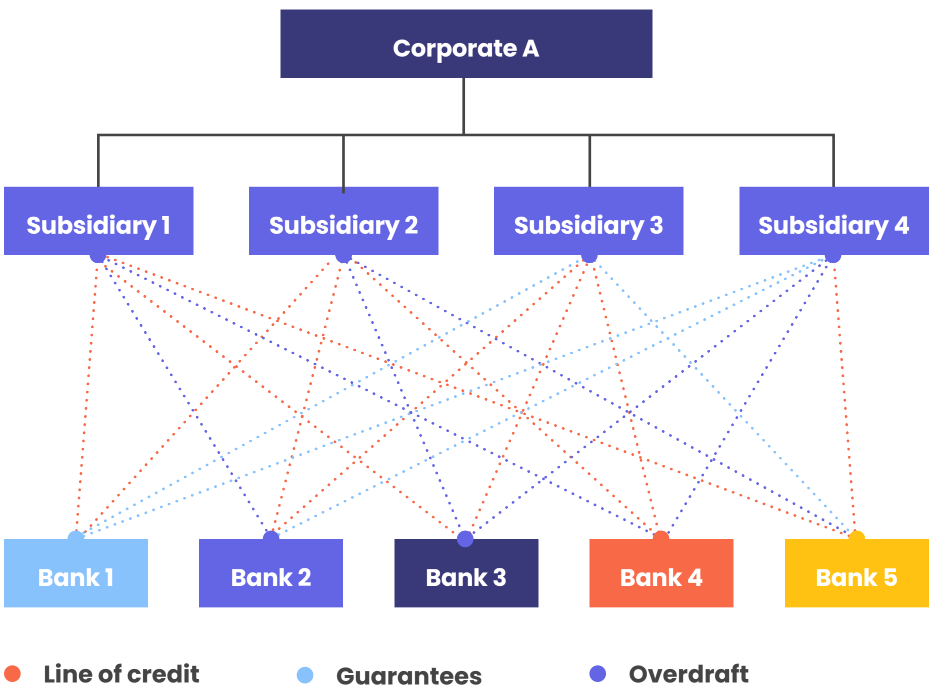
Embedded finance successfully creates a platform-based ecosystem where banking, lending and payments come together with non-financial service providers to provide new offers for customers

One of the most popular use cases in embedded finance involves utilising data analytics on the platform to design innovative financial products

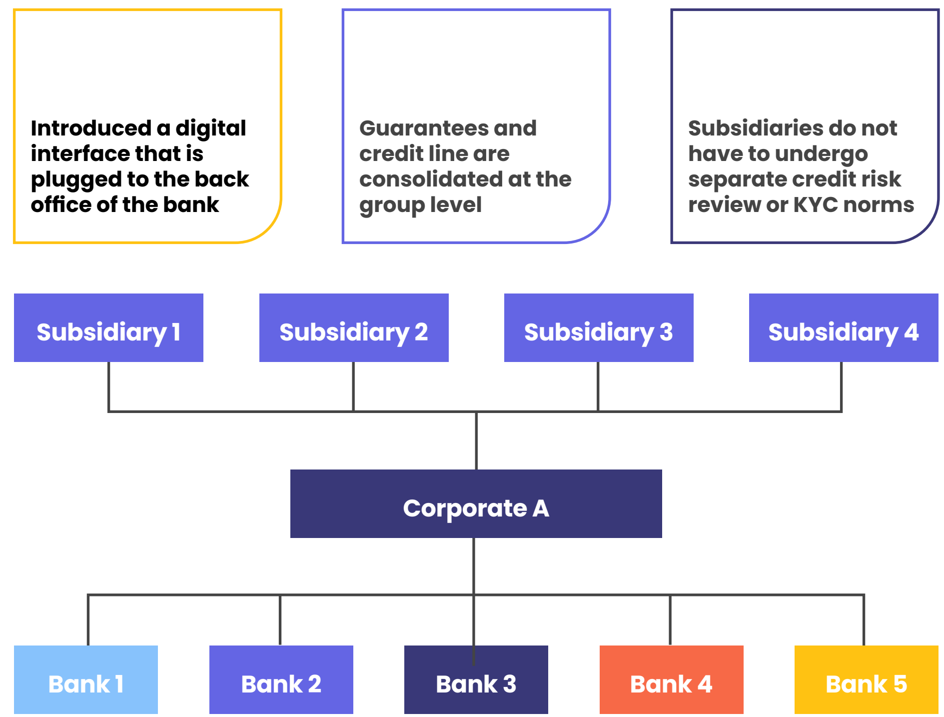
Working Capital

Open banking and digitalisation have significantly helped streamline working capital decisioning and offer management, reducing operational inefficiencies and improving margins.

Before digitalisation

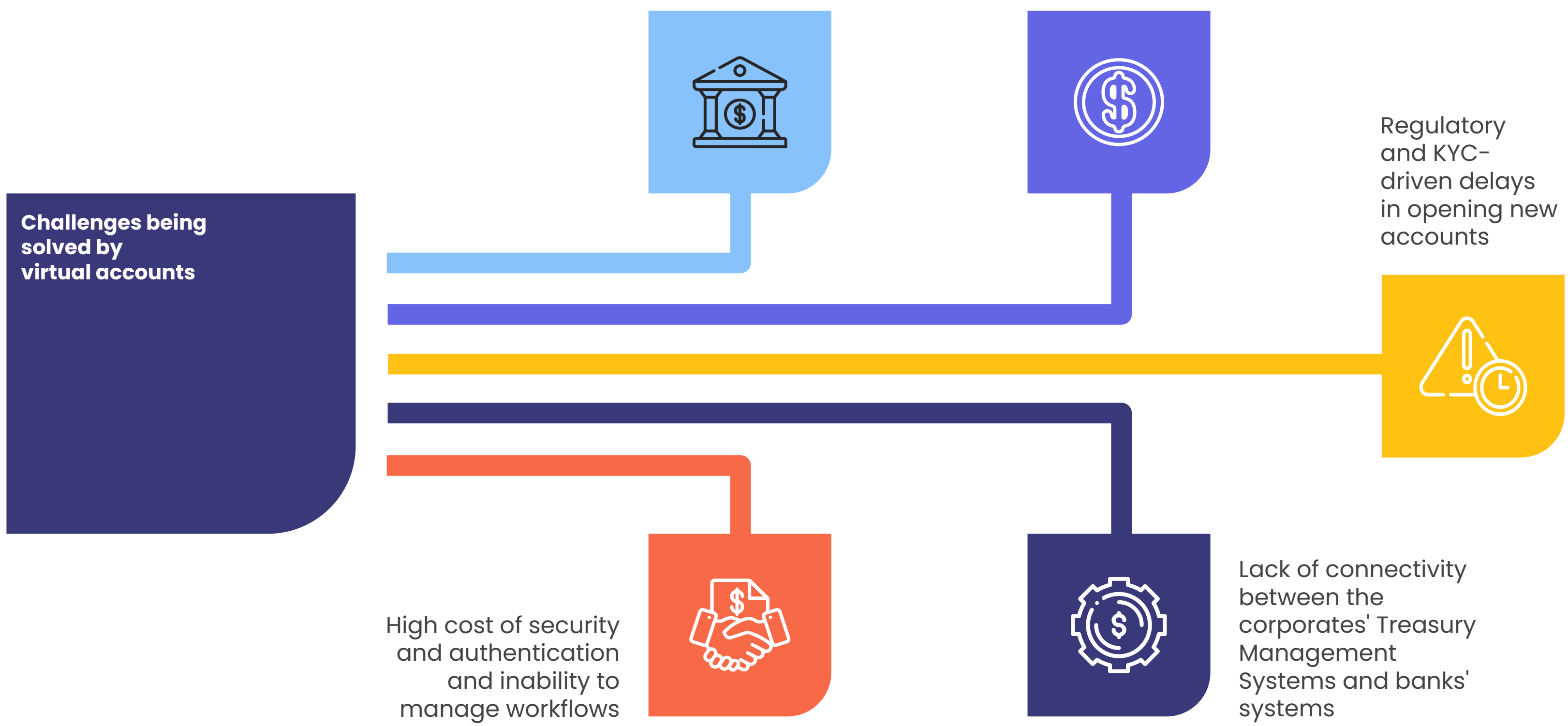


After digitalisation



Virtual Accounts

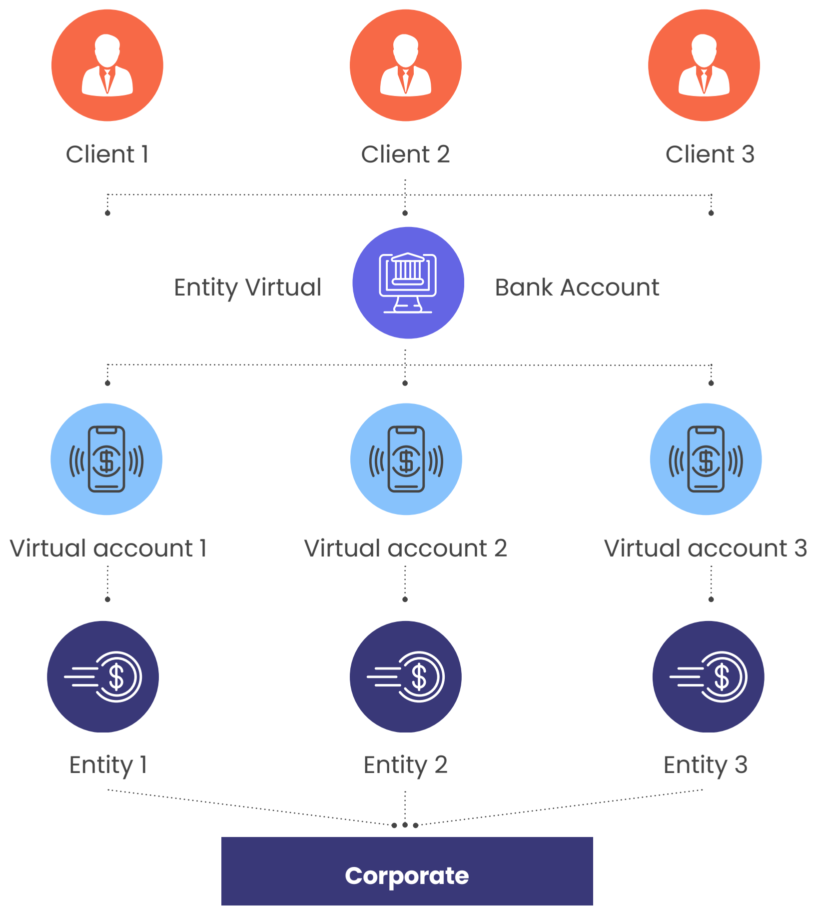
The single, consolidated view offered by virtual accounts can be created with the help of a virtual overlay, or using an integrated platform



The cost of running multiple accounts is seen as the key driver for opening virtual accounts, but ease of payments and straight-through-payments and access to working capital are seen as the most valuable drivers

Better reconciliation is one of the key transformation drivers for adopting virtual accounts

Accounts receivables



Accounts receivables transactions are initiated

A VBAN is provided by the corporate to its clients to initiate payment

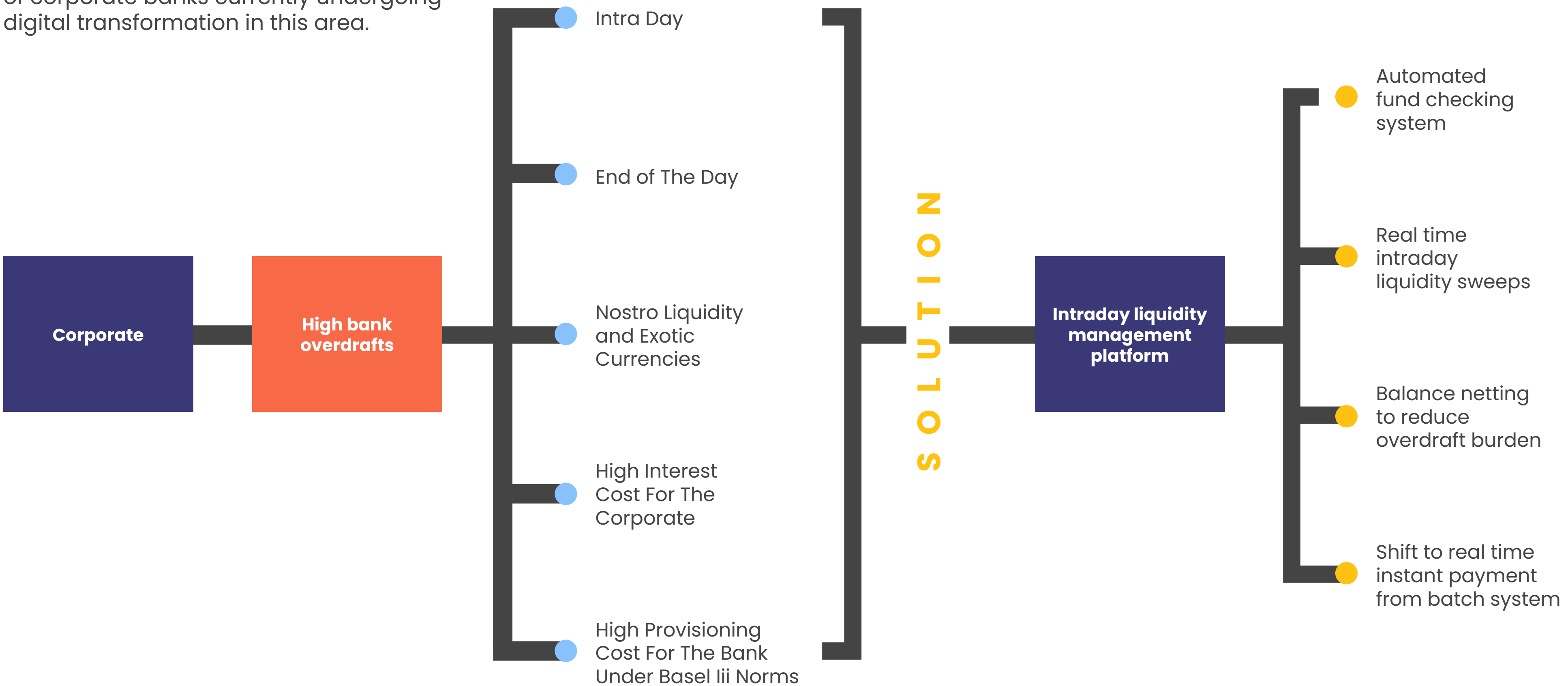
Multiple virtual account numbers are generated to match different entities

Reconciliation of accounts is done by crediting to the appropriate entity/department/ subsidiary accounts

Virtual accounts offer incredible flexibility to initiate, execute and track payments by subsidiary, operating unit or department

Intra-day liquidity

Intra-day liquidity management and liquidity-as-a-service is expected to be the next big area of uptake with over 50% of corporate banks currently undergoing digital transformation in this area.



Intra-day liquidity solutions have shown to offer multiple benefits, and blockchain-based platforms are being used to manage risk

Chapter 3

Sustainability

Sustainability as a service

When we started work on this report, sustainability services was not something we had planned to cover. However, as we researched corporate banking offerings by global banks, sustainability services came up as one of the most popular 'new' services being offered by banks to their corporate clients.

Sustainability is a standard which most corporates around the world are investing heavily in - both to improve the conditions of our environment as well as to attract responsible investments. With human activities contributing majorly to the climate emergency that is bound to affect not only the climate, but also the economy, it's rightfully been a key area of focus for banks. Sustainability by corporate banks is aimed primarily at providing financing to corporates to become more environment friendly.

We set out to research the different sustainability products offered by corporate banks, the target audience and the minimum loan amounts. We picked out 30 corporate banks in 12 countries spread across 4 continents, randomly, enumerating and comparing their sustainability products for corporate banking and their target audiences.

We found 12 major product groups offered by the banks in sustainability services, ranging from green bonds to green mortgages. Most corporate banks in the UK offer all 12 product groups, with banks in Asia and Africa lagging behind.

We also looked at the target groups for these product offerings and we identified 9 major audiences for the sustainability products, that we have also illustrated. Most banks targeted large corporations, unsurprisingly, with a few of them offering products for niche areas like smart cities and electric cars.

Ricardo Gomez Angel / unsplash.com

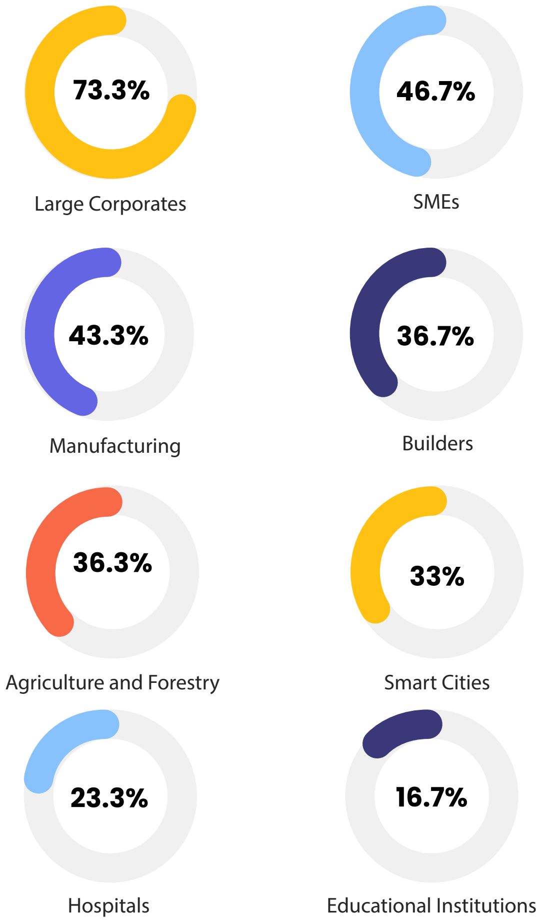
Sustainability as a service

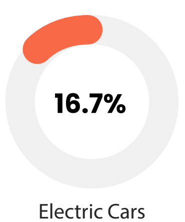
Sustainability Products offered by Corporate Banks

Green Bonds	Banks' offerings where the proceeds are used to finance green projects	Bank of America, RBC Royal Bank, J.P.Morgan, Scotiabank, DBS, HSBC, BMO Bank of Montreal, ING, OCBC Bank, Nedbank, nab, Standard Bank, Morgan Stanley, BNY Mellon, Deutsche Bank, Santander, Maybank, UOB 大華銀行, QNB, BBVA, Barclays, PNC, TD Bank, CommonwealthBank
Green Investments	Structured investments integrating ESG themes	Capital One, Erste Bank, Sabadell, Westpac, RBC Royal Bank, HSBC, DBS, Maybank, QNB, ING, OCBC Bank
Regular/ Syndicated green loans	Green loans extended on the condition that they will be used for environmentally friendly activities	Santander, HSBC, DBS, BMO Bank of Montreal, NatWest, Westpac, RBC Royal Bank, Deutsche Bank, BBVA, CIBC, OCBC Bank, Standard Bank, QNB, Maybank, ING, CommonwealthBank, Barclays
Green Deposits	Balances deposited in a green asset tool and used to finance environmentally friendly projects	Scotiabank, Barclays, HSBC, Citizens Bank, HDFC Bank, nab, DBS, BBVA
Project financing	Financing of corporate green projects by banks	Standard Bank, FirstRand, nab, ICICI Bank, BBVA, OCBC Bank, Nedbank, Maybank
Trade Finance	Financing that helps ensure distribution of goods globally in an environmentally friendly way	absa, citi, Deutsche Bank, UOB 大華銀行, Maybank, DBS, Standard Bank, Scotiabank
Asset Finance	Financing for projects with a goal of zero emission assets	Lloyds Bank, ICICI Bank, NatWest, TD Bank, citi, CommonwealthBank, HSBC
Supply Chain Finance	Financial opportunities to improve the economics of green supply chains	DBS, BBVA, ING, Deutsche Bank, TD Bank, Standard Bank
Discounted Loans	A discount on loans to companies that achieve pre-defined standards in sustainability	Lloyds Bank, CommonwealthBank, Westpac, RBC Royal Bank, BMO Bank of Montreal
Risk/ Regulatory	Assessment of the environmental risks associated with banks' lending and investment activities	Bank of America, Morgan Stanley, Barclays
Green Buildings	Financing the development and construction of eco-friendly buildings	Lloyds Bank, UOB 大華銀行, HSBC
Green Mortgage	Banks' offer of mortgages on green buildings	Santander, HSBC, BBVA

Sustainability as a service

Target Audience by percentage





The client segments that are most popular for sustainability offerings from corporate banks.

Green loan products offered by banks around the world vary greatly, but find common ground in target audience and minimum loan amounts

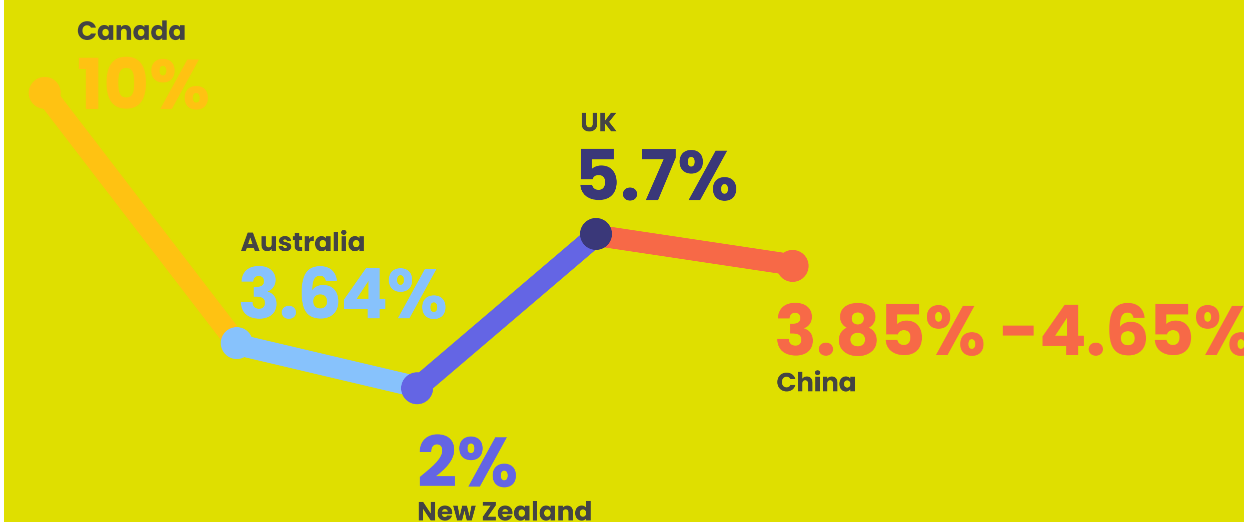
4.9%
Average interest rate across countries

$25,000
Medium minimum loan amount

Corporates, SMEs, Manufacturing, Agriculture
Target Audience

Interest rate and minimum loan amounts by country

£25,000–£50,000
Minimum loan amounts in the UK



The Core

Chapter 4

Building from the outside in

Technological support for these products and segments largely comes from core technology systems - from core banking and CRM to payments processing and billing systems. Slowly, but surely, we see this tech stack shifting towards an ecosystem model with the fundamental desire to create more external partnerships.

The tech stack transformation is overwhelmingly 'outside in', with external capabilities and revenue opportunities formulating these changes, rather than the 'inside out' approach we have observed for the past several decades in banking transformation.

The transition from a basic product-centric model with rigid functionalities that worked in silos, to a customer-centric model with real-time, omnichannel and analytical views has made it necessary to shift to platforms rather than solutions.

Core systems in corporate banks are also now being built with flexibility in mind. API capabilities are built in. Data conversion and mediation tools are not separate any longer. The customer-centric approach to technology ensures consistency and better measurements of customer satisfaction. Availability of SDKs ensures collaboration with the developer ecosystem.

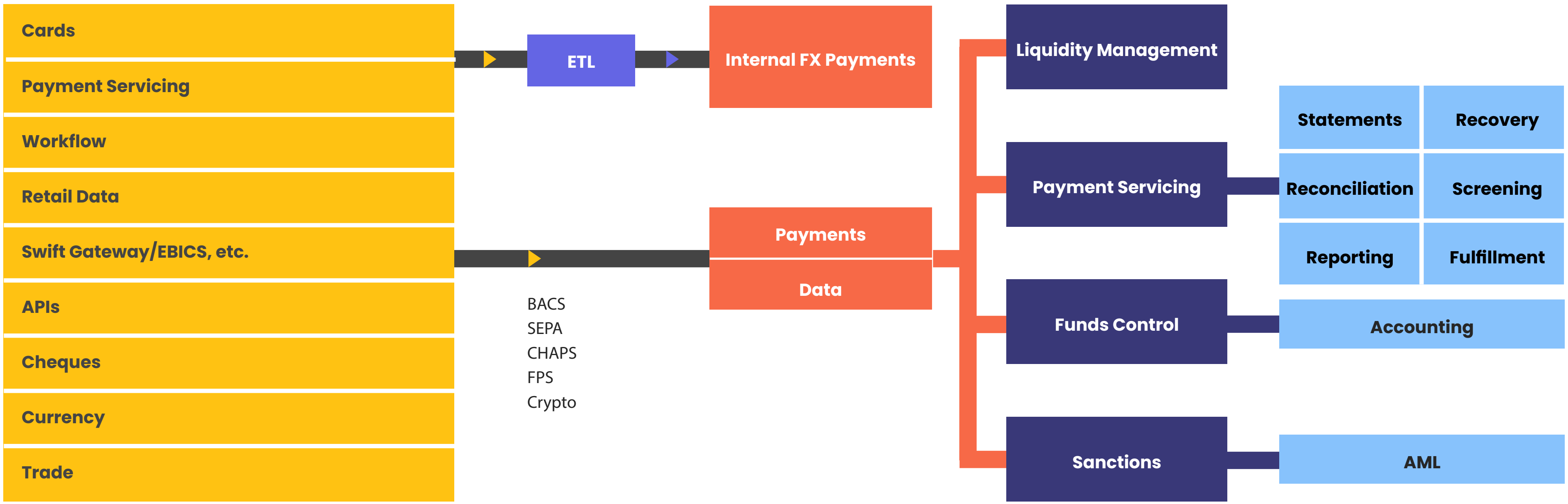
The benefits of an 'outside in' approach are immense and corporate banking is now beginning to explore technology systems that align with this view.

For this section, Burnmark has looked at several corporate banks and their transformation plans underway to understand what their tech stacks look like, at the moment.

Bankers should start to focus on projects that reach into ecosystems to create scale and value outside of their organisation, which can be done via the very simple use of APIs and value exchanging partnerships.

Neal Cross
Entrepreneur and
ex-Chief Innovation Officer

The current tech stack is complex due to the large number of payment standards and formats needed

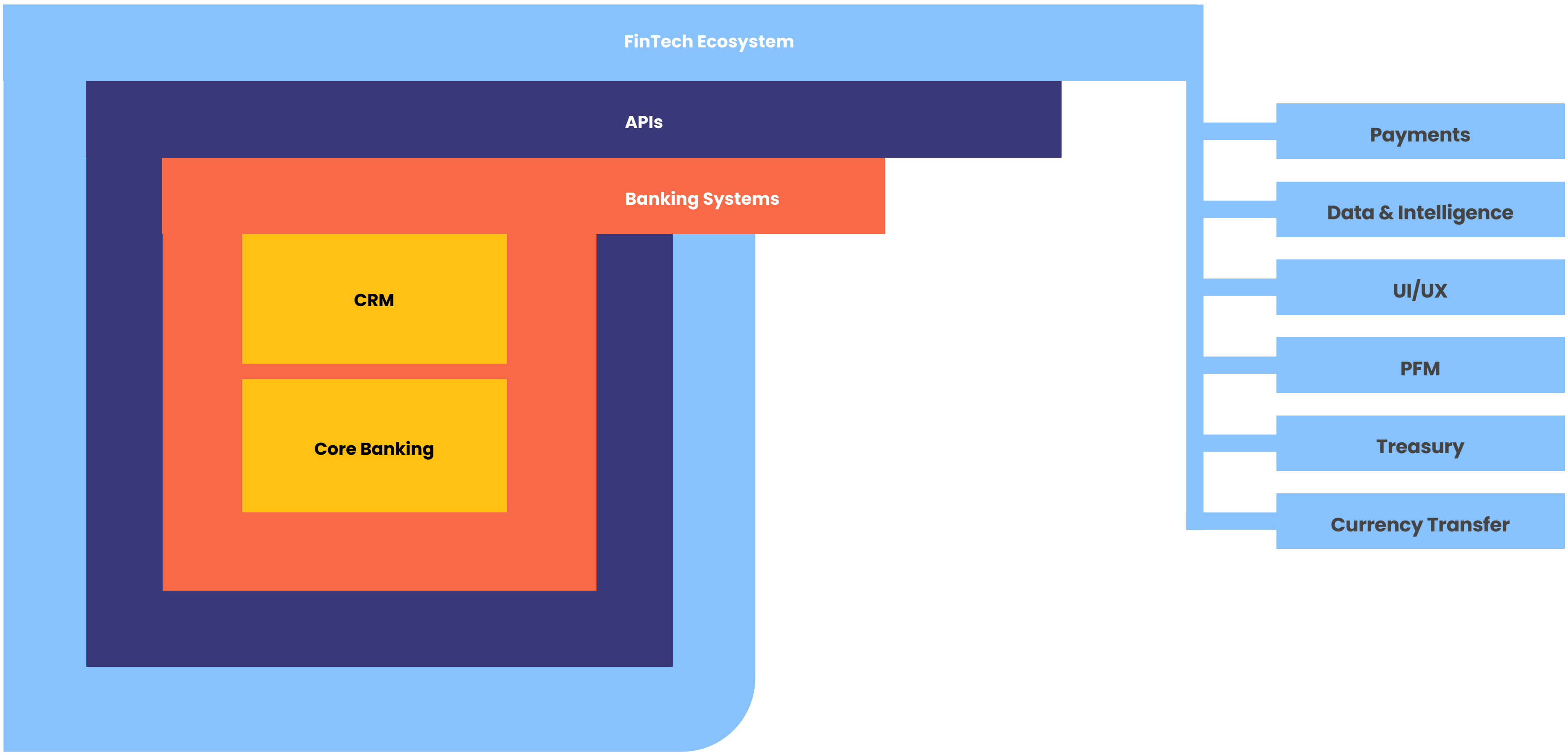


Types of Payment Connections

Gateway	Swift Alliance Gateway	Faster Payments	Chips	NACIA
Routing	Fed Alliance	Host-to-Host	Blockchain	NPCI

The tech stack of a large tier 1 global bank is a complex mess of inputs of different standards, conversion tools and connections to multiple reporting and accounting systems

Core transformation is necessary to simplify the corporate banking tech stack



Core systems that have built-in API layers and a wrap-around capability to connect to the external innovators will be the way of the future within corporate banking

Data Case Study: ISO 20022

The Challenge

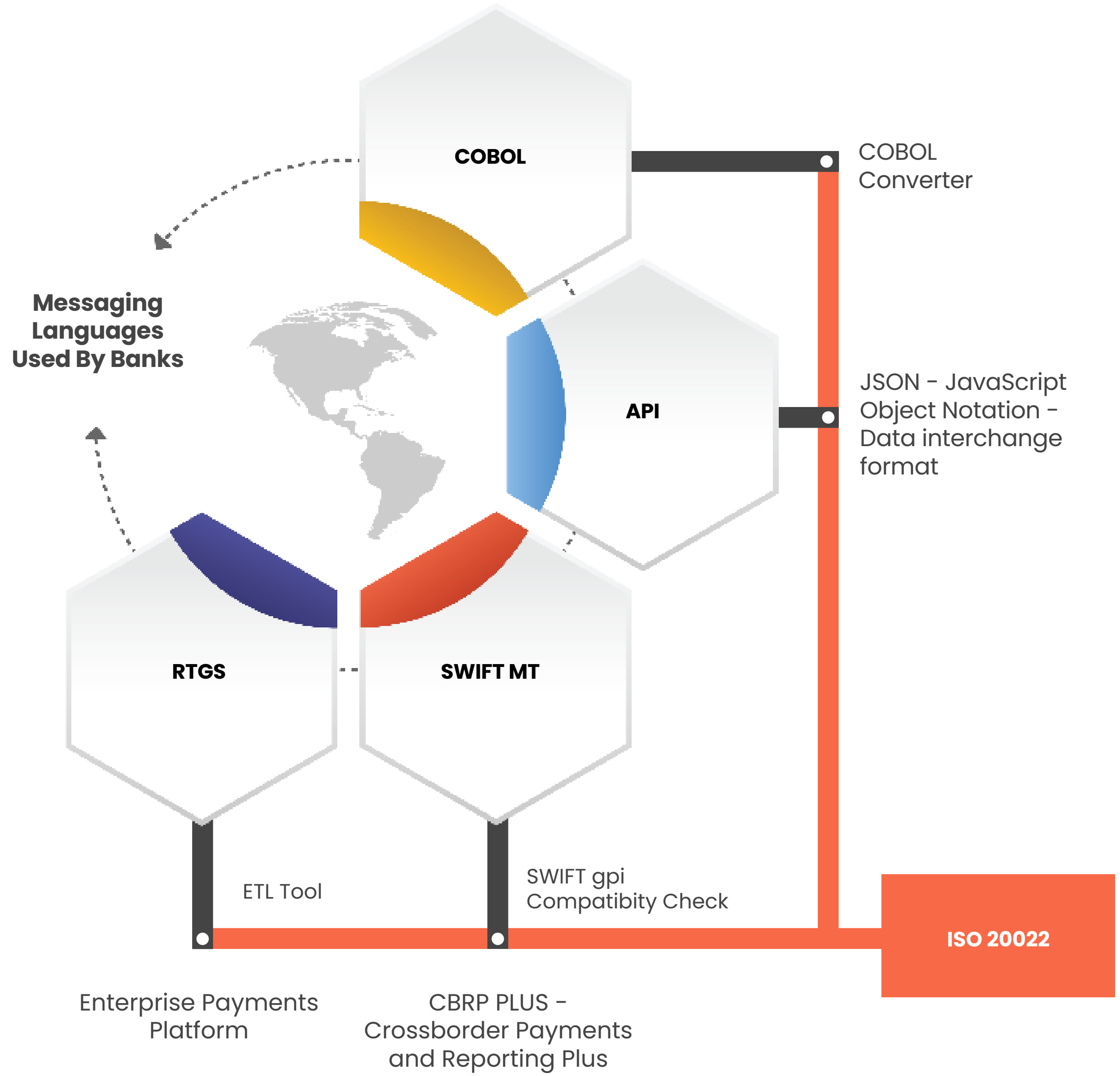
The connection between the bank and its correspondent bank could be based on multiple languages which could act as bottlenecks preventing Straight Through Processing. Sometimes short data fields are used for names and addresses which when truncated makes it harder to corroborate identities or understand full beneficiary details. The bank needs to employ multiple platforms, converters or tools for the migration of each of them to a standardised format.

The Solution

The solution is clearly a standardised global industry exchange data format over different payment networks – preferably using a rich language like XML, as in ISO20022. This data can also support innovation in payments, while also making it easy for a platform-based approach to efficiently handle data conversion.

“Unstructured data is a barrier to increased efficiency and results in repairs, an inquiry back to the sender, manual reviews and ultimately a delay in the payment execution.”

Michael Knorr
Head of Payments and Liquidity Management, Wells Fargo



Conclusion

A shift from building to orchestration in innovation

What became increasingly transparent in our research is that digital transformation, by itself, is not sufficient to drive revenue opportunities or cost efficiencies for corporate banks. The rate of corporate banking innovation that is underway is absolutely delightful to observe - however, the raison d'être of this innovation needs to be connected to the larger picture of ecosystem strategy in banks.

They need to focus on having all the building blocks in place, so that they can be an efficient orchestrator or enabler of the customer's ecosystem. Secondly, corporate banks need to shift the focus back to their own core competencies, and build in connectivity, as one of the interviewees has mentioned, in order to get the best resources and insights of the wider ecosystem embedded into the bank.

Corporate banks need to have the capability to identify, connect with and culturally align with partners in the fintech and technology ecosystems so that they can outsource innovation to a great extent, while focusing on the internal strengths and core strategies.

Such an orchestration or enablement is highly beneficial to the wider ecosystem, with several parties within the fintech ecosystem potentially benefiting on new revenue and scale opportunities through such collaboration. While automation from manual to digital processes is a great first step, I hope the focus for corporate banks over the next five years will be in innovating efficiently with a strong desire to bring the outside world in.

- Devie Mohan

For any questions or comments, please write to
info@burnmark.com

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