

A RESEARCH PAPER PRODUCED BY FINEXTRA

IN ASSOCIATION WITH ORACLE

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# KEY DRIVERS, EMERGING TRENDS AND DEVELOPMENTS IN CORPORATE BANKING

**ORACLE**<sup>®</sup>  
Financial Services

**Finextra**

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# INTRODUCTION

In seeking to serve the ever-evolving and increasingly global needs of their corporate customers banks face a diverse and complex set of challenges. At the heart of these is the issue of how banks can remain relevant to their clients in a world in which their regulators are opening up banking to new competitors who are both agile and powered by the latest technologies.

In the drive for global supply chains and an ever-connected consumer, corporates are looking at their financial needs being serviced at speeds like never before. Optimal utilisation of cash and credit to derive maximum cash churn is their mantra for global success. The global market dynamic brings in additional opportunity for intraday management across currencies and time-zones.

The response of banks to these challenges is the adoption of a new and transformative approach, focused on supporting their corporate clients on an end-to-end basis on all their customer journeys. Through the development of new financial ecosystems supported by innovative new capabilities (such as Virtual Accounts, Artificial Intelligence and Blockchain) banks seek to give their clients speedy access to the information, insight, cash and credit they need to maximise the efficiency of their business operations on a global basis.

In developing their strategic responses banks are increasingly moving away from their legacy approach to IT development based on a combination of in-house build and / or purchase from traditional vendors, toward partnering with (often relatively small) specialist fintech providers.

This research paper produced by Finextra, in association with Oracle, analyses these key market drivers and emerging trends and developments, bringing to the fore major aspects of the transformation of corporate banking.



## 02

# THE MARKET: KEY DRIVERS AND EMERGING TRENDS

This section identifies the key drivers and emerging trends faced by banks when serving the needs of the corporate market.

### CONNECTED COMMERCE

In the drive for global supply chains and satisfying the needs of an ever-connected consumer, corporates today are keen to look at an end-to-end infrastructure. Only such a connected commerce solution can provide the visibility, control and insight required by corporates to successfully manage their global businesses and supply chains.

Hence, the pressure is on banks to remain relevant to all aspects of their corporate clients' operations. They must decide to either be the key providers of new API-connected, multi-partner corporate eco-systems, or just be another supplier to the connected commerce networks of others.

(See section 3A for bank's response to this emerging trend.)

### MARKET DYNAMICS IN CORPORATE PAYMENTS

In payments, the move toward instant settlement is proceeding at pace. As well as country-specific schemes such as Faster Payments in the UK and the new RTP for the US, there are pan-regional instant schemes such as SCTInst across the SEPA area, P27 for the Nordics, and SWIFT's global instant offering SWIFT gpi.

Although many schemes begin in the retail banking market they gradually permeate into corporate payments as well, allowing companies to also reap the benefits of real-time information, visibility and control. Indeed, as maximum permitted values for instant payment schemes rise over time so corporate usage will increase in step. Banks should expect their corporate clients to require access to instant for 'just-in-time' supplier payments, direct remittances, refunds, high value financial payments, payroll and staff expenses.



## THE CUSTOMER PERSPECTIVE

A recent paper published by the European Association of Corporate Treasurers (EACT), entitled *The Digital Treasury Becomes a Reality*, highlighted how digitalisation is a key enabler of change and competitive advantage to businesses, and how treasurers are embracing digitisation to manage liquidity and risk more effectively. It also noted that optimising liquidity management remains a priority for many treasurers.

## CUSTOMER JOURNEYS AND DIGITISATION

Whilst digital transformation has been re-shaping retail banking for a number of years, banks are only beginning to come to terms with the power of digitalisation in disrupting and transforming corporate banking. As noted by the EACT above, corporates now expect their banks to provide optimised, friction-free and digitalised processes across the full range of customer journeys – e.g. account opening including KYC checks, credit applications, the set-up of cash pooling structures including associated legal documentation.

(See sections 3B and D for the banks' response to this emerging trend.)

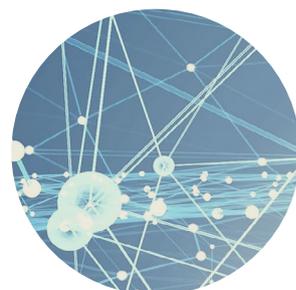
## REGULATION AND COMPLIANCE

With legislation such as PSD2 in Europe and Open Banking in the UK, the bank's regulators are introducing legislation to both open up banking to innovative new players (such as challenger banks and fintech companies) whilst moving the economy toward 'instant' settlement.

## BUILD, BUY, ACQUIRE, PARTNER

Linked to the regulation section above and through open APIs, regulators are now encouraging banks to work with a much greater variety of external fintech providers. This broader range of options for new service and product delivery presents banks with sometimes quite complex decisions to be made around their 'build, buy, acquire or partner' approach to the project concerned.

Partnering with smaller, specialist providers can help banks to meet the complex, digital needs of their corporate clients. However, working with a raft of small fintechs causes banks with issues around their due diligence processes which are designed for working with established providers, and places an emphasis on the banks needing to have robust yet flexible testing environments as well as strong open API interfaces – the key to connected commerce.



## INTERNAL PRESSURES

In both their retail and corporate operations, banks are under intense internal pressure to reduce operating costs and streamline internal processes to boost efficiency whilst managing risk – particularly around cyber-crime – more robustly than ever before.

The key focus of banks is twofold. Firstly, on reducing the cost of transactions by removing the unnecessary friction in the end-to-end process; and secondly, on meeting the demands of instant payment schemes – the bank’s infrastructure needing to process AML, other compliance and funding checks at the same pace. Clearly digitisation has a significant role to play, as does the use of AI, Machine Learning (ML) and data analytics.

See section 3C for the bank’s response to this emerging trend.

The next section sets out the major aspects of the transformation of corporate banking activities which banks are undertaking in response to these key drivers and trends emerging from the market.

**“Partnering with smaller, specialist providers can help banks to meet the complex, digital needs of their corporate clients. However, working with a raft of small fintechs causes banks with issues around their due diligence processes which are designed for working with established providers, and places an emphasis on the banks needing to have robust yet flexible testing environments as well as strong Open API interfaces – the key to connected commerce.”**



# THE BANKS' RESPONSE: DEVELOPMENTS IN CORPORATE BANKING

## A. OPEN APIs ENABLING CONNECTED COMMERCE ECOSYSTEMS

As noted in the introduction, in order to remain relevant to their corporate clients in all financial aspects of managing their global supply chains, banks are implementing new strategies founded on connected commerce.

This approach utilises the rise of open application interfaces (APIs) to create a connected network of financial institutions, software suppliers and fintech communities to exploit the regulatory drive to deliver a broad range of new services and products to market.

Some banks see APIs as products and not interfaces and have gone as far as creating API product management functions. They are seen as a means of delivering business agility, seamless processing and operational benefits internally, while also playing a significant role in the transformation of businesses and delivering differentiation of value to customers.

This open banking ecosystem is an opportunity for banks and their partners to create multi-channel solutions to create new commercial business models and sources of revenue. It underpins the digital transformation of financial institutions and should be at the forefront of delivering value to corporate customers.

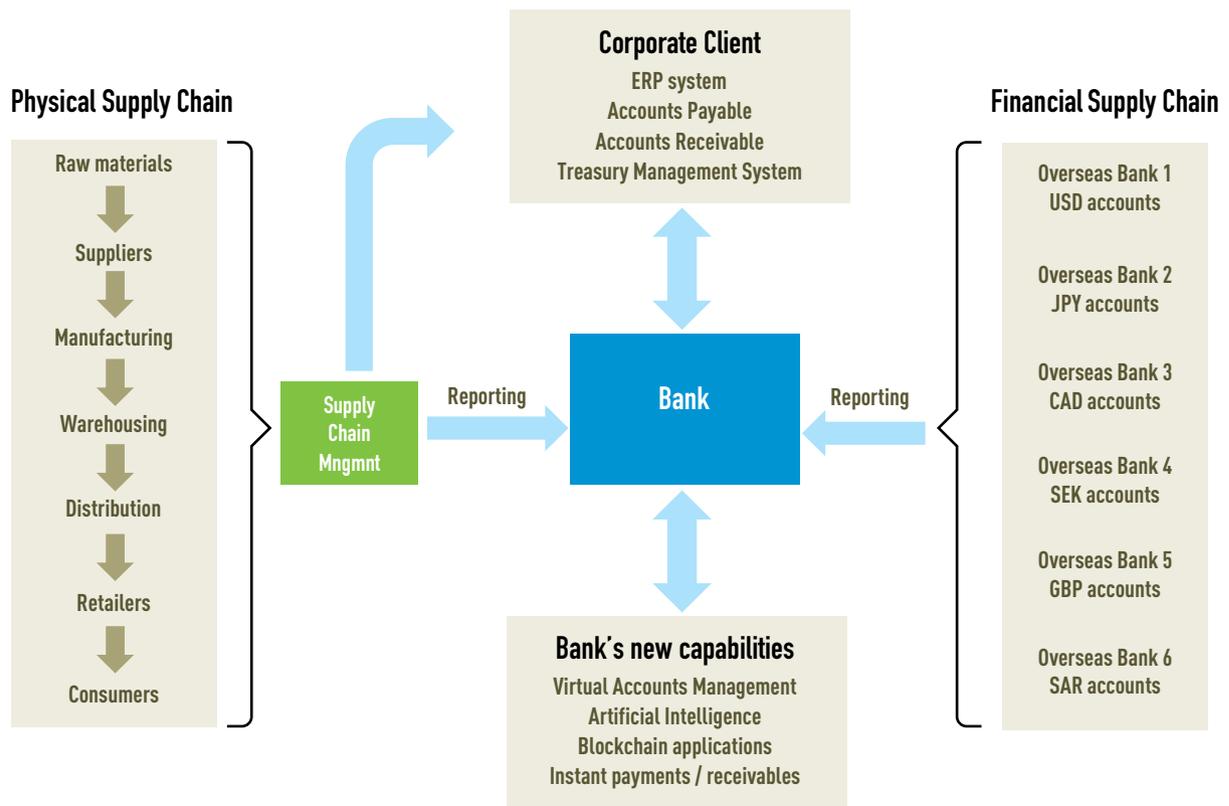
By opening their APIs to third-party providers of innovative services they effectively become an open bank and can enrich their core services through breaking down traditional silos within banks that stifle change, promote active collaboration with others through a conducive ecosystem agile enough to keep pace with change effectively, by both delivering new product services faster at reduced costs.

In today's pressurised, highly competitive marketplace the technology has to be smart and its use even smarter. Banks, therefore, should deploy end-to-end open banking as a central hub to deliver emerging products digitally such as real-time solutions, data driven services, Virtual Account Management structure, and new technologies to build, i.e. Blockchain, (including Distributed Ledger Technology

(DLT)) and cloud services – and all far more rapidly and effectively that can be achieved in today’s environment.

A question that is often asked is when will corporate business benefit from, and start reaping the rewards of, regulation geared toward driving change, increased competition, greater customer choice efficient handling of the cashflow and liquidity requirements?

### BANK PROVIDED CONNECTED COMMERCE ECOSYSTEM



In combination these new facilities enable the transformation of bank’s corporate banking propositions. Banks’ ongoing relevance to their clients will be assured by their offer of a compelling new end-to-end, connected commerce approach to corporate banking. This will enable their corporate clients to have access, on a global basis, to the information and insight they need across their worldwide supply chains from a single source. All the above being provided across time-zones and currencies and on an intra-day, or ideally, a real-time basis.

This ability to remain relevant to their clients into the future will enable banks to forestall any competitive threats to their corporate business from the tech giants, e.g. Google, Apple, Facebook, Amazon and Alibaba [GAFAA] and small challengers (digital banks, fintechs, payments companies, retailers).



## B. VIRTUAL ACCOUNT MANAGEMENT (VAM)

Whilst the concept of virtual accounts is not new and their use as an automated, self-service means of providing a single view of corporates' cash positions is well established, the service is expanding.

There is a greater requirement from corporate treasurers to maximise their control and improve their visibility of accounts and cashflows and to further automate processes. This is increasingly important in an environment in which instant payment schemes are being introduced globally. And as money moves in real-time, so must the reporting of transactions to support treasury functions to visualise their cash-flow and balances, source their liquidity requirements and manage risk.

A significant requirement in an age of greater regulatory scrutiny where money moves fast is an emphasis on managing transactions and account-based data in real-time. Acknowledging that they have multiple account relationships across a variety of banks, many corporates turn to the use of virtual account services and products. This builds on traditional methods and is a more sophisticated means of managing their complex account structures. It aids the reconciliation of transactions and accounts and is a more effective way of identifying their liquidity requirements. There is a real opportunity for a bank to lead with virtual account models to support corporates in meeting their cash and liquidity needs.

The more sophisticated cash management of accounts and liquidity using virtual account services is growing, and banks tend to white-label solutions provided by others to optimise their proposition. Treasurers look to deliver a number of specific improvements to their cash management by reducing the number of physical accounts and associated overheads. Many of the tasks of account opening, reconciliation of transactions, mitigation of exposure to interest and FX rates, sourcing and management of liquidity can be managed virtually.

Improvements to virtual account services complement the digital agenda of banks, introducing innovation to the corporate sector, allowing corporates to maximise their control of working capital requirements and cashflow.

There are also efficiency and cost savings associated with linking multiple virtual accounts to a single real account, minimising the number of bank accounts to be managed.



Virtual account management enables corporates to create hierarchies of virtual accounts in multiple currencies reflecting their organisational structures and accounting practices for their operations globally. Virtual accounts can enable corporates to drive:

- The streamlining of key processes such as payables and receivables, reconciliation and liquidity management
- The faster and more effective cash and liquidity position management backed by streamlined and faster credit and trade facilities- essential in today's real-time environment
- Their management of money movements and the impact of instant payment schemes globally
- The optimisation of their cash on a global basis, minimising their use of credit and maximising their investment returns
- A review of their risk strategies and requirements
- The implementation of greater global governance and audit controls
- The attainment of valuable insights into future treasury and company management strategies.

### C. AI / MACHINE LEARNING AND BLOCKCHAIN CAPABILITIES

A major initiative for virtually all major banks is the deployment of artificial intelligence (AI). The term covers a broad range of analytic sciences. As banks transform and the industry becomes increasingly data intensive there is a strong recognition that not only does AI improve current processes and procedures to manage, for example, anti-money laundering and compliance requirements, but can also become a commercial asset and new source of value to customers and revenue to banks.

The development of AI-based services is still maturing but it is a major project in the industry. Banks are developing AI labs, employing specialists in the field and driving pilots and proof of concepts. There are currently two main areas of focus:

The use of AI in conversational banking, the interaction between banks and customers as a first part of enquiry using chatbots and natural language processing tools, and the second is the use of machine learning.

The ability of AI- Machine Learning and Data Analytics tools- to process masses of data turning it into key and insightful business information, in real-time if required, is just beginning to be realised by banks and corporates alike. The successful deployment of AI algorithms provides the key to a new generation of cash management solutions, fulfilment of governance and regulatory



needs, enabling a truly transformative change. Also, implementing AI-based technologies can make functions such as credit management more effective and cost efficient.

Getting the required range and amount of data to make informed decisions is an increasing requirement for corporates. To make use of it you need AI.

Banks hold vast quantities of data on all aspects of their corporate customers' business activities and by using AI this can be turned into a differentiator in the market. For example, AI allows banks to offer new global cash management propositions featuring:

- Greatly improved cash flow forecasting (at account, currency, accounting entity, regional etc basis); using historic data to project positions well into the future
- Valuable new insights into recognition of important patterns within cashflows previously hidden in the jungle of transactions, currencies and time-zones
- A step-change reconciliation, minimising the need for human intervention
- Fully automated, intra-day cash management operations switching cash as required to minimise projected debit positions, and combining surplus cash to maximise investment returns
- Sophisticated business modelling tools allowing different scenarios to be played out with greater accuracy than ever before due to the amount of data being used
- Satisfy governance and audit procedures.

Beyond global cash, there are many other opportunities for the deployment of AI:

- The move to instant settlement, globally will require the speed and processing power of AI to manage and control a corporate's cash and real-time treasury is becoming an obtainable goal
- AI can enable a transformative change in banks' credit management controls enabling masses of data from multiple sources to be used in the assessment of corporate credit risk in trade finance and services, and other business functions
- In addition to the information held internally by the banks, the new connected commerce referred to in section 3A will also provide masses of data from each of the parties connected to the ecosystem. But only the power of AI will enable the mass of data to provide the insight and operational efficiencies hidden within it, to the benefit of all.



Beyond AI, banks are now working on various use cases leveraging the integrity of data that blockchain provides, thus creating a single ‘golden source’ that can be viewed by multiple parties. This is a key advantage.

Blockchain can facilitate the transfer of value (currency) of anything digital and could be deployed within a cash-pool to manage cash positions and liquidity requirements without the use of traditional bank infrastructure. The corporate would have to invest in a blockchain solution and be able to manage it within their infrastructure, or banks might offer it as a dedicated service.

Essentially, a corporate could create its own ecosystem linking its dependency of banks to company structures and administer internal functions and trackable controls, improve internal efficiencies and manage inter-company activities.

Blockchain-based solutions are being looked at in areas such as supply chain management, cross-border payments (e.g. Ripple), Know Your Customer (KYC), digital id compliance check and trade and supplier finance.

The latest thinking in this area seeks to combine emerging technologies of AI and blockchain into a single proposition – the enormous, untapped source of data within blockchains being interrogated to unearth / create value, by AI. Big data providing the ‘quantity’ and blockchain – with its data capture, validation and assurance capabilities – the ‘quality’.

However, more so for AI, the business case for corporate investment in blockchain is certain to develop but will take time to evolve.



#### D. OPTIMISED DIGITAL PROCESSES ACROSS ALL CUSTOMER JOURNEYS

In an increasingly interconnected, real-time world banks are undergoing digital transformation. As the impact of digital disruption becomes more widespread, new players enter the market supported by banking regulation that encourages their arrival, and heightened customer expectations. Banks are forced to change but many embrace it and strategically adapt to change. The question is what kind of bank do you wish to be in the future? A full digital based bank or one that provides services digitally?

Either way banks must focus on providing optimised digital processes to their corporate clients across all their customer journeys with ‘friction’ occurring in rare cases, for example, only when regulations and the bank’s risk management policies require. This push for digital both drives cost and efficiency benefits for the banks and also supports the corporate treasurers’ requirement for ‘the digital treasury’.

Some banks are working on root and branch reviews of all their customer journeys seeking to optimise them whilst realising that some residual friction remains important. They seek to identify the ideal process, the customer journey as it would be without the friction created by risk, compliance, ‘4-Eyes’ principles and the like. Fully digital customer journeys are the over-arching goal, however. While some human interaction may well still be required – it’s about physical and digital services coming together to produce the optimum journey for the customer.

Some banks are building their digital solutions from within and others start at the desired end-state they seek for their customers. This is a fundamental difference with clearly very different outcomes in terms of service.

Almost all business functions, services and value chains across transaction banking are impacted by this transformation. This is more noticeable in some functions such as payments processing in real-time and online services distribution through multiple channels. Other areas including trade finance and supply chain management are the focus of change and new service opportunities.

As the physical supply chain is increasingly digitally focused and fuses with trade finance, new innovative solutions will emerge. The two coming together provides a more holistic, end-to-end, data rich understanding of the way trade is conducted between all, often multiple, parties. From this emerges new ways of understanding and assessing risk, and new models to support this will emerge.



Banks will be able to capture and analyse multiple sources of data linked to supply chains and be able to generate a more realistic representation of a company's risk profile. This goes well beyond the set of performance indicators that a bank's credit scoring process uses currently to assess a company's financial wellbeing and health. It is a fully integrated profile of trade, linking purchase orders and invoices raised at all points of supply chains to new ways of assessing risk and this will overhaul the way it links to credit allocation and financing. Data plus analytics is a powerful new tool that can transform this area of business in trade finance.

The net effect is that enhanced visibility of supply chains gives banks more control, hence creating opportunities for the extension of more credit at lower price points, tailored to the transfer of goods from source to delivery. Beyond trade operations, corporates can leverage their banks to achieve a digitally seamless approach to the origination and servicing of commercial credit and loans requirements.

The combined effect of regulation that opens up banking services to others, either to compete or share, drives a further push for banks to create their own ecosystems and an integrated economy, partnering with others to develop new customer services. Reports indicate building partnerships with others and monetising data could raise banks' ROE to circa 10%.

There is an opportunity beyond this, however. Banks should look to channel their services through others, beyond their 'internal' ecosystem to those of other financial and not financial (but regulated) institutions. There is an opportunity still to develop fully but not to overlook. Reports indicate that moving beyond non-bank markets could elevate ROE to circa 14%- higher than the average.

Having become the norm in retail banking, digital self-service capabilities such as chatbots and robo-advisors are now being deployed by banks for corporate clients as part of their AI strategy.

In support of their digital-first strategies many banks are implementing the 'agile' methodology to both their systems' development and in the culture, changing the way their staff work together. This employs an inclusive, iterative approach to systems development and process improvement, delivering benefits incrementally. The two are considered to be equally dependent on the other.



## 04

# FINEXTRA'S KEY TAKE-AWAYS ON THE MAIN DRIVERS, EMERGING TRENDS AND DEVELOPMENTS IN CORPORATE BANKING

1. In an increasingly inter-connected world, corporates need improved digital services from their banks
2. The movement toward instant settlement will cause corporates to demand more from their banks – the provision of information, visibility and control in real-time
3. Banks are focused on transforming their customer journeys, eliminating friction wherever possible; there are two approaches to this 'Inside Out' and 'Outside In'
4. Banks have a strategic decision to make: do they transform into (fully) digital banks or just provide their services digitally?
5. In order to remain relevant to their corporate customers, banks need to create connected-commerce ecosystems comprising multiple partners based on open APIs
6. VAM offers significant benefits to corporates- banks must provide this capability
7. Corporate usage of blockchain is still to evolve
8. AI-based management of data is a commercial asset



# 05 ABOUT

## Finextra

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