BETTER BUSINESS BANKING: COLLABORATING FOR SUCCESS

BANKING CIRCLE

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CONTENTS

FOREWORD

2020 presented a multitude of new challenges for businesses. They responded by demonstrating their versatility, creativity and tenacity. They moved quickly, adapting to changing demands and market conditions to provide their customers with what they wanted and needed.

Banks serving businesses know the expectations of their customers have changed, but it's a considerable challenge to innovate across myriad products and systems all at once. And all the while ensuring their own resilience and compliance with regulation throughout a transformation programme.

2020 saw a shift in the digitalisation trajectory of banks, with a successful push to migrate materially more customer activity to online channels. Now the challenge is to ensure the innovation and collaboration that quickly became necessities in 2020 become the norm in 2021 and beyond.

We spoke to 300 C-suite executives from banks across Europe for this study[i] on how banks can overcome the challenges holding them back from delivering superior services to their corporate customers. We found an ambition for collaboration, partnership and digitalisation that has all the potential to deliver better services for businesses of every size.

It seems partnership has become the name of the game. Now is the time to reap the benefits.

In the face of unprecedented challenge, banks have stepped up and set the precedent for future-proofing banking. And that, I believe, is the legacy of 2020: better business banking.

Anders la Cour
Co-founder and Chief Executive Officer, Banking Circle

EXECUTIVE SUMMARY

Collaboration is the key to delivering better business banking

In November 2020, Banking Circle surveyed 300 senior decision makers at banks across the UK, DACH (Germany, Austria and Switzerland) and Benelux (Belgium, The Netherlands and Luxembourg). Our aim was to discover the payments challenges they face and how they intend to overcome these.

One major underlying issue is that maintaining outdated legacy systems, combined with the cost inherent in correspondent banking, is holding banks back from developing and delivering the services that their corporate customers now desire in the increasingly digitalised landscape.

Banks have a significant cost base to maintain which adds a huge financial burden. According to a McKinsey study, the cost of making a cross border payment for a bank is around 25-35 USD for each payment. Faced with new entrants, they have little appetite for extending their services with the limited margin available. The traditional correspondent banking network is another deterrent. Connecting with several other banks to complete a payment – sometimes across several jurisdictions – adds to the cost and time delay for the end-customer, making the bank proposition less attractive.

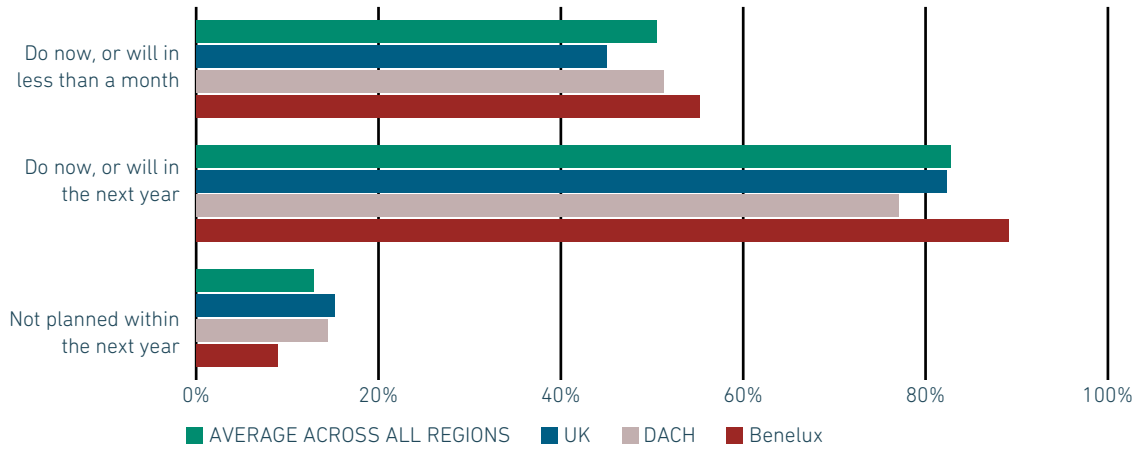
Banks want to deliver both core and non-core services that their customers require – a fundamental to growing revenue and profitability. But how do banks adapt, innovate and deliver across all product sets at once? 2020 did little to help in that respect. The focus was on the 'here and now' with innovation for anything beyond core services going on the back-burner and product launches delayed.

Now, however, with COVID-19 soon hopefully a vision in the rear view mirror, attention is returning to how corporate customers can be effectively served across all their needs. And the C-suite executives of the banks we surveyed across the three regions said that working with third party service providers is an important part of their business planning, even though the pressures of 2020 put a pause on collaboration being widely adopted.

Half already have partnerships or plan to work with an external provider within a month, while another third have partnerships on the agenda for the next 12 months. This collective consensus proves that collaboration is no longer a novelty. And the new wave of specialist partners supporting and enhancing business banking propositions can play a significant role in helping banks to exceed the expectations of their corporate customers which, in turn, will help them gain market share.

Banks face some significant internal and external challenges to future-proof their organisations; they need to enhance their customer propositions and ultimately provide a better customer experience. Those challenges are not insurmountable with a collaborative vision.

When, if ever, would you consider partnering with a service provider on services such as FX, trade finance, payments, corporate treasury management, etc?



CHAPTER 1 - THE OPPORTUNITY: GLOBAL TRADE

Pre-COVID, overall global trade had been steadily increasing year-on-year, a trend that is expected to resume post-COVID. In a global digital economy, it is essential that businesses of all sizes have access to cross border payments, so it is not surprising that 70% of C-suite banking executives surveyed for this report consider cross border payment provision to be a core banking service.

But it seems that much of their internal infrastructure is not necessarily geared to delivering this.

Perhaps reflecting the impending exit from the EU at the time of the survey, the UK was the most likely to see cross border payments as a core provision, with 90% of respondents either 'strongly' or 'somewhat' agreeing.

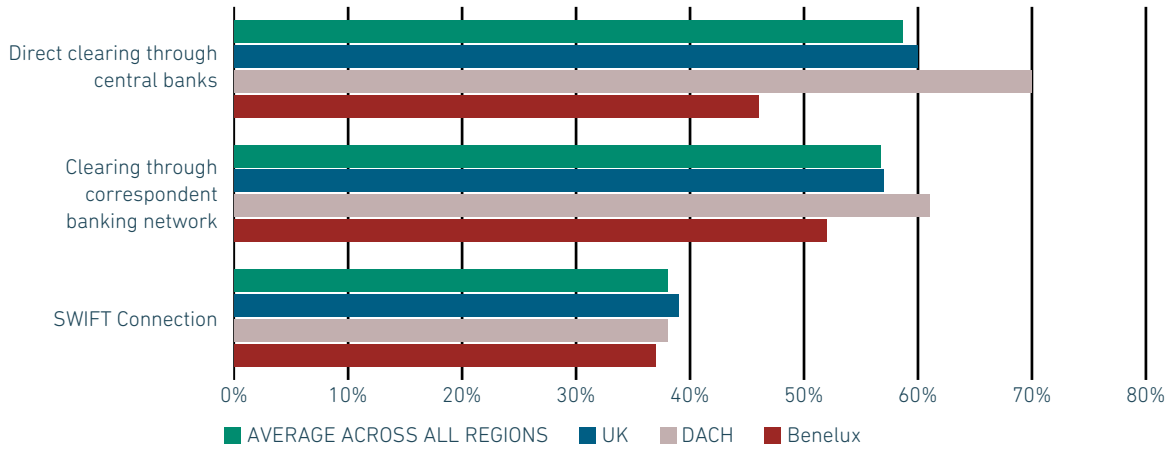
As an island nation surrounded almost entirely by nations sharing a single foreign currency, the Euro, foreign exchange and cross border payments are understandably a higher priority in the UK than the other European nations surveyed.

However, 68% of DACH and 52% of Benelux respondents cited cross border payments as a core provision. As the DACH region includes Switzerland, a non-Euro island in a Euro area sea, this may go some way to explaining the higher priority level.

But the reality is that to truly support businesses on a global stage, cross border payments should be a 'given' regardless of geography and local currency access.

When asked how they currently handle cross border payments, decision makers confirmed a range of solutions currently utilised.

How does your institution handle international transactions?

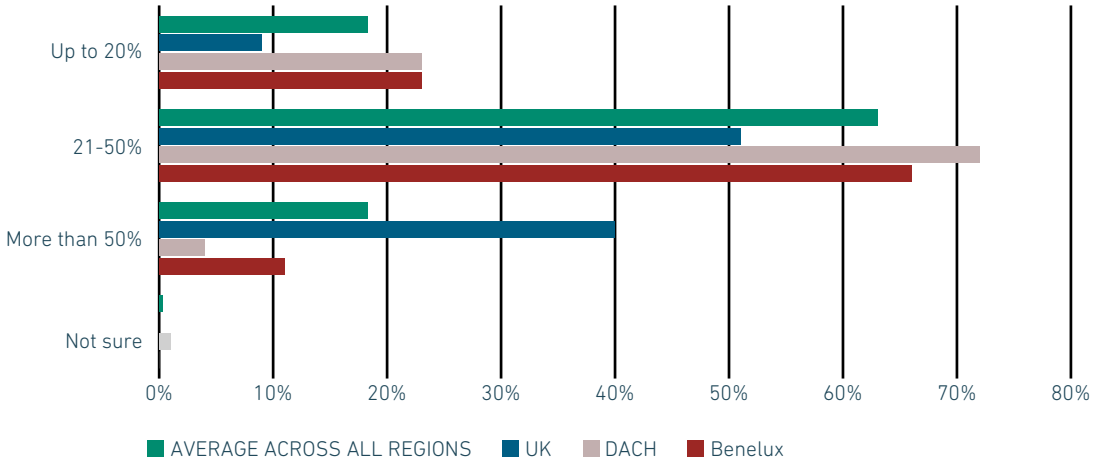


THE OPPORTUNITY: GLOBAL TRADE

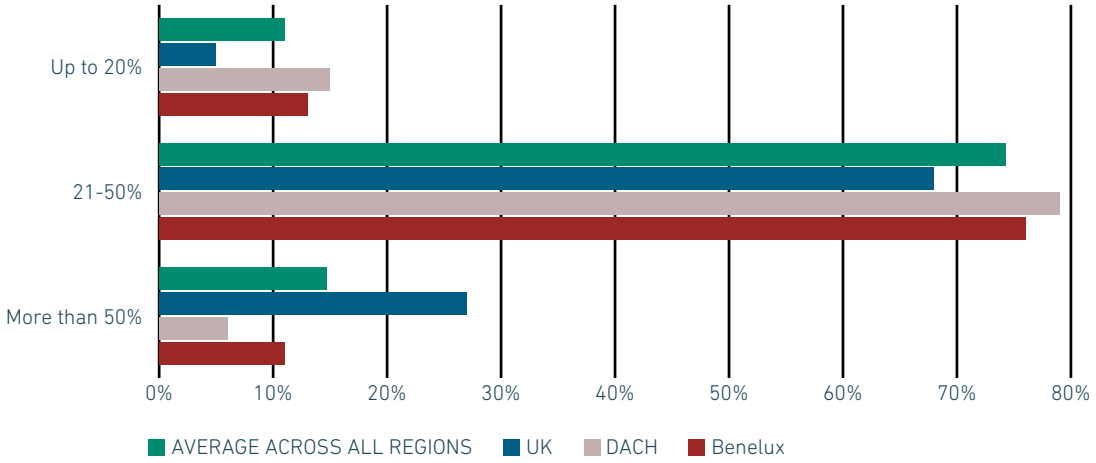
Within the UK, 40% of banks are required to support international and/or domestic incoming payments for more than 50% their business customers. In contrast, just 11% of Benelux and 4% of DACH banks provide this support for more than half of their corporate customers.

In terms of outgoing international payments, UK banks once again support more customers than banks in other regions. Almost a third of UK banks said that more than half of their business customers require their support for outgoing international payments, compared to 11% of Benelux and 6% of DACH business customers.

What proportion of your business customers require your support for handling incoming payments both international and/or domestic?



What proportion, if any, of your business customers require your support for their outgoing international payments?



The global opportunity

As global trade begins to return to pre-COVID levels, banks must be ready to support businesses in their bounce-back. This means offering accessible banking solutions that will remove friction from both local and international trade, allowing them to expand to other markets unhindered by costly cross border payments. The existing correspondent banking network, used by around 2 in 3 European banks, is the slowest and most expensive way for banks to move money for their clients.

Whilst there might be a perception that the Euro area enjoys frictionless cross border payments, each country in the Euro zone still has its own payment systems. Added to that, countries within the Euro area still incur fees and delays when trading with some of the biggest players in global trade – including the US and China. This all puts unnecessary limits on the potential of businesses.

Banks can reduce, or even remove, these limits. And the opportunity is considerable. Offering business customers access to affordable, friction-free cross border payments through a financial utility, banks can empower even the smallest merchant to serve customers in any geography. Not only will this help small businesses and start-ups to thrive post-COVID, it will bolster international economies at a time when they are in great need.

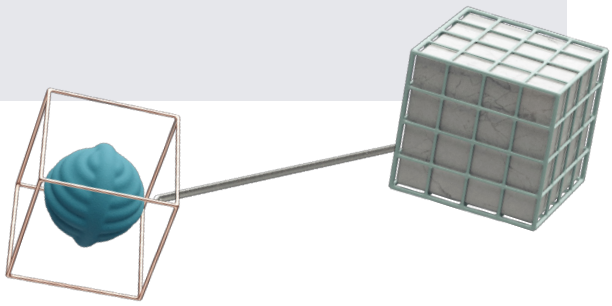
> Banks must be ready to support businesses in their bounce-back.

Collaborations in action

The TransferWise brand is well known for its international money transfer app. However its vision goes well beyond conventional FX as a collaboration announced in 2018 demonstrates[ii]. One of the TransferWise goals is to give banks access to its API, enabling them to offer their own international money transfer services. Partnering with France's second largest bank - BPCE Groupe – supported this strategy.

The partnership of incumbent and challenger will see TransferWise provide international money transfer services for BPCE Groupe's 15 million plus customers, enabling them to send money outside of the eurozone at TransferWise's standard fees via the bank's app.

Similarly, HSBC Group is partnering with Tradeshift[iii], the global supply chain finance provider, to automate supplier invoice payments. Free customer access to full electronic Purchase to Pay processing speeds up and adds transparency to lengthy payment cycles, allowing suppliers to receive Purchase Orders and send invoices electronically through the Tradeshift e-invoicing platform.



CHAPTER 2 – BREAKING DOWN BARRIERS

Built generations ago, in a very different landscape and with very different technology available, big banks have struggled to keep pace with newer entrants unencumbered by legacy technology and regulation. Incumbent banks still use the monolithic systems and in-house servers on which they were originally built, which means implementing updates or introducing new offerings incurs significant time and cost.

FinTechs entering the market within the past decade have been able to serve consumer and corporate customers efficiently and at low cost in many areas, often competing with traditional banks.

However, banks are fighting back, changing their business practices, culture and technology in order to remain competitive and provide their customers with the solutions they need to succeed in today's fast-paced global market. But there are still barriers to overcome, and they can only be overcome together.

In a recent Finextra[iv] webinar on financial infrastructure partnerships, Søren Skov Mogensen, Chief Growth Officer at Banking Circle, laid out the main hurdles banks face when bringing about digital transformation.

- **Laying out a clear vision** - what you want to transform, how you want to do it, what is in scope and out of scope, what 'good' really looks like. Clarification like this sounds easy but is the main hurdle.
- **Lining up the right resources** - making sure you have the people and resources required not only in the engine room but also in support and front-line positions is essential.
- **Back-end efficiency** - Financial infrastructure is the main enabler. 70% of efficiency gains from digitalisation come not from improvements to the user interface but from increasing the efficiency of back-end processes.

The cement holding together all of these essential building blocks is agility. If transformation is to be a success, the bank must be agile and able to change when the customer or the circumstances change, as they have during the past 12 months due to COVID-19.

Banking's digitalisation journey has been accelerated. As with any evolution, the winner may not be the fastest or the strongest, it is likely to be the nimblest, the most adaptable. The banks that win will be the ones that step back, think about their agenda and demonstrate practical changes.

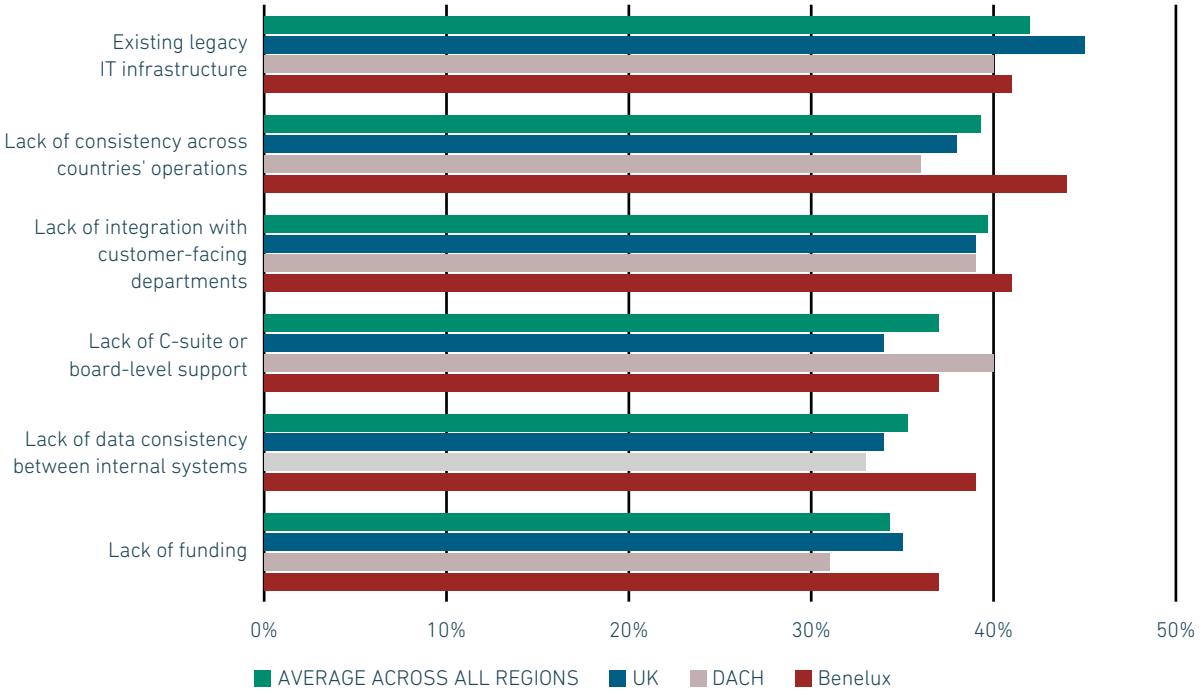
Technology is one of the biggest internal hurdles

The bank executives surveyed confirmed that technology causes significant challenges in achieving their business objectives. On average, 42% said that existing legacy IT infrastructure is one of their three biggest internal challenges.

In the DACH region, lack of C-suite or board-level support was just as big a challenge as infrastructure in achieving business objectives, with 41% of banks selecting each of these options.

Lack of integration with customer-facing departments was another key issue for 40% of banks across all regions surveyed. The biggest challenge in Benelux is the lack of consistency across countries' operations.

What, if anything, do you currently see as the main internal challenges to achieving your objectives?



Meeting customer expectations

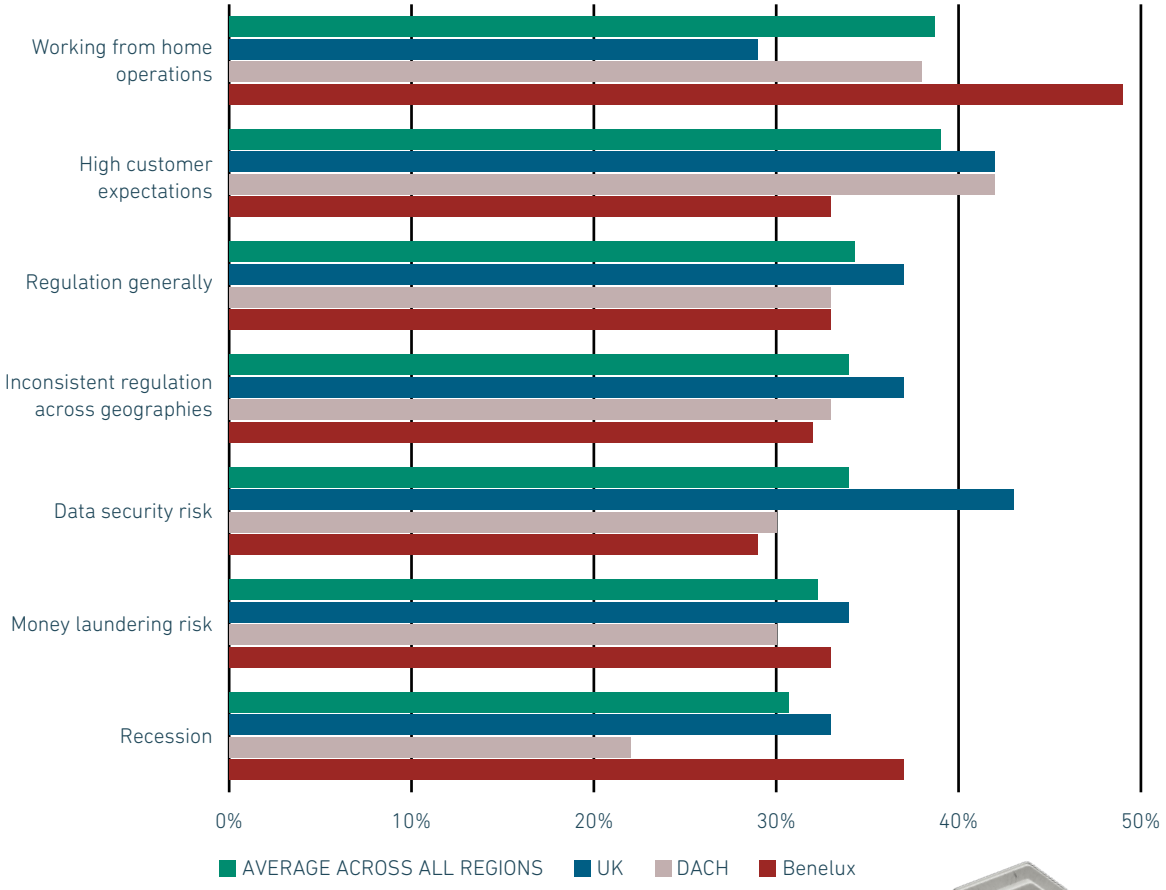
High customer expectations were the biggest pressure coming from external stakeholders, with 39% of banks citing this as a top three external challenge. This was closely followed by working from home operations, demonstrating perhaps one of the areas in which COVID-19 has changed priorities.

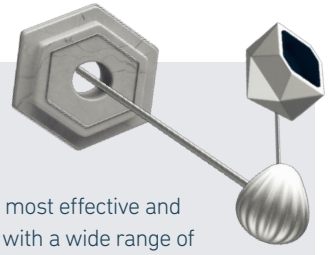
Concerns around the COVID-induced recession were lower on the list, with less than a third (30.7%) of banks listing this as a challenge.

Regulation, however, was a bigger issue, with 34% of banks in all regions stating that regulation generally, and inconsistent regulations across borders, were top three challenges.

BREAKING DOWN BARRIERS

What, if anything, do you currently see as the main external challenges to achieving your objectives?





Compliance through collaboration

Regulatory requirements are holding banks back, but many have found collaboration to be the most effective and efficient way to tackle this challenge in order to continue to provide their corporate customers with a wide range of core and non-core services.

A recent example of this is Citi. Partnering with cloud payments and financial messaging provider, Volante, Citi Treasury and Trade Solutions (Citi) is able to deliver a unified approach to ISO 20022 migration in all markets[v]. Working in partnership with Volante allows Citi to accelerate its global adoption of the ISO 20022 financial messaging standard without the significant investment required to build a solution internally. The complexities of ISO 20022 migration are reduced, and the customer experience improved as even the most complex needs can be easily catered for.

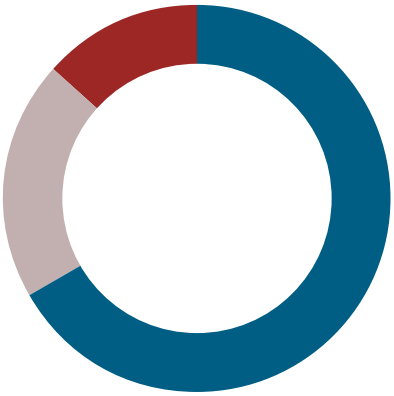
In the Nordics, banks have come together to improve their KYC/AML operations and allow them to keep up with the latest regulatory requirements. Invidem[vi] is a FinTech created through collaboration between a number of banks, including giants Danske Bank, Nordea and SEB in response to increasingly complex banking requirements and high volumes of data. The shared KYC compliant service aims to prevent financial crime and facilitate business relations in the financial market, allowing the banks to share, validate and report transactions and customer data. This supports the banks' corporate clients and their customers by delivering a better customer experience that is fully compliant and easier to maintain, without the need for dedicated internal resources.

CHAPTER 3: WORKING TOGETHER TO TACKLE THE CHALLENGES

Alongside its many challenges, 2020 has prompted greater collaboration. Banks and payments businesses alike found the fastest way to get new solutions to their customers was to work with an expert who had already developed the solution from end to end.

Attendees of the Finextra webinar agreed. In a poll during the discussion, every bank taking part said they are planning to work with FinTechs in 2021, with two thirds confirming they are looking to work with between one and three FinTechs and 13% looking for seven or more partners.

Our separate study also found that half of banks in each region either already work with partners for one or more services or planned to within a month of completing the survey. The services most likely to be accessed via a third party were Payments on Behalf of (POBO) and Collections on Behalf of (COBO) (55%), Payments (54.6%) and corporate treasury management services (53%).

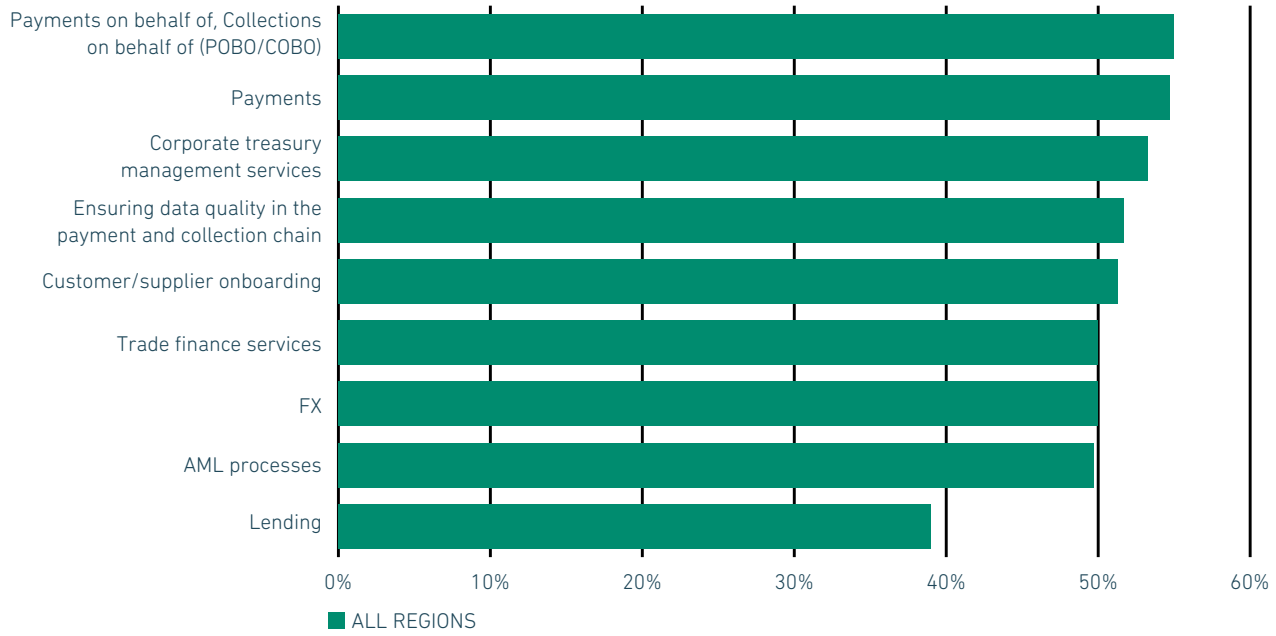


Finextra webinar poll: If you are a bank, how many FinTechs are you looking to partner with in 2021?

- 0
- 1-3
- 4-6
- 7+

WORKING TOGETHER TO TACKLE THE CHALLENGES

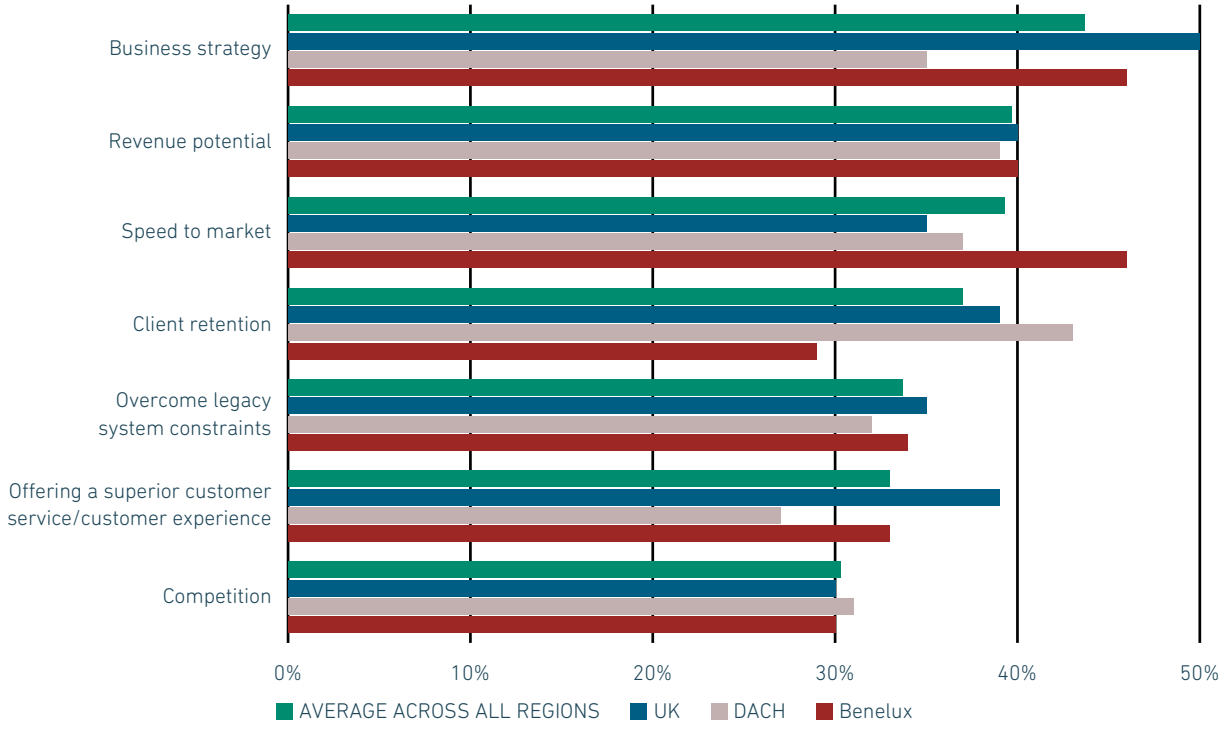
Already work with a partner or plan to in less than a month on the following services:



The internal benefits of external partners

The main drivers for banks to partner with third parties for these banking solutions are business strategy, revenue potential and speed to market.

What, if anything, is/would be driving your decision to partner for these services?



Banks recognise that partnering with an external provider for certain solutions can bring significant benefits they could not necessarily achieve if these services were built and managed in-house. General expertise of the provider and the scalability of the solutions were key benefits cited, as well as specialism.

The ability to focus on providing customers with enhanced or value-added services differentiates banks from the competition, delivers a better customer experience and increases customer loyalty.

The bank perspective

Steven Marshall, Chief Commercial Officer at Crown Agents Bank was among the experts taking part in the Finextra webinar on financial infrastructure partnerships. He shared that finding partnerships had become the order of the day at Crown Agents Bank. Whilst partnerships were already important, COVID-19 accelerated the need, having shifted people's mindset. For Crown Agents, the pandemic brought about a doubling-down and a laser focus on value-added client relationships and partnerships.

At ING, Olivier Guillaumond, Global Head of Innovation Labs and FinTech has seen COVID-19 accelerate the move to touchless payments. In fact, volumes multiplied seven times, causing Olivier to dub this change "a revolution in payments", not just an evolution. However, he also stated that COVID has brought about a very important reality check for organisations, demonstrating that human capital is the biggest asset, and preserving the health of colleagues and clients must be the number one priority in operating a business.

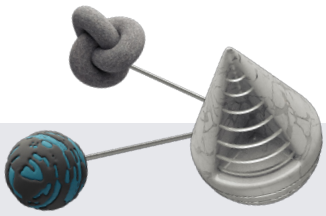
Finding the right partner: FinTech – Foe or Friend?

According to Steven Marshall of Crown Agents Bank, most banks are beginning to explore FinTech. FinTechs are a disruptive force in the sector, but when harnessed by a bank they can be important partners for delivering value-added services for underlying clients. Embracing FinTechs brings valuable partnership opportunities.

Olivier Guillaumond at ING added that whilst banking was always about core historical products like deposits, savings and loans, the core must now be extended to meet new market need. Such change requires a core infrastructure that allows for new propositions to be added. A new core needs new tech, new tools and most importantly, new partners.

ING itself began working with FinTechs seven years ago, and now has more than 200 FinTech partners. Today, Olivier confirmed the bank is focusing not on creating new collaborations, but on increasing the impact of existing relationships. He added that if a relationship works, ING will double up, but where partnerships do not perform well, they are stopped.

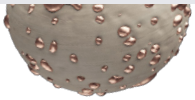
The most common reason for a partnership failing is a mismatch in culture or scale. Internal cultures and visions must be aligned, and big banks need bigger, more established FinTechs that will not be crushed by the bank.



Ecosystem collaboration delivers customer advantage

Spanish bank BBVA has launched a data-based smart financial aggregation service through which customers can view their domestic accounts, credit accounts and cards from more than 80 financial institutions through a single dashboard. Utilising Big Data, BBVA One View[VIII] allows companies to optimise treasury activity and make better, more efficient and fully informed decisions. Bringing together a multitude of banks in one digital dashboard smooths the customer experience and allows them to manage accounts at multiple institutions, to ensure they can access the best possible accounts for their needs, wherever they are in the ecosystem.

In the Netherlands, ABN AMRO has created a similar solution for retail banking: Grip . The personal financial manager app allows users – whether or not they are ABN AMRO customers – to access current accounts they hold with ING, Rabobank, SNS, ASN and Regiobank. Grip users gain insights on their spending and have access to financial coaching. ABN AMRO's Mobile Banking app and Internet Banking already gave its customers access to current accounts with other banks, but ABN AMRO launched Grip when it saw the benefit of engaging with consumers who are not yet customers, to maintain market share.

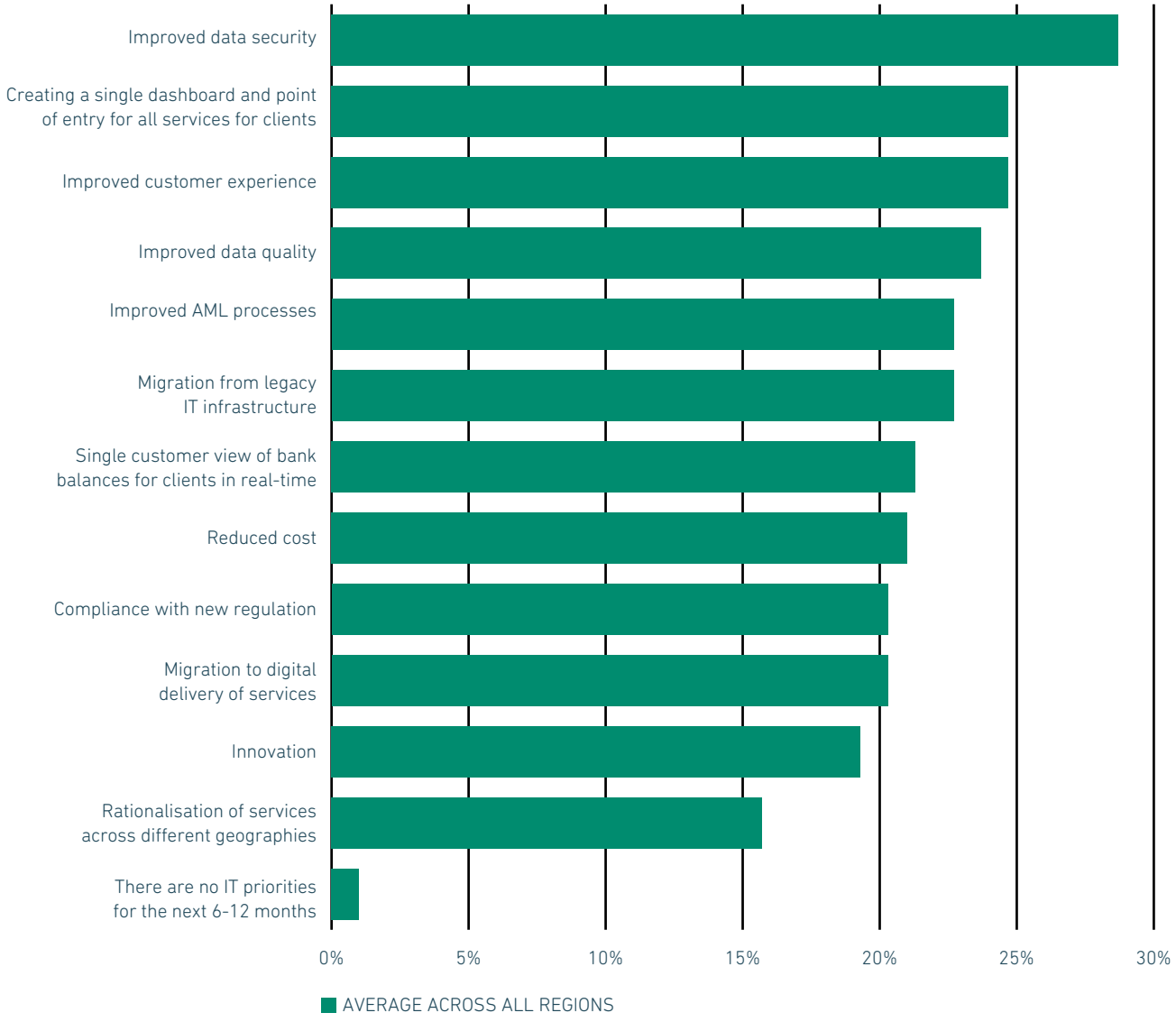


CONCLUSION: FUTUREPROOFING THROUGH COLLABORATION

As we look forward to a post-pandemic future, banks are looking at ways in which they can provide their business customers with better and more secure solutions, wherever they are and however they prefer to access banking services. For the banks involved in our study, the main IT priorities for the coming six to 12 months are improving data security, creating a single dashboard and point of entry for customers, and improving the customer experience.

Banks face some significant internal and external challenges to future-proof their organisations, enhancing customer propositions and ultimately providing a better customer experience. Those challenges are not insurmountable with a collaborative approach.

What, if anything, are your main IT priorities for the next 6-12 months?



FUTUREPROOFING THROUGH COLLABORATION

Digital engagement is reportedly higher than ever – now standing at 20% according to a McKinsey Consumer Pulse Survey on COVID-19[ix] published in May 2020 – as a direct result of national lockdowns. Banks have, therefore, fast-tracked digitalisation throughout 2020 and into 2021.

Now that banking customers – both retail and commercial – have benefited from greater digital provision, the shift is here to stay and may even continue to accelerate. Traditional banks realise they cannot keep pace with that acceleration on their own but can stay in the race if they join forces. Another change that is expected to be a permanent shift.

Getting past the barriers

As most of the respondents to our survey have already found, working with external providers including financial utilities can deliver a more positive customer experience. Collaborating with a third party allows a bank to deliver the latest solutions quickly, without the need to invest the significant time and funds required to replace legacy systems and overhaul their infrastructure.

In close collaboration with a dedicated partner, banks benefit from the specialist and focused expertise of the partner without having to recruit and employ an industry expert. Solutions are specialised and scalable; they can hit the market much more quickly yet cost far less than building in-house.

Utilising a financial utility for services such as cross border payments and local clearing and settlement can deliver significant savings for banks. This also frees up resources to be utilised elsewhere – on developing and delivering core solutions, building up the all-important customer relationship and improving the overall customer experience.

Working with partners for banking solutions such as foreign exchange, local and cross border payments and lending also allows banks to vastly increase the range of solutions available to their customers without the need to increase internal resources, employ more staff, expand to new offices. It also means they can compete more effectively with new entrants, delivering market leading solutions and the high level of customer service that has secured their loyal customer base in the first place.

Customers receive access to the best solutions available in the market, delivered by experts dedicated to continually innovating for their needs.

2020 taught the global population the importance of working together and supporting each other. Now banks are taking these lessons to heart and opening themselves up to collaboration with external providers for the mutual benefit of the organisations and their customers.

What's clear from the lessons of 2020 is that unprecedented challenge brings unprecedented change, unprecedented innovation and unprecedented opportunities.

THE BANKING CIRCLE EXPERIENCE

Banking Circle works with Banks and Payments businesses to support their customers' trading ambitions – domestic and global – whilst reducing risk and the operational cost of transactions.

Banking Circle solutions ensure the digital financial economy is accessible to businesses of any size, industry or geography, by helping banks and their corporates transact in a way that was not previously possible.

Through Banking Circle, banks can offer their customers cross border payments, local clearing and settlement, collections, multi-currency bank accounts and FX to help them trade domestically and globally at a low cost, with full transparency, security and compliance.

Virtual IBAN for Banks

Banking Circle enables local and regional banks of any size to offer their corporates cross border payments and local collections thanks to a virtual global presence. We give banks direct access to the eurozone and the UK markets, without the need for a local presence. Our unique solution provides banks with access to Virtual IBAN accounts in EUR and GBP, ensuring accurate and instant reconciliation. With Virtual IBAN for Banks, banks can accept payments and then report in real-time, meaning decisions can be made based on actual liquidity – as they would with local payments

Modern payments for banks

- Access to domestic clearing
- Significantly cheaper than traditional methods
- Real-time liquidity
- Leverage our network to make and receive payments instantly
- Seamless integration and implementation
- No KYC required on underlying corporates
- Superior operational and processing efficiencies
- Increased competitiveness in local markets
- Instant and accurate reconciliation

Sources:

[i] Research conducted by Censuswide, November 2020 – 300 C-suite executives in UK, DACH and Benelux

[ii] TransferWise partners with France's second largest bank BPCE Groupe | TechCrunch

[iii] Source: https://hsbc.support.tradeshift.com/

[iv] Source: https://www.finextra.com/eventarticle/2517/on-demand-webinar---are-financial-infrastructure-partnerships-the-future-of-banking

[v] Source: https://www.volantetech.com/news-events/press-releases/volante-extends-collaboration-with-citi-for-global-iso20022-migration

[vi] Source: https://invidem.com/index.php/about-invidem/

[vii] Source: https://www.bbva.com/en/bbva-launches-the-first-data-based-smart-financial-aggregator/

[viii] Source: https://www.finextra.com/pressarticle/80194/abn-amro-gets-a-grip-with-account-aggregation

[ix] Source: https://www.mckinsey.com/industries/financial-services/our-insights/no-going-back-new-imperatives-for-european-banking

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