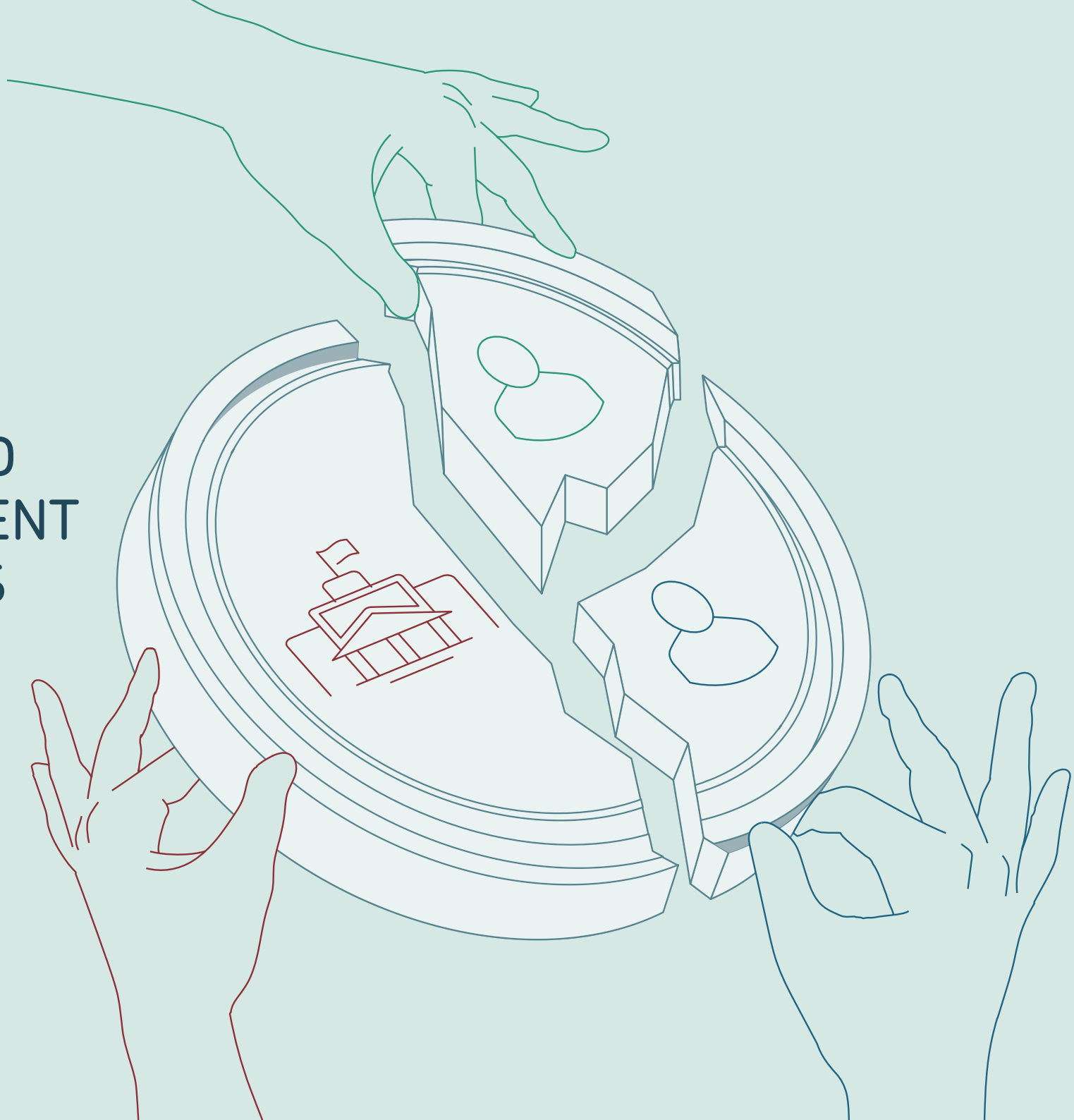
BANKING CIRCLE

BEYOND DIGITAL:

HOW TO REBUILD CORPORATE CLIENT TRUST IN BANKS



THE PAYMENTS BANK
FOR THE NEW ECONOMY

Introduction: SMEs want better services – and banks must deliver

Today's relationship between a medium-sized company and its banking partner would be unrecognisable to a visitor from the 1970s. Digital technology has seen the traditional "branch banking" model disappear to be replaced by the online delivery of services. In going digital, banks offer the proposition to smaller businesses that services will be more accessible and cheaper.

Over the last decade, however, this promise has rung hollow with Europe's medium-sized firms, who find themselves offered standard "off the shelf" products not fit for purpose, slow and expensive cross-border transactions and poor access to credit facilities and loans.

In 2020, we conducted a study into SME attitudes to bank services across Europe[1]. This survey showed the extent to which smaller firms were dissatisfied with their banking services, with close to half (49%) saying they intended to switch banking provider given their concerns at poor service and costly products.

> "Over the last ten years, banking's digital promise has rung hollow with Europe's medium-sized firms."

Fast-forward two years, and these challenges remain. To continue to serve their client base and maintain their competitiveness in the face of competition from digital-first banks and non-bank financial institutions (NBFIs), Europe's banks need to innovate – particularly those smaller banks that lack the major international banks' spending power to develop and implement new digital solutions.

This is especially the case as the economic cycle moves through a difficult period over the next 12-18 months: SMEs are going to require rapid access to better services. That means there's a huge opportunity for banks that can get their approach right – and the risk of disintermediation and decline for banks who believe standing still is an option when it comes to their corporate clients.

This report examines the views of five medium-to-large banking players with operations in Europe to determine the steps institutions need to take for success with their corporate clients in the digital era. We welcome all debate on this topic and invite you to get in touch to discuss your bank's approach to serving small and medium-sized businesses in the digital era.

Jussi Lindberg
Chief Commercial Officer,
Banking Circle

[1] See Banking Circle, February 2020: "Bounce back Banking: delivering SME financial services" - https://www.bankingcircle.com/whitepapers/bounce-back-banking-5-markers-for-success-in-delivering-sme-financial-services

Innovation in a time of transformation

In the last decade, the world's economy has gone digital. E-commerce is growing at around 17% per year in most developed markets, and e-GDP – the percentage of GDP conducted in a digital environment – has now reached between 5 and 10% of total GDP in markets such as the UK, Nordics and the US[2]. Buried within these statistics is the astonishing growth of users' mobile devices as banking portals, payments instruments and more – up to 60% of e-business in some European markets is now conducted using a mobile device, according to PPRO[3].

Far from being immune to these changes, banks have in many ways been at the forefront. The most recent research suggests[4] that around two-thirds of consumers in Western Europe now bank through their digital devices much of the time, permissioning payments, managing investments and transferring money internationally.

SME banking: not quite the same?

These successes have created their own challenge in the SME banking market. Many business owners ask themselves why the services they can access through their personal bank accounts – loans, transfers and a wide range of payment methods – aren't as readily available through their business bank accounts. As John Salter, Chief Customer Officer at Clearbank, puts it: "COVID brought home the delta between 'bricks and mortar' branch banking and new digital services. In today's market, banks need to deliver business services 24/7/365 securely and efficiently."

Per Christian Goller, co-founder and CGO of Aprila Bank, an innovative Norwegian banking start-up focused on small business loans, agrees with the need to improve banking services for business online, and specifies that banks "need to make services simpler to access and easier to understand. Banks also need to be more responsive in areas such as making loan decisions."

Time for change

Specifically, our interviewees felt that too many processes were either non-digital or archaic, or both. As Jonathan Hall, Head of Digital at NatWest, puts it: "Just digitising branch processes and providing them in the mobile channel isn't enough. We need to humanise the digital services we offer businesses." That said, there are also systemic issues apparent, with the nineteenth century correspondent banking model seen as outdated given the costs and length of time involved in service delivery.

Even SWIFT – a mainstay of corporate banking since its introduction in 1973 – is now deemed in serious need of an overhaul for similar reasons – perceived "creakiness", as one interviewee put it, and lengthy settlement times alongside higher costs than comparable FinTech payments services can offer. As consumers, business leaders can execute instant payments, split bills and transfer money between continents within hours – and they're looking for similarly efficient, low-cost services for their businesses.

Crown Agents Bank (CAB), formerly part of the UK Government but now independent, focuses on the provision of foreign exchange (FX) and payments services with emerging markets. Colin Digby, Global Head of Strategic Client Coverage at CAB, says his bank is moving beyond the old correspondent banking model to deliver services direct to businesses in target markets: "We're investing in extending the SWIFT model into alt pays, remittances and other services, blending traditional and digital infrastructure with flexible APIs."

KEY TAKE-AWAYS:

- Banks need to accelerate the provision of digital services to SMEs, who are looking for levels of speed, transparency and cost similar to those found in personal banking.
- Infrastructure and practices that have existed for decades or longer are being replaced by secure, flexible digital interfaces that match businesses' expectations. Banks must fully engage in this transformation.

[2] See e-commerce news Europe: "UK e-GDP to reach £200 billion in 2019" https://ecommercenews.eu/ecommerce-in-uk-to-reach-e200-billion-in-2019/

[3] See PPRO, "Mobile Commerce in Europe", May 2021. Accessed via: https://www.statista.com/statistics/612872/mobile-e-commerce-transactions-europe/

[4] See "The Digital and Card Payment Yearbooks 2022" (European Overview) pub. Payments Cards and Mobile www.paymentyearbooks.com

Building better business banking

One of the promises of the digital economy in the widest sense is that it will deliver services that are faster, cheaper and better – in the sense of being more personalised – than the old "in person" economy. However, there are many indicators that suggest this promise has yet to be achieved, not least our own research on the topic referred to earlier.

For some of our interviewees, however, the challenges banks face in delivering better banking services to business are more fundamental. Hugues Mercier, CEO of Aumax, a French neobank backed by Crédit Mutuel Arkea in Brest, says banks very simply need to get better at the basics of digital banking: "Banks should be looking to improve transaction and settlement times using Faster Payments technology, as that will speed up cash flow for smaller businesses", he says. "At the same time, banks should make it easier for small and medium enterprises to access services and manage their accounts online."

Clearbank's John Salter concurs, adding: "As well as delivering same-day clearing and settlement – especially in FX and cross-border transactions – banks should be considering instant clearing arrangements with trusted peers, and thinking again about their processes for offering credit to small businesses."

It's clear that, to achieve this, banks are going to have to review existing legacy systems. This is particularly the case in an environment in which – according to a recent survey by Modlogix[5] – some 75% of their IT spend in the near future will be used to maintain legacy technologies. Allica Bank's Conrad Ford comments, "Banks should be looking to build a completely new operations model and platform that solves the challenge of giving better service to SMEs and can cope with complexity at scale. Basically, it's about reinventing account management for the digital era."

For most banks, this will be no small challenge – although it could be that the growing popularity of outsourcing – whether using Software as a Service (SaaS) or outsourcing some business functions wholesale – makes re-tooling their platforms easier.

The challenge doesn't stop there, though, as our interviewees unanimously cited the provision of credit to smaller firms as a major hurdle to be overcome. As Aprila's Per Christian Goller puts it, "Medium-sized companies do not use their capital efficiently: banks can help with this by making it easier to access lines of credit and loans. By digitising the application process and using AI and ML to assess applications – especially when this includes permissioned access to a client's invoicing and accounting systems – making credit decisions can be much faster and lower-risk. This will provide a huge boost to customer satisfaction."

KEY TAKE-AWAYS:

- Banks have yet to solve the problem of business banking in a digital world, and there are suggestions that even basic services still need improvement in their digital format.
- Clearing and settlement, FX, trade finance and access to credit are priority areas for improvement.
- Banks should take advantage of existing services such as Faster Payments and use Artificial Intelligence (AI) and Machine Learning (ML) to speed up and de-risk the credit decision process.

[5] See Modlogix, April 2021: "The six costs you overpay for": https://modlogix.com/blog/the-cost-of-maintaining-legacy-systems-how-much-you-overpay/

Success factors: focus is all

One factor came out overwhelmingly from our interviews with innovative European banks – and that's a need to focus on the specific requirements of SMEs – whether that's by creating products that are tailored to SME needs for easier access to credit, cheaper and faster cross-border transactions and others; or by adding a personal touch to what is perceived as a "vanilla" approach to client servicing.

Another way of looking at the concept of focus is to understand what your bank is capable of offering, and to execute well in that area. As NatWest's Jonathan Hall says, "It's important to focus on what SMEs need, for instance – automating processes associated with invoicing and payment and reconciliation, and the relationship between accounting, invoicing and payment systems."

Norway's Aprila has built its entire business model on just that relationship, using access to a potential client's invoicing and payment history through their accounting platforms to assess their credit for lending purposes. CEO Per Christian Goller says, "by using continuously refined AI models, it's been possible for us to create a process that involves two-minute onboarding followed by an immediate credit decision."

While the average time taken for banks to make a decision on an SME loan has fallen from 26 days to 14 days in recent years, according to the FinTech Alliance[6], the capacity to make loan decisions in minutes is going to grow in importance during the impending period of economic volatility. Over the next few years, the ability for banks to make rapid and accurate loan decisions will represent a significant value add – and digital technologies can help this process.

The right product in the right channel

Focus doesn't just mean getting your product mix right. It can also mean investing in technologies that improve your user experience and anticipate their needs. CAB's Colin Digby says they're investing in new features and functionality for their digital portal (such as real-time notifications) to make the user experience easier. At the same time, CAB is also improving its use of data analytics to better anticipate customers' needs. As Colin puts it, "There's going to be a lot of opportunity for banks who can manage certain processes end-to-end for their clients, especially in emerging markets."

One final – and intriguing – take on the notion of focus comes in the area of relationship management. Despite the rapid switch from physical to digital in-service delivery, it seems the concept of face-to-face client relationships is far from dead. Indeed, there's evidence it's making a resurgence. Allica Bank has founded its business model on the promise that, unlike many modern players, the bank will know and understand its client's business and be able to respond to their needs accordingly – and that means face-to-face meetings, among other service options. Allica's Conrad Ford says, "We'll meet clients at their premises or at a coffee shop to discuss their needs. Our clients can access the more simple services directly via our digital platform, but very often their working capital needs merit a face-to-face discussion with a real person, and our model responds to that need."

KEY TAKE-AWAYS:

- Interviewees unanimously cited a need to focus on specific SME requirements as being key to success.
- "Focus" can be interpreted in many ways, including: tailored products relevant to SMEs, personalised customer service and investments in technologies that help fulfil the promise of digital to be faster, cheaper and better. All are relevant.

[6] See The FinTech Alliance, "Average Time Taken for SME loan has fallen": https://fintech-alliance.com/news-insights/article/average-time-for-smes-to-receive-funding-falls-26-to-14-days-in-the-past-two-years

Partnerships: the key to successful delivery

If focus is the main ingredient to bank success in serving SMEs, then partnering is no less vital when it comes to execution. As a start-up bank, Allica's Conrad Ford says partnerships have been fundamental to their business model: "We've actively sought to add to our service portfolio by partnering in core areas such as cross-border transactions. For instance, our partnership with SaaScada has helped us to deliver faster, cheaper services to our client base."

Being the leader of another digital-first institution, Aumax's Hugues Mercier is also enthusiastic about partnering, noting that partnerships can add specialisations to back-office functions such as factoring invoices and credit decisions: "One vision of the future is that banks could act as match-making platforms, helping their business customers to select the right services for their needs. For the banks themselves, partnering with specialists in areas like credit histories and credit scoring can help enable faster and better lending decisions."

"Partnership is essential for success in the digital economy"

It's not just smaller banks that are keen on partnerships, either. NatWest's Jonathan Hall says that the billions of pounds investors have poured into FinTech over the last decade are now bearing fruit, and that banks should seek mutually beneficial relationships: "We're open to partnerships of all kinds, and we think they have a huge amount to offer, especially as FinTechs seek to expand their revenues and client base. Banks can offer FinTechs the opportunity to scale access to customers and revenue, while FinTechs help banks to modernise and expand their product offerings."

As the UK's first new clearing bank for 250 years, Clearbank has a unique perspective on the value of partnership. Chief Customer Officer John Salter has observed a number of smaller banks and electronic money institutions (EMIs) that are seeking to expand their service portfolios through partnership. In early 2020, Clearbank partnered with Tide, an SME banking platform, to deliver new services that help SMEs make the most of Open Banking and improve access to credit facilities and loans. As Mr Salter says, "More smaller institutions of all kinds will be looking to partner with banks on the provision of services such as current accounts and credit facilities for SMEs, and banks should be looking to take advantage of this interest."

KEY TAKE-AWAYS:

- Banks large and small need to partner for success in a digital economy. No institution will be able to meet demand for new products and services without partners.
- Interviewees agree that partnerships help banks to deliver new services to market more rapidly and effectively than in-house development, and at lower cost.

Conclusions and recommendations

A need to focus on the specific requirements of SMEs – whether in terms of products or client service – will be fundamental to bank success in serving the needs of smaller and medium-sized businesses.

Overall, client service models both online and in the physical world are ripe for review. Banks should be looking to bring in existing technologies such as Faster Payments and real-time notifications, while at the same time thinking about better Data Analytics to anticipate future customer needs.

As the current economic cycle develops, SMEs are going to be looking for rapid access to a wide range of bank services, but in particular loans and credit facilities. Banks should be looking to overhaul their decision-making processes in these areas, whether through partnership with third parties, a review of their internal systems or other methods.

The structures and systems banks have relied on for decades or longer, such as correspondent banking, are looking increasingly unfit for purpose in the emerging digital economy, and banks should be looking for faster, cheaper alternatives to meet client expectations. Clients can see the power of digital in their personal banking: now it's time to match that power for small and medium-sized businesses.

Many banks have yet to get the basics right when it comes to online service delivery, whether that's current accounts, communication or access to card programmes. Furthermore, SMEs remain frustrated at slow and expensive cross-border transactions and a lack of transparency in FX services.

Our interviewees are unanimous in seeing partnership as fundamental to successful service delivery, whether in back-office functions such as credit decisions, or front-office client services such as account-to-account payments, Buy Now Pay Later schemes or cross-border transactions. Especially for smaller banks, partnership is an essential tool to enable a broader suite of services to be brought to market rapidly and effectively.

Interviewees:

Allica Bank
Conrad Ford, Chief Product and Strategy Officer

Aprila
Per Christian Goller, Chief Executive Officer

Aumax
Hugues Mercier, Chief Executive Officer

Clearbank
John Salter, Chief Customer Officer

NatWest Bank
Jonathan Hall, Group Head of Digital

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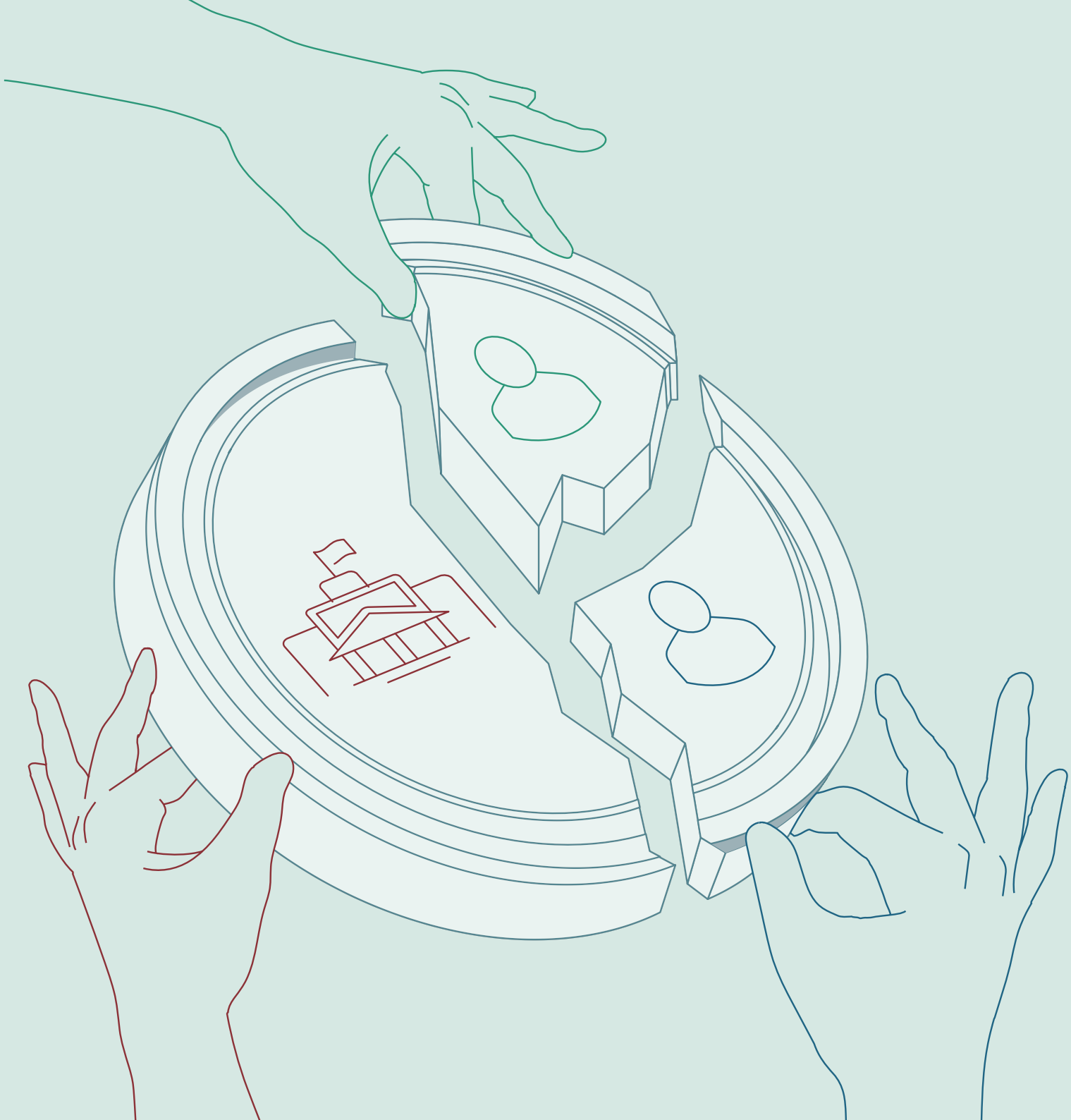

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