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Corporate Banking and Fintech Disruptors

An insight into how banks are reacting to the disruptions that fintechs are bringing to the market.

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The evolving Bank to Corporate Treasury relationship

The scope of Treasury activity has changed significantly over the past few years, due in large part to the liquidity crisis in 2007-8 with its ensuing regulatory reforms and squeeze on liquidity. Over the same period, traditional corporate banking providers have lost market share to Fintech disruptors offering new niche, cloud-based services focused on a coordinated customer experience. Corporate treasurers, meanwhile, have become more discerning in their choice of business partners and have found new ways to do business by reviewing their own operations and automating finance functions in order to gain better visibility of risk, cash-flows and funding requirements.

Apart from responding to new customer demands bank treasurers are increasingly being asked to enhance profitability and improve capital allocation. With rates just starting to rise after a sustained period of low rates, bank treasurers have been under pressure to maintain returns and to tackle the challenge of using capital to better effect. Equally, the purview of systematic and liquidity risk is now evermore in the circumspect domain of treasury day-to-day activity. This has resulted in a change to work practices and the need to better manage risk through more imaginative hedging strategies using real time execution venues and monitoring changes in volatility to seek the best opportunities.

"We have seen a shift in how bank treasurers meet customer demands and balance profitability. Fintechs are quick to offer to take the problem away, often at the cost of profitability. Are you demonstrating that you can meet your customers needs and grow your profitability."

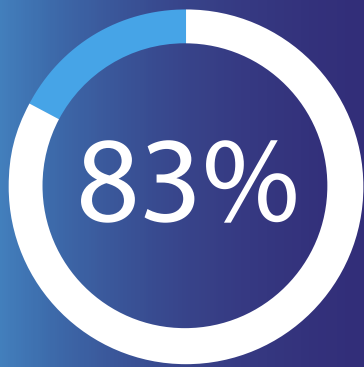
Matthew Townsend,
ePlatforms Business Manager, Eurobase International

Are Banks rising to the challenges of the Fintech disruptors?

A recent survey by CGI group[1] on transaction banking would suggest that banks are adapting their strategies to counteract the threats posed by non-banking rivals. Whilst corporate satisfaction with digital services continues to fall short of expectations many banks are investing heavily in this area to improve their overall customer experience. In the survey of over 500 corporates and their banking service providers carried out earlier this year, one of the most surprising findings was that there has been an 83% drop in the use of non-banks compared with a year ago. An extreme reversal in the trend of the past few years that is explored in this white paper.

Some of the explanation may lie in the heightened security concerns of many corporates, as they still rate their banks very highly for having superior standards for the control of data integrity. In fact, a number of respondents would like to see this go even further with a desire for their banks to provide consultancy and best practice advice around preventing data breaches or money laundering to name but two.

This paper will also reflect on these and other findings in the report and compare them with the wider market changes in corporate banking from both a provider and user perspective.



“there has been an 83% year-over-year drop in the use of non-banks from last year, and bank relationships appear to be contracting, compared to the increase in multi-banking we have seen over the last few years”

Jerry Norton Senior Vice President, Global Financial Services CGI

1 - CGI ‘Transaction Banking Survey 2017’

The shifting sands of Banking Treasury

Bank's treasuries, as in the past, continue to manage funding, cash-flows, hedging, risk and FX requirements whilst keeping a keen eye one on the state of the financial markets. Over the past decade however, due primarily to the financial upheavals, Treasurers have had to broaden their focus to better manage liquidity, liquidity sourcing, pricing and monitor allocation of capital more closely to obtain the best returns. In parallel, they have to address quality issues in terms of service, product and client offerings. Regulators have been instrumental in targeting many of these issues through a basket of new regulations, all of which have added further burdens to Treasury operations and work-flows. Additional regulations and codes of practice including The Senior Managers and Certification Regime (SM&CR), the FX & MM codes and other directives manifest as regulations such as EMIR and MiFID have resulted in changes to work practices and have generated a huge volume increase in supervisory reporting. Treasury's are now under greater surveillance than they ever have been. It is also worth noting parallel changes in market practise, delivery mechanisms, pricing and settlement that have also extended the scope of treasury activity with more throughput now going via eChannels, the use of margin collateral, product commoditisation and the use of CCPs to mention a few of the changes.

Increasing profile of Corporate Treasury

Corporate Treasurers have also not been immune from the ramifications of the 2008 crash. Similar concerns around cash-flow, hedging and FX are just as keenly felt as amongst their banking peers. Latterly, a greater emphasis on risk, rate sensitivity and overall liquidity has led to the use and adoption of Asset Liability Management (ALM) techniques and tools becoming ever more commonplace. The role of a Corporate Treasurer is also evolving from a traditional support finance function to a highly visible, advisory role at board level. This heightened profile has put the value of traditional banking relationships under a microscope as corporates become more discerning about their choice for business partners in areas such as cash management, pricing, research and real-time liquidity.

Of equal importance is the increasing use of electronic channels by corporates. Maintaining competitiveness has always been a challenge for corporate banking operations but nowadays corporates expect more in terms of service, cost and performance and now have greater mobility to shift allegiances and change partners; corporate banking institutions can no longer take relationships for granted.

In light of these internal and external pressures it is not surprising therefore that Ovum's recent research[2], carried out in Q2 2017 has highlighted that bank's are lagging a bit in responding to their corporate customers. The concern is that new open banking initiatives such as PSD2 are likely to extend this gulf. As an example 43% of 100 corporate treasurers interviewed stated that dealing with FX risk was their biggest challenge whereas only 24% of their banking partners prioritised this above other factors. No wonder, therefore, that a massive 80% of treasurers in the same survey indicated that they have looked into moving banking relationships in the preceding twelve months. This is endorsed by CGI's findings which show that more than one

> *"Large corporates are hedging more risks than they were two to three years ago, and most expect that they will be hedging even more by 2017. In particular, corporates are hedging to protect themselves against fluctuations in FX and interest rates. Most are using futures to hedge their risks. But by making mechanical decisions about how much to hedge and for how long, they often lose any potential upside from changes in interest or FX rates."*
>
> **Nordea, 'The future of the corporate treasury', 2017**

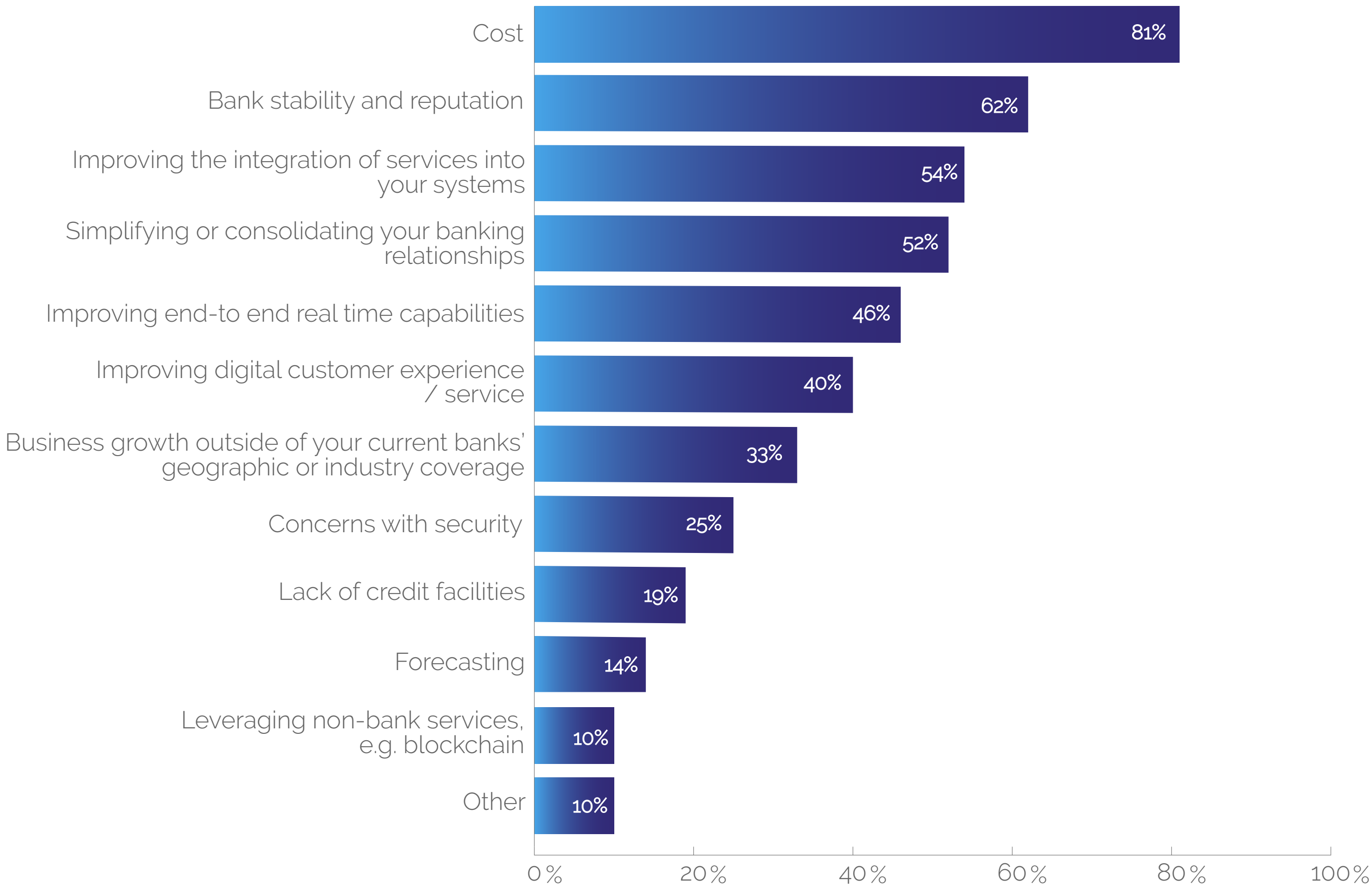
2 - http://www.bankingtech.com/1025272/ovum-survey-reveals-bank-shortcomings/

third of corporates have increased their banking partners in the past year which strongly contradicts the perception of contracting relationships. Nordea's research[3] provides another view and contrasts organisations of different sizes. Their survey reveals that the norm for companies with a turnover of less than EUR 1 billion has increased to three main bank relationships on average as compared to the larger ones with turnovers over EUR 5 billion where the trend is in the opposite direction having decreased to an average of 11 core bank partners.

The reasons behind these trends are a good reflection of the current sentiment in the corporate banking space with a high degree of sensitivity around security and cyber-fraud having to be weighed up against the continuing drive for greater efficiency and cost reduction.

Reasons for reviewing banking relationships

(Percentage of Corporate Practitioners and Banking Services Providers)

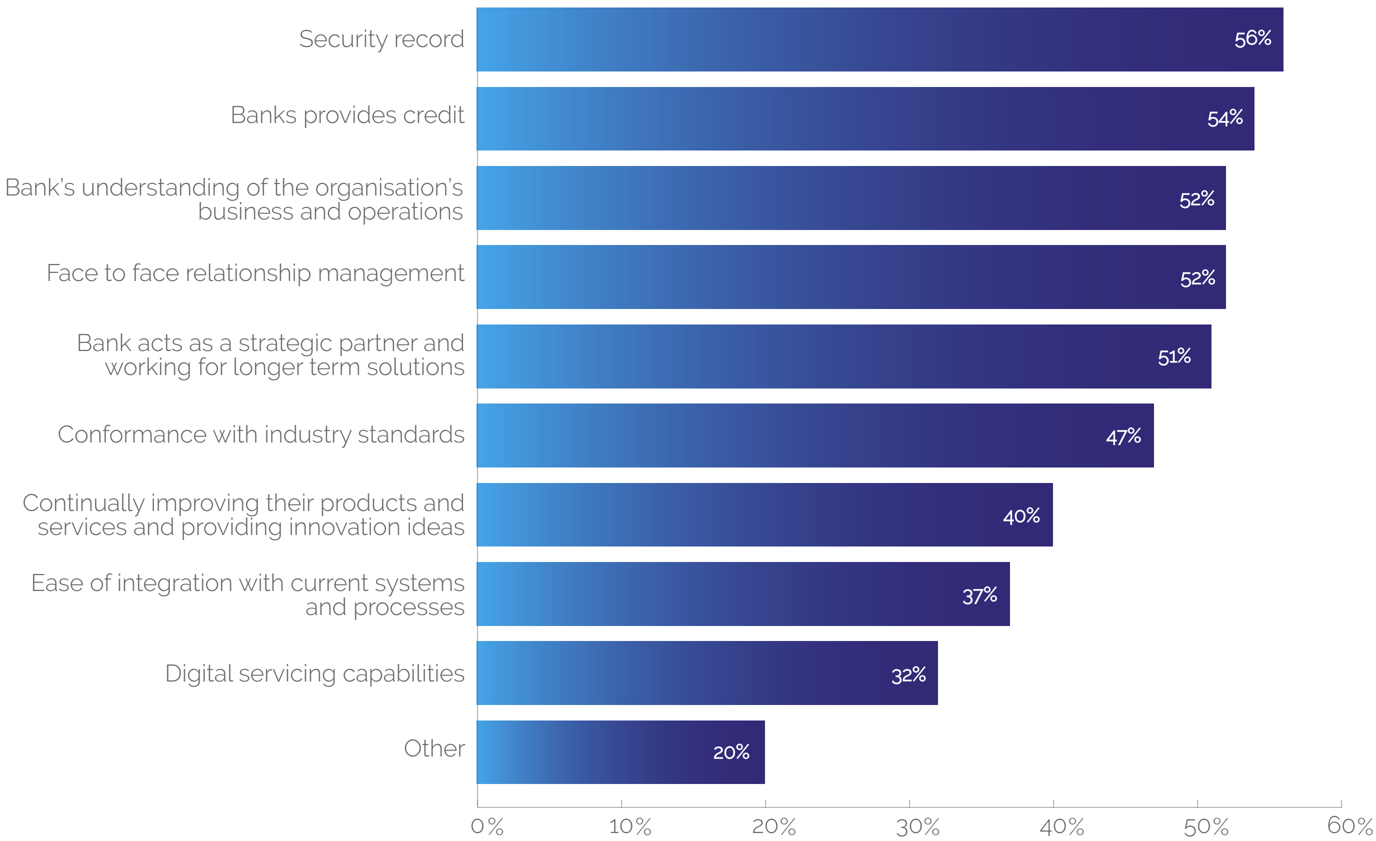


Source: CGI 'Transaction Banking Survey 2017

3 - Nordea, 'The Future of the Corporate Treasury' 2017

Performance of organisation's current banking partners

(Percentage of corporate pracitioners rating "good" or "excellent")



Source: CGI 'Transaction Banking Survey 2017

Evolving customer behaviour

There are interesting comparisons to be drawn from the B2C space. In retail banking consumers generally have been comfortable with online financial services for some years now. As a result more than 75% of account holders hold products or services with at least three providers and nearly all of those attribute this to the fact that technology has made this multi-banking experience possible. In retail, customer experience is based almost exclusively on the product itself. In corporate banking, several additional factors are equally important such as security, relationship, competitive pricing and global presence. This is backed up by the CGI survey which identifies that the area in which corporates are most likely to rate highly their banks' performance is security record, closely followed by their banks' knowledge of their business. Both of these are arguably the most difficult for disruptors to counteract. Of more concern to banks is the relatively low rating they receive for their digital services. Whilst obviously a keen concern for banks it does also provide an opportunity for competitive differentiation by improving this service offering for their clients.

In order to provide competitive pricing a bank needs to have instant access to customer account and positions. Behind the scenes prices need to be constantly aggregated from a variety of different sources and streaming these to customers through an intuitive white-labelled user interface. There is some consolation for those looking for longer–term strategic value out of regulations such as MiFID II that similar processes are essential for demonstrating best execution.

Fintech Disruptors – Partner or Mimic?

Traditional financial institutions are learning to live with disruption and increasingly embrace it. According to MagnaCarta Communications[4] 80% of banks now believe that partnering with Fintech's should be considered. This is notably higher than the findings in the same report only two years previously. The most viable service for cooperation according to over three-quarters of respondents is considered to be Payments.

In their recent global FinTech report[5] PwC have clearly evidenced that financial institutions are also responding independently to the challenge of new players changing the game. Based on a survey of over one thousand industry executives the results show that, although still rather inconsistent across the full range of services, financial institutions are starting to react, with over half of respondents agreeing that disruption is 'at the heart of their strategy'. In terms of customer retention, for example, this translates into plans of action across a number of different service offerings as shown in the table below. Great user experience and ease of use stand out consistently as the top priority.

How to address customer retention

What do you think are the most important areas to address customer retention in the context of new FinTech competiton?

	1st	2nd	3rd
Payments	Ease of use, intuitive product design	Faster service	24/7 accessibility
Banking	Ease of use, intuitive product design	24/7 accessibility	Faster service
Insurance	Ease of use, intuitive product design	Superior customer service	24/7 accessibility
Asset & Wealth Management	Ease of use, intuitive product design	Cost	24/7 accessibility

Source: PwC Global FinTech Survey 2017

4 - MagnaCarta Communications '2017 Fintech Disruptors Report'

5 - PwC 'Redrawing the lines: Fintech's growing influence on Financial Services'

Although change, in the form of Fintech disruptors, is more prevalent in retail banking there are certain areas that are also rapidly evolving within the corporate landscape. Recent surveys would suggest that corporates are re-thinking their strategic approach to their financial partnerships and adopting a more granular approach to the provision of services.

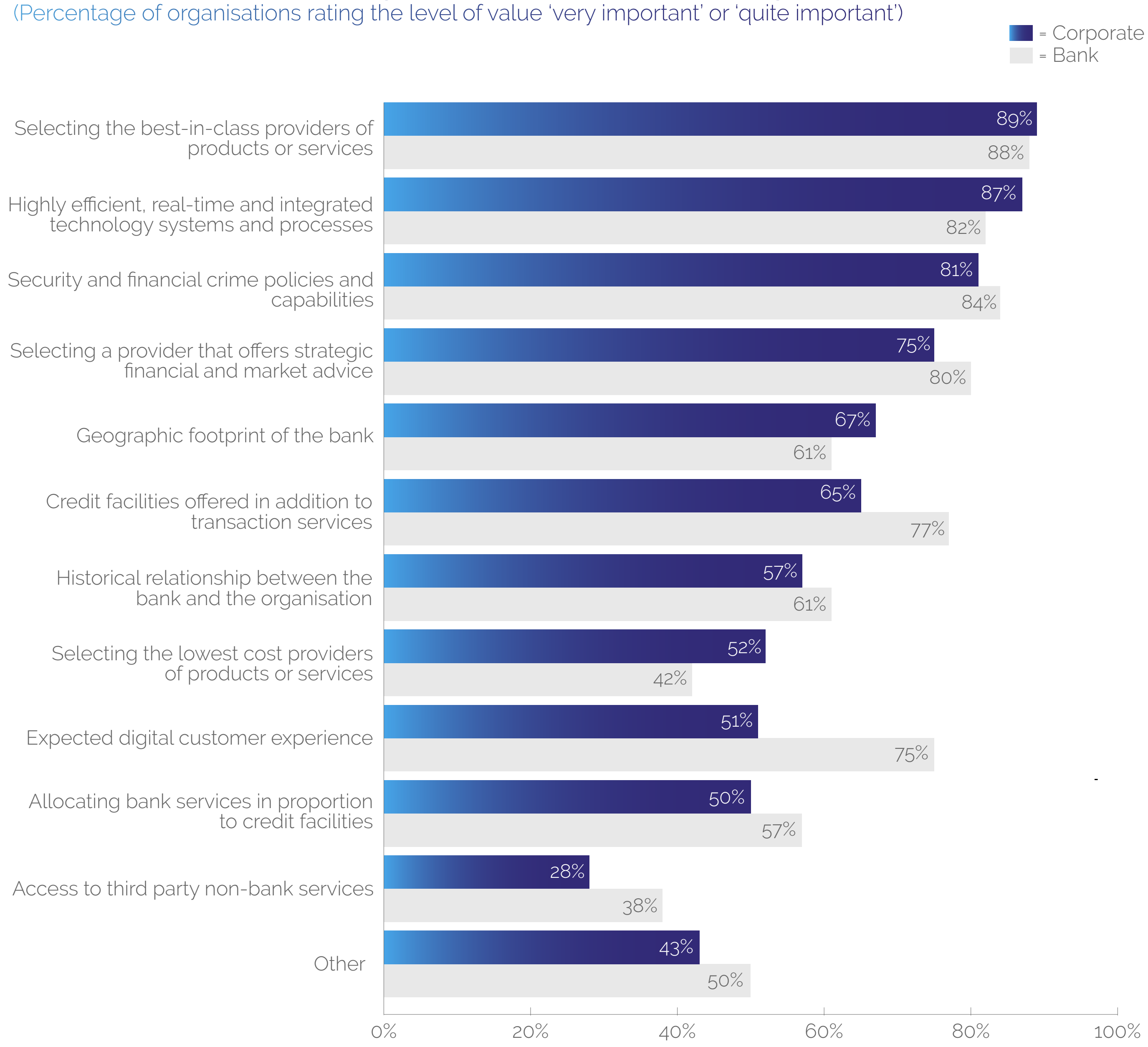
Cross-border payments is undoubtedly one area that corporate treasurers are being enticed to use new providers. The attraction is both in the competitive pricing and a great user experience. As the previous table shows, however, payments is only one function that corporates use to evaluate their service providers. In terms of cost this is considered far less important by both banks and corporates compared to using best-in-class providers. Although there is generally strong alignment between the views of both provider and user, one notable difference in opinion is the importance of digital provisioning with banks considerably overestimating the importance of this for their customers.

"80% of banks are in agreement with fintech peers that partnership with fintechs is a viable, even essential, path to the future of financial services delivery."

MagnaCarta Communications 2017

Factors considered when organisations establish a banking relationship

(Percentage of organisations rating the level of value 'very important' or 'quite important')



Source: CGI 'Transaction Banking Survey 2017

In contrast to payments there is currently much less disruptive activity in the other treasury services such as cash management and FX pricing. There is still a long way to go before Fintech's can offer the same comprehensive range of services that corporates receive from their banks. This is not to say that they do not expect more. Ideally they would like banks to innovate and offer both new and established functions in a manner that helps them in adapting to the new business demands that they face. Under the increasing scrutiny of regulation and compliance the additional effort and risk of adopting new providers and processes is probably the main reason why the revolution happening today in consumer financial services is not as likely to be as strong in the B2B world in the near future.

Conclusion

Whilst there are undoubtedly threats to traditional corporate banking from Fintech disruptors evidence shows that strategic partnerships between banks and the appropriate type of Fintech vendor can be a successful enabler of growth. The banks have the relationships and trust with corporate businesses which can only be enhanced if they adopt some of the new technologies and enhanced customer experience that new technology provides.

At Eurobase we have helped both existing and new clients respond quickly and effectively to new market conditions with a range of intuitive customer portals that are fully integrated with internal sales and trading functions. These use sophisticated price aggregation to generate clean and appropriate pricing. The underlying platform can be deployed in-house or externalised and provided as a hosted offering both for rapid scalability and to reduce overall cost of ownership. The future is closer than you think.

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We pride ourselves on our personal approach, ensuring we deliver the support and flexibility our customers need and the service they expect.
Our customers have long and lasting partnerships with Eurobase and all will verify our approach to doing business and commitment to product investment - delivering ongoing value above and beyond our initial engagements.

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