



# Contents

<b>Introduction</b>	<b>3</b>
<b>Trend 01: Commercial Banking Digital Transformation to Revitalize Customer Experience</b>	<b>4</b>
<b>Trend 02: Banks are Collaborating with Corporations to Interlink Their Value Chains</b>	<b>6</b>
<b>Trend 03: AI Use on the Rise at Commercial Banks</b>	<b>8</b>
<b>Trend 04: Bank/Stakeholder Collaboration Aims to Transform Trade Finance Operations</b>	<b>10</b>
<b>Trend 05: Banks are Streamlining Corporate Payment Services</b>	<b>12</b>
<b>Trend 06: Banks Aim for Better Margins with Enhanced Focus on Non-Lending Services</b>	<b>14</b>
<b>Trend 07: FinTech Collaboration Gains Momentum</b>	<b>16</b>
<b>Trend 08: API-Led Open Banking Economy Driving Commercial Banks' Future Growth</b>	<b>18</b>
<b>Trend 09: Marketplace Models Impact Traditional Lending</b>	<b>20</b>
<b>Trend 10: Banks Heighten Cyber Security Investments</b>	<b>22</b>
<b>About the Authors</b>	<b>26</b>



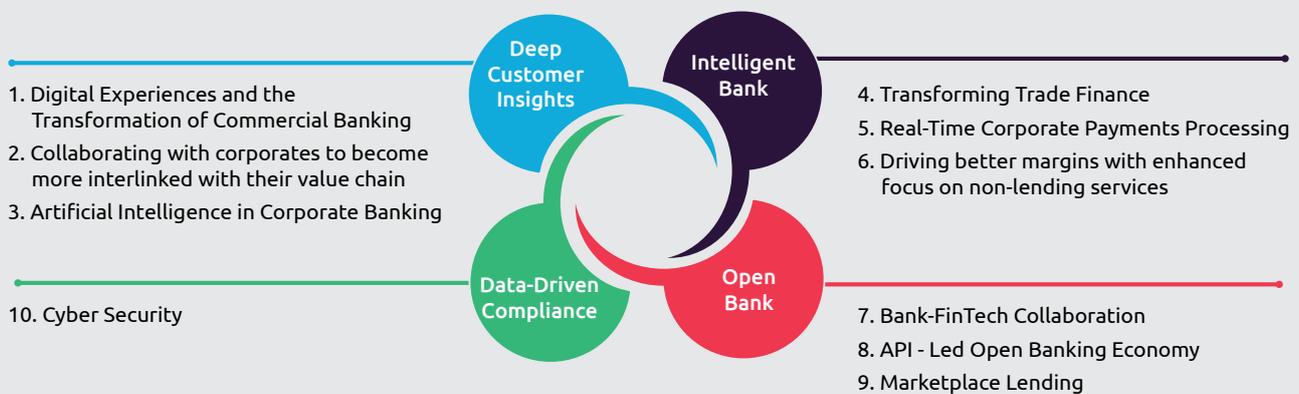
# Introduction



Unlike retail banking in which customers rely on a single firm to handle most of their financial needs, corporate clients maintain relationships with several banks, which intensifies competition as firms vie for wallet share. With new-age competitors such as FinTechs and other challenger banks threatening to grab the most profitable aspects of commercial banking, it is a critical time for banks to invest in emerging technologies and to fundamentally improve the way they serve corporate clients in order to retain and grow business and increase profitability.

With commercial banks still reliant upon decades-old legacy systems, design and delivery shortcomings are impeding operations and chipping away at customer satisfaction as churn levels among corporate customers rise.

## Exhibit 1: Top 10 Trends in Commercial Banking



Source: Capgemini Financial Services Analysis, 2018

As corporate clients demand real-time access to services, banks have begun to invest in digital transformation to integrate their systems with that of clients. Banks are extracting deep customer insights, by leveraging AI and machine learning capabilities to streamline processes. To be an intelligent bank, commercial firms are identifying inefficient processes within important value chain areas – payments, trade finance, etc. – so that emerging technologies such as Distributed Ledger Technology or Internet of Things might be used to streamline systems through digitalization.

Innovative, agile FinTech firms have disrupted traditional commercial banking processes by leveraging technology to provide better products and services. Moreover, today's Open Banking API-led economy, collaboration between banks and FinTechs, and data aggregation are all encouraging improvements in bank services. With data-sharing to third parties and increased digitalization, it has become a priority for banks to maintain data security and adhere to regulations and data-driven compliance.

Commercial banks must be cognizant of developments from within and from outside the industry to remain competitive. This report aims to unpack and analyze 2019's top-10 trends for commercial banks.

# Trend 01: Commercial Banking Digital Transformation to Revitalize Customer Experience

*Taking a cue from retail, commercial banks have begun to invest in digital transformation to provide delight-inducing customer experiences for clients.*

## Background



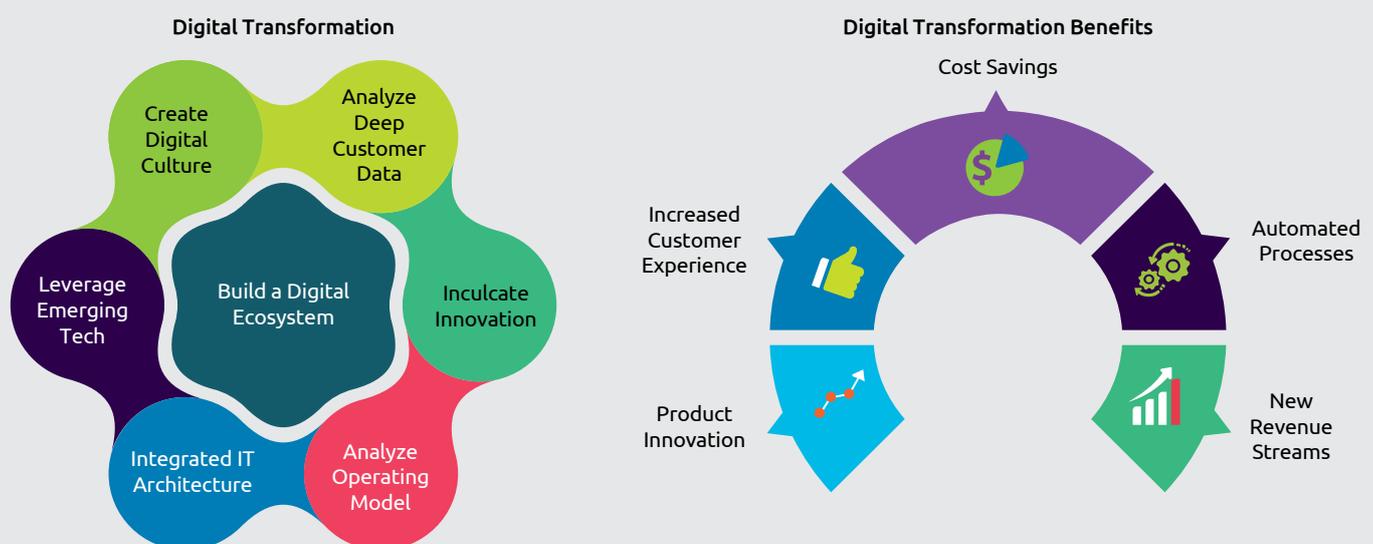
- Digital disruption has primarily affected the retail banking industry but is now poised to disrupt commercial banking as well.
- Commercial banks have not yet embarked on a digital transformation journey on the same scale as retail banks.
- Although banks profit more from their corporate customers (as compared with retail customers), they have not upgraded archaic legacy systems and digitized manually-intensive processes.
  - Despite technological strength, different corporate firms have different processes, which make digital banking platform adoption a challenge.

## Key Drivers



- Similar to retail banking, corporate customer expectations for faster, simpler processes are rising as demand for personalized digital experience grows.
- Firms such as Earthport<sup>1</sup> (payments), and Amazon and Kabbage (loans to small and mid-size enterprises), are filling unmet customer needs and pushing commercial banks to innovate.

Exhibit 2: Effective Digital Transformation



Source: Capgemini Financial Services Analysis, 2018

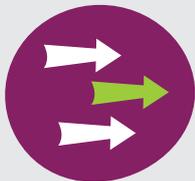
<sup>1</sup> Earthport Website, <https://www.earthport.com>, Accessed September 27, 2018

## Trend Overview



- Digital transformation is helping commercial banks to improve operating efficiency, drive transparency, simplify client experience, and reduce risk.
- The traditional lending process is cumbersome and time-intensive (with underwriting decisions often taking two to three months), and commercial banks are looking to effective digital transformation to automate different aspects of decision-making.
  - Enabling paperless onboarding and processing will be a prime focus.
  - Commercial banks are augmenting digital capabilities to identify plausible early loan losses and to mitigate risk through real-time monitoring, thereby providing greater transparency.
- Globally, commercial banks are embarking upon a transformative digital journey to improve customer experience and to expand revenue streams.
  - To modernize offerings, Royal Bank of Scotland is testing two standalone digital banks (under its NatWest brand) for business banking customers.<sup>2</sup>
  - BNP Paribas is leveraging digital technologies to enhance the trade finance process.<sup>3</sup>
    - › Apart from automation, reporting, and benchmarking, the bank is also leveraging data to develop predictive tools to improve the customer journey across the entire process.
  - Wells Fargo is undergoing digital transformation to connect its data to understand its customers, improve services, become more agile, and more robustly manage regulatory and financial reporting data.<sup>4</sup>

## Implications



- As banking margins continue to contract, the corporate bank of the future will focus on a broad presence in various digital channels and strong relationship management with customers.
- Embarking upon a digitized journey will help banks augment customer experience, streamline processes, and increase cross-selling opportunities
- Through effective digitization, commercial banks have a chance to reduce operating costs, improve revenue streams, build strong client relations, and compete with non-traditional firms that prioritize customer experience.

2 *EveningExpress*, “RBS trialling two standalone digital banks under NatWest brand,” September 18, 2018, <https://www.eveningexpress.co.uk/news/business/rbs-trialling-two-standalone-digital-banks-under-natwest-brand>

3 *BNP Paribas Focus Magazine*, “Reinventing Trade Finance,” Jacques Levet, October 2017, <https://focusmagazine.bnpparibas/financial-services/reinventing-trade-finance-a-71-1902.html>

4 *ETCIO.com*, “Wells Fargo: In the midst of data transformation journey,” Pankaj Maru, June 21, 2018, <https://cio.economicstimes.indiatimes.com/news/corporate-news/wells-fargo-in-the-midst-of-data-transformation-journey/64674581>

# Trend 02: Banks are Collaborating with Corporations to Interlink Their Value Chains

*As corporate customers demand real-time access to banking services, banks aim to integrate their systems with that of clients.*



## Background

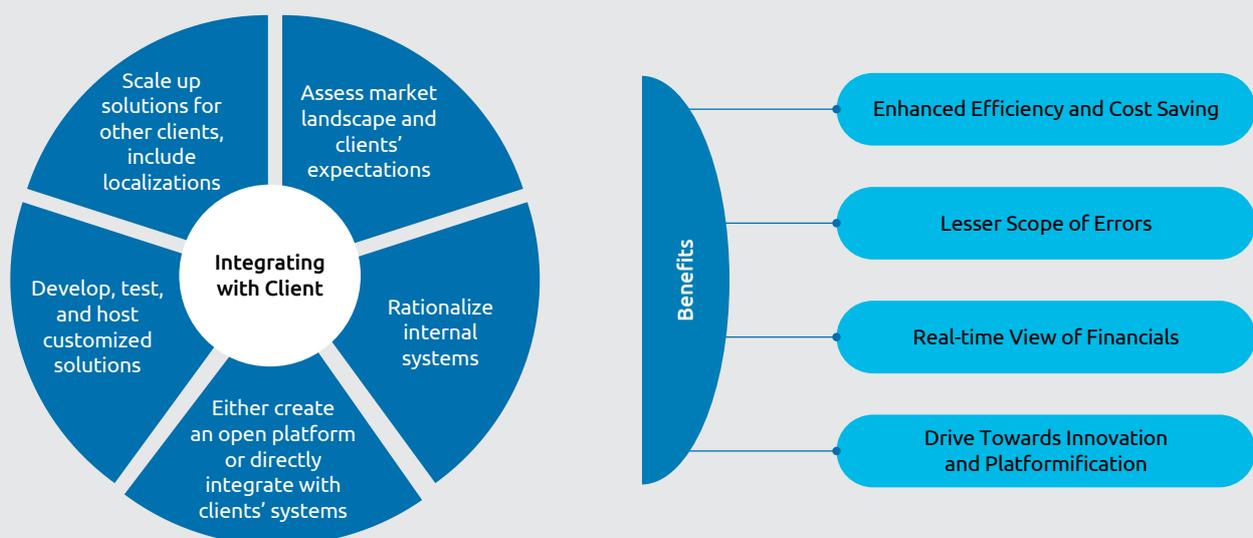
- Compared with retail banking, commercial banking is relatively behind in the digital revolution.
- Unlike retail customers, business clients of various sizes and industries often require customized solutions.
- Generally, commercial banks' internal systems are not well integrated and operate in modules such as treasury, trade, or lending.



## Key Drivers

- The personal-life experiences of corporate executives with retail banks and other service providers are shaping their expectations for commercial banking.
- Today's commercial banking customers want digital and automated methods for regular processing such as payments and salary payroll.
- A lag of a few days in obtaining correct information can cause severe damages to businesses, and it is inefficient; thus, there is a growing need for visibility in real-time financials and financial transaction status.
- Manual instructions, file transfers, and processing require time and effort and add to record-keeping and reconciliation efforts, which can burden staff.

**Exhibit 3: Banks Integrating with Client's Value Chain**



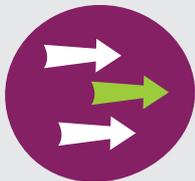
Source: Capgemini Financial Services Analysis, 2018

## Trend Overview



- Commercial banks are developing more customized solutions that can connect directly to customers' IT systems such as enterprise resource planning (ERP) to facilitate straight-through processing.
- Because both corporate clients and commercial banks must reduce operational costs, they will work together to drive mutual benefits.
- Banks will look to develop industry-specific expertise and solutions for their diverse set of clients.
- Banks will leverage the flexibility of the cloud to develop and host new solutions – a boon to secure integration of third-party solutions such as an Artificial Intelligence-based accounts receivable accelerator.<sup>5</sup>
- Rather than merely digitizing processes, banks will be required to go a step further to overhaul the processes and digitize them.
- Increasingly, FinTechs are entering the commercial banking space with innovative solutions to address customer pain points, and established banks have an opportunity to learn/partner with these newcomers.
  - Barclays, in partnership with PrimeRevenue, a supply chain finance provider, helps clients maintain better cash and risk management, as well as provide higher transparency.<sup>6</sup>
- Going forward, this integration will go beyond financial services and may include other elements of a client's value chain such as logistics.

## Implications



- Banks will be required to undertake initiatives to understand customer expectation and pain points and then act to address those issues.
- While transforming processes, solutions, and connectivity, banks will be obligated to ensure data security and privacy.
- Integration of bank-corporate systems will enable a smooth flow of information, thus enhancing efficiency and reducing cost, efforts, and scope of errors.
- Because countries follow various regulations and industry practices, solutions will require local-level customization.
- Similar to recent retail banking initiatives, commercial banking will now adopt and encourage open platform solutions to develop customized solutions and provide seamless connectivity.

5 Bank Innovation, "Bank of America Brings AI to Account Receivables," August 23, 2017, <https://bankinnovation.net/2017/08/bank-of-america-brings-ai-to-account-receivables/>

6 Barclays website, "Supplier Finance – unlocking Working Capital potential," March 2016, <https://www.barclayscorporate.com/insight-and-research/trading-and-exporting/unlocking-working-capital-potential.html>

## Trend 03: AI Use on the Rise at Commercial Banks

*More and more commercial banks are leveraging artificial intelligence and robust data-mining capabilities to streamline processes and to improve customer service and risk-management activities.*

### Background



- Over the last few years, there has been a substantial increase in the amount of structured data collected and used by banks.
- The use of unstructured and structured data has been driving both operational and strategic banking business decisions, and machine learning (ML) and artificial intelligence (AI) are playing vital differentiating roles.

### Key Drivers



- FinTech platforms that target profitable segments such as business lending and corporate payments are ratcheting up the competition.
- Corporate clients want streamlined services, and banks will need to automate tasks that are inefficient, or overtly manual.
- Commercial banks seek paperless simplification to drive sustainable operational efficiency, overall.
- Providing a superior customer experience and minimizing pain points for corporate clients have become top priorities.
- Regulations require a reduction in false positives as well as more efficiency through automated fraud and anti-money laundering (AML) detection.

### Exhibit 4: Artificial Intelligence Use Cases for Corporate Banking



87%

Banking executives say that it would be highly impactful if an AI engine could spot relevant events that led to engaging with a client and closing a deal

Source: Capgemini Financial Services Analysis, 2018; Squirro, "The sky is the limit for artificial intelligence in financial services", January 8, 2018, <https://squirro.com/2018/01/18/ai-in-finance/>

## Trend Overview



- Commercial banks are beefing up efforts to streamline corporate clients' accounts receivable and payable processes.
  - Citibank is partnering with a FinTech firm HighRadius to utilize AI and ML to automate the cash application process of matching open invoices to payments received to increase efficiency for corporate clients.<sup>7</sup>
- Banks are using AI for front-end activities, to secure customer identities, mimic bank employees, deepen digital interactions, and engage customers.
  - JP Morgan bank began testing an AI-powered bot in 2018 to support corporate clients and anticipate their needs. It's part of the bank's broader efforts to enhance financial service offerings with automation, but its focus on corporate clients signals the industry's growing interest in B2B payments innovation.<sup>8</sup>
- AI is enabling banks to streamline processes and provide corporate clients frictionless onboarding.
  - Siam Commercial Bank and Lazada jointly launched a digital lending platform that leverages AI technology for easy onboarding of SMEs and to provide instant credit approval.<sup>9</sup>
- For back-office activities, banks are using AI to detect fraud and money laundering.
  - HSBC plans to integrate AI and screen data for suspicious activities to help it spot money laundering, fraud, and terrorist funding.<sup>10</sup>

## Implications



- AI can help commercial banks identify new opportunities across clients and markets and increase conversion rates.
- By combining external and internal data, AI creates a revenue-driving synergy.
- AI-based virtual assistants will start with standard reporting and answers to basic questions, but over time will progress to provide insights and enable payments initiation.
- AML and fraud detection have presented complex and persistent challenges for commercial banks, and now AI will help banks to enhance their risk profiles while simultaneously reducing costs.

7 *American Banker*, "Banks team with FinTechs to bring AI to commercial accounting," Bryan Yurcan, June 20, 2018, <https://www.americanbanker.com/news/banks-team-with-fintechs-to-bring-ai-to-commercial-accounting>

8 *Pymnts.com*, "JPMorgan Develops AI Virtual Assistant For Corporate Customers," June 21, 2018, [www.pymnts.com/news/b2b-payments/2018/jpmorgan-ai-corporate-virtual-assistant/](http://www.pymnts.com/news/b2b-payments/2018/jpmorgan-ai-corporate-virtual-assistant/)

9 Siam Commercial Bank website, "Online Loans to SMEs through AI-powered platform," June 2018, <https://www.scb.co.th/en/about-us/news/jun-2018/nws-lazada.html>

10 *Financial Times*, "HSBC brings in AI to help spot money laundering," Martin Arnold, April 09, 2018, <https://www.ft.com/content/b9d7daa6-3983-11e8-8b98-2f31af407cc8>

# Trend 04: Bank/Stakeholder Collaboration Aims to Transform Trade Finance Operations

*Emerging technologies such as Distributed Ledger Technology and Internet of Things are enhancing digitization in trade finance resulting in more efficient, cost-effective, and trusted operations.*



## Background

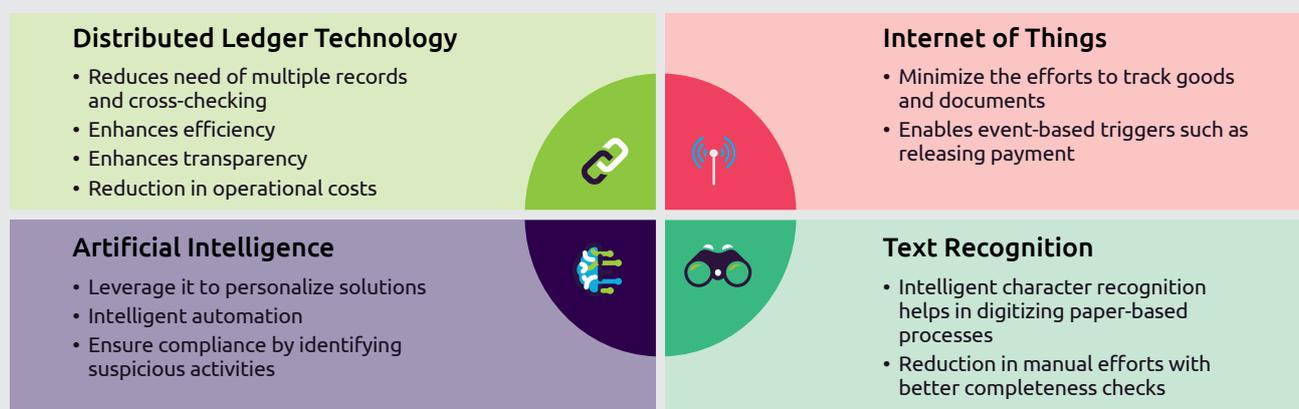
- Despite protectionism fears, the value of traded goods is expected to increase by 6% year-over-year through 2030.<sup>11</sup>
- Trade finance processes that facilitate global trade have generally been complex and heavily paper-based.
- Owing to the complexity of the process and the involvement of multiple stakeholders, trade finance has been highly inefficient, costly, and prone to error and fraud.
- High trade finance costs make it difficult for small and medium enterprises to participate in global trade.



## Key Drivers

- In recent years, businesses and customers have adopted several emerging technologies.
- Efforts and resources invested at the individual or consortium level are now bearing fruit in the form of proof of concepts and scenario-specific solutions.
- Improved efficiency with lower costs augurs well for concerned stakeholders.
- Several governments are encouraging small-scale businesses to participate, and also requiring transparent oversight of trade finance transactions to avoid illegal activities.

### Exhibit 5: Key Technologies Transforming Trade Finance



Source: Capgemini Financial Services Analysis, 2018; WEF, "Trade Tech – A New Age for Trade and Supply Chain Finance", Sep 2018

<sup>11</sup> [Pymnts.com](https://www.pymnts.com/news/b2b-payments/2018/hsbc-global-trade-nafta-cross-border-supply-chain/), "HSBC Highlights Corporate Optimism's Resilience Over Global Trade Uncertainty," March 22, 2018, <https://www.pymnts.com/news/b2b-payments/2018/hsbc-global-trade-nafta-cross-border-supply-chain/>

## Trend Overview



- Increasingly, distributed ledger technologies such as blockchain are considered the backbone of the new trade ecosystem. With the help of DLT, stakeholders can verify and validate transactions, ownership, and payments in real time.
- DLT-powered smart contracts can reduce paperwork and risk while assuring contractual fulfillment and automatic reconciliations.
- Banks have been experimenting with DLT-based platforms and have made significant progress.
  - Several consortia are considering trade finance working solutions based on DLT.
    - › HSBC, UBS, and Nordea support the we.trade platform.<sup>12</sup>
    - HSBC already claims to have made the world's first trade finance transaction using blockchain.<sup>13</sup>
- Leveraging the Internet of Things (IoT), which is often based on a DLT platform, can help stakeholders keep track of goods in real time. Further, it can help firms take event-based action such as making a partial payment as soon as an exporter ships products.
- Because trade finance generates huge amount of paperwork, banks are now focusing on intelligent text/character recognition, so data can be identified from documents and automatically fed into the banking systems resulting in increased productivity.
- Automated document processing powered by AI and ML can enhance efficiency and ensure compliance.

## Implications



- DLT has the potential to reduce trade finance operating costs by 50-70% if all ecosystem stakeholders fully adopt it. Depending on the product, DLT can also improve turnaround time three to four-fold.<sup>14</sup>
- With reduced costs, shorter turn-around times, and reduced operational burden, small and medium enterprises may be in a better position to access global trades, which could boost economies, overall.
- All stakeholders – exporters, importers, banks, logistics providers, insurers, and government authorities – will win by leveraging these technologies.

<sup>12</sup> [We-trade.com](https://we-trade.com) website, <https://we-trade.com/the-platform>, Accessed October 2018.

<sup>13</sup> CNBC, "HSBC says it's made the world's first trade finance transaction using blockchain," Ryan Browne, May 14, 2018, <https://www.cnbc.com/2018/05/14/hsbc-makes-worlds-first-trade-finance-transaction-using-blockchain.html>

<sup>14</sup> Bain & Company, "Trade Tech – A New Age for Trade and Supply Chain Finance," Thomas Olsen, September 10, 2018, <https://www.bain.com/insights/trade-tech-world-economic-forum/>

# Trend 05: Banks are Streamlining Corporate Payment Services

*In response to modern business requirements today's banks must streamline processes with real-time payments services.*

## Background



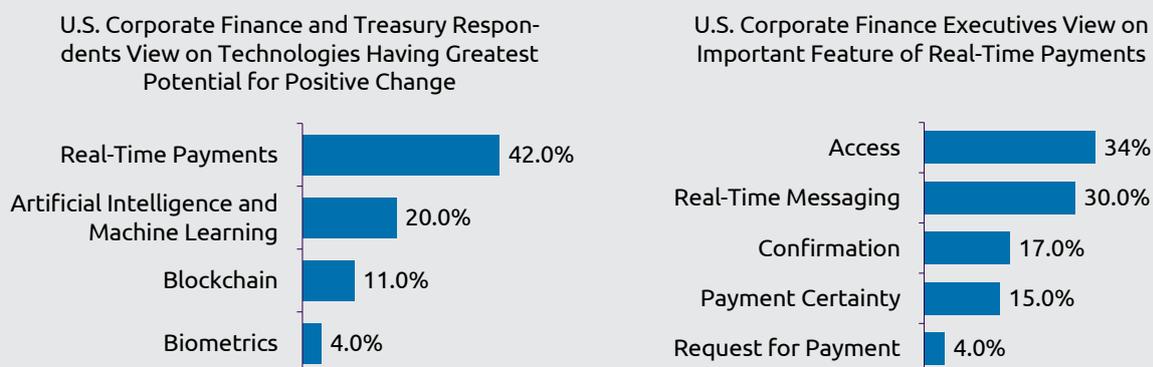
- Due to improved customer experience for payments in retail banking, has increased expectations in the corporate payments system considerably.
- It usually takes days or even weeks, and with loads of paperwork to process a payment in the traditional corporate payments system.
- There is a growing need for a substantial change in the corporate payments landscape on both sides of the bank-client relationship.

## Key Drivers



- The EU's Revised Payment Service Directive (PSD2) spurs open banking and payments services and is ushering in innovations such as peer-to-peer payments and aggregated accounts.
- Increased competition from new entrants has forced banks to rethink about corporate payment strategies.
- Banks seek ways overcome rigid and paper-based processes and the lack of payments' transparency as they aim for straight-through processing and real-time payments.
- New schemes such as Europe's Real Time 1 to process SEPA Credit Transfer Instant, The Clearing House (TCH) Real-Time Payments in the United States, and Australia's New Payments Platform (NPP) have enabled real-time payment transfers across 34 European countries, the United States, and Australia – in addition to existing live schemes in the UK, China, and India.<sup>15</sup>
  - As the adoption of real-time payments for retail customers increase, the corporate banks will have no option but to adopt it.

### Exhibit 6: Real-Time Corporate Payments



Source: Capgemini Financial Services Analysis, 2018; Payments Source, "Data: Real-time payments go corporate," Kate Fitzgerald, September 07, 2018

<sup>15</sup> Finextra, "Real-Time payments are at the heart of the new global payments landscape: 10 Trends in 2018," Barry Kislingbury, February 16, 2018, <https://www.finextra.com/blogposting/15035/real-time-payments-are-at-the-heart-of-the-new-global-payments-landscape-10-trends-in-2018>

## Trend Overview



- Some banks are partnering with FinTech firms to offer more streamlined corporate payment services.
  - TD Bank partnered with U.S.-based Bottomline Technologies for a tool that simplifies payables to give corporate clients greater vendor-payment flexibility and matches payment types to suppliers' requirements.<sup>16</sup>
- Banks are digitally transforming payments services by upgrading their underlying payments infrastructure.
  - Banco Santander's payments infrastructure improvements include a payments engine to offer corporate clients cash management and transactional services that boost their operational efficiency and scalability.<sup>17</sup>
- Through virtual accounts, banks are automating collections and reconciliation.
  - Citibank's tool for institutional clients, Citi Virtual Accounts, allows corporate customers to segregate physical account balances into virtual accounts, which can enhance receivables, payments and liquidity management.<sup>18</sup>
- Improving cross border payments for corporates.
  - 10,000 banks within SWIFT's global network use the global payments innovation (GPI) service for cross-border payments, which improves corporate client experience through increased speed, transparency, and end-to-end tracking.<sup>19</sup>

## Implications



- Instant payments will foster innovation by enabling mobile, e-Invoicing, and e-commerce payment solutions.
- Instant payments require a modern, digital core-banking platform that seamlessly connects to clients' payments systems.
- Digital ID and security are becoming increasingly important, and there will be increased use of biometrics and three-factor authentication by banks.
- For corporate clients, real-time settlements will help trim expenses, eliminate most paper checks and invoices, and reduce costs associated with pricey wire transfers.

<sup>16</sup> PYMNTS, "TD Bank Taps Into FinTech For B2B Payments," September 18, 2018, <https://www.pymnts.com/news/b2b-payments/2018/td-bank-bottomline-technologies-fintech-integration/>

<sup>17</sup> PYMNTS, "Santander Upgrades Corporate Payments Infrastructure With iGTB," July 6, 2018, <https://www.pymnts.com/news/b2b-payments/2018/santander-igtb-corporate-banking/>

<sup>18</sup> Finextra, "Citi Virtual Account Launches," September 25, 2018, <https://www.finextra.com/pressarticle/75567/citi-virtual-accounts-launches>

<sup>19</sup> SWIFT website, "SWIFT extends gpi to all cross border payments," June 25, 2018, <https://www.swift.com/news-events/press-releases/swift-extends-gpi-to-all-cross-border-payments>

# Trend 06: Banks Aim for Better Margins with Enhanced Focus on Non-Lending Services

*More banks are focusing on non-lending services such as transaction banking, risk management, and advisory services to bolster profits and diversify revenues.*



## Background

- Lending interest rate spreads have been under pressure, making it difficult to drive robust growth.
- Commercial bank clients are often involved in cyclical businesses that can affect their congruous repay abilities.
- Globalization, digitization, and new operational complexities are making businesses rethink risk, operating, and business strategies.

## Key Drivers

- Banks in many geographies are suffering from high loan losses or non-performing assets, which puts pressure on firms to generate new revenues to keep the balance sheet in check.
- FinTech firms are targeting margins in various business activities such as cash management and foreign exchange, which encroaches on commercial bank services.
- Access to customer data enables banks to strengthen their relationship through better advisory and cross-selling services.
- Proliferation and adoption of advanced technologies such as artificial intelligence have made it possible for banks to provide compelling services that result in tangible customer benefits.



## Trend Overview

- Commercial banks will focus on high-margin business such as risk management and advisory to maintain client profitability.
- While big global banks had already been offering those services, now smaller or regional banks are pursuing areas such as transaction banking to enhance their returns.
- While this renewed focus on higher-margin business is a revenue imperative for banks, corporate clients also expect more personalized services and custom solutions versus off-the-shelf products.
- Banks will differentiate levels for fee-based services based on a client's profit category.
- Banks will aim to provide tech-focused solutions to improve clients' business performance. Examples may include better liquidity management, reducing costs through error-free reconciliation, and better risk and compliance management.



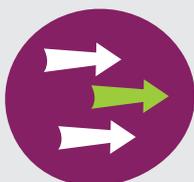
## Exhibit 7: Banks Can Drive Revenue Growth through Fee-Based Services



Source: Capgemini Financial Services Analysis, 2018

### Implications

- The revenue mix for commercial banking may change slightly as banks also focus on non-lending revenues.
- Commercial banks will look to catch up with their retail counterparts by leveraging data-utilization technology to help clients boost profitability.
  - J.P. Morgan’s Treasury Services business uses an AI-powered virtual assistant to provide cash management services to corporate customers.<sup>20</sup>
  - Citi’s Treasury and Trade Solutions leverages machine learning-based solutions to boost invoice and payment-matching capabilities for corporate clients.<sup>21</sup>
- FinTechs have also been focusing on corporate solutions with monoline products such as foreign exchange and supply chain financing services, and commercial banks will have to counter this challenge.
- Now that banks are equipped with better data and risk-management capabilities they may venture into new areas such as asset-based financing – even for lending.



<sup>20</sup> JPMorgan website, “J.P. Morgan to pilot an A.I.-powered virtual assistant,” June 20, 2018, <https://www.jpmorgan.com/country/IN/en/detail/1320568426081>

<sup>21</sup> CTMfile, “Citi deploys AI to boost corporate Smart Match platform,” Bija Knowles, July 16, 2018, <https://ctmfile.com/story/citi-deploys-ai-to-boost-corporate-smart-match-platform>

# Trend 07: FinTech Collaboration Gains Momentum

*Collaboration between Banks and FinTechs could transform existing commercial lending and credit business models.*

## Background



- Due to stringent regulations, traditional financial services lenders have underserved small businesses because of low margins, but FinTechs have found ways to serve even the smallest companies profitably.
- Traditional underwriting practices have prevented banks from effectively catering to certain SME segments and additionally, the cost of underwriting some of these SME segments has been quite high.
  - The current commercial loan process is tedious and slow, and banks require mortgage against loans which pose a challenge for cash-strapped medium and small businesses.



## Key Drivers

- BigTechs such as Amazon, Alibaba (and Google recently) leverage technology in providing business loans and are threatening the traditional lending system, necessitating banks to heed the threat.
- With the proliferation of technology, digital services are snowballing, and so are expectations of business customers for faster and simpler services.
- FinTechs and peer-to-peer lenders are leveraging non-conventional data sources and predictive modeling for faster credit assessment.
- Banks have begun to focus on SME lending as a digital priority to lower costs and improve customer experience.
  - Banks seek to diversify their loan books while minimizing operating expenses, and FinTechs have the tech expertise and the agility to help them achieve these goals.

**Exhibit 8: Synergies of Bank-FinTech Collaboration**



Source: Capgemini Financial Services Analysis, 2018

## Trend Overview



- To transform their commercial lending models, banks are increasingly collaborating with FinTech disruptors to digitize and enhance customer experience.
  - FinTechs offer a capital-light marketplace to provide low-cost lending services, and they leverage alternative data (from social platforms) to provide deep customer insights.
  - FinTechs realize the benefits of partnering with banks to achieve economies of scale and gain from banks' regulatory expertise.
- Collaboration enables swifter access to capital as well as better access to financial management tools and applications that provide higher transparency, thereby aiding business decision making.
  - Kabbage has partnered with multiple financial institutions – MasterCard (providing business loans), ING (providing capital to small businesses), and Santander (providing loans for small and medium companies).<sup>22</sup>
  - Mastercard is collaborating with Strands to give issuing banks digital cash management and commercial payment tools for small- and medium business customers.<sup>23</sup>
  - National Bank of Canada collaborated with Thinking Capital to offer loans to a broader segment of small- and medium-sized businesses.<sup>24</sup>
    - › Lending decisions are made within seven minutes of application receipt. If approved, applicants receive funds within 72 hours.
- Different partnership models are emerging, including a hybrid marketplace in which banks and FinTechs co-lend loans to small businesses.

## Implications



- Collaboration is driving faster underwriting and credit decisions, improved customer experience, higher efficiencies, and better risk management.
- Banks will need to identify the right FinTech partner while FinTechs will also need to choose their partner wisely, for an efficient cost of capital and a better credit supply chain.
- Banks that move beyond their traditional loan products and take advantage of the innovative and digital lending models of FinTechs will better capitalize on the changing market dynamics.
  - The industry will witness new and disruptive commercial and corporate lending models.

<sup>22</sup> Wharton, "Banks and Fintechs: Adversaries or Partners?" April 30, 2018, <http://knowledge.wharton.upenn.edu/article/banks-fintechs-adversaries-partners/>

<sup>23</sup> *American Banker*, "Banks play catch-up in fintech for small-business clients," Bryan Yurcan, July 9, 2018, <https://www.americanbanker.com/news/banks-play-catch-up-in-fintech-for-small-business-clients>

<sup>24</sup> *The Globe and Mail*, "National Bank partners with fintech Thinking Capital in bid to boost small-business lending," Clare O' Hara, September 13, 2018, <https://www.theglobeandmail.com/business/small-business/money/article-national-bank-partners-with-fintech-thinking-capital-in-bid-to-boost/>

# Trend 08: API-Led Open Banking Economy Driving Commercial Banks' Future Growth

*Banks have begun to offer open APIs for corporate customers and developers to effectively deliver financial services.*



## Background

- With the entry of FinTechs and a regulatory push, the banking industry has witnessed increased competition, data sharing, and aggregation.
- A new dawn for banking is fast approaching with collaborating banks and FinTech firms leveraging their complementary strengths to create customer-centric solutions within an open banking environment.



## Key Drivers

- For commercial banks, open APIs can address corporate clients' declining satisfaction and high churn via collaboration with FinTechs to improve delivery and offer innovative products and services.
- Corporate banks struggling with legacy systems can use APIs to connect to FinTechs for agility and faster time to market.
- Banking systems need to adapt to changing industry needs rapidly.
- The potential benefits of open banking are enormous: improved customer experience, new revenue streams, and a sustainable service model for traditionally underserved markets.
- Governments and regulators in specific geographies are coming up with new regulations aimed to increase industry competition and openness.
- Availability and increased acceptance of cloud services are enabling quick provisioning, agility, and scalability.

**Exhibit 9: API- Open Banking Drivers and Approaches**

Open API Drivers	Approaches for Banks
Partnering with FinTechs to Drive Innovation	APIs for Banking Innovation Using Developer Portals
Push from Government and Regulators	APIs for Banking as a Platform Leveraging the Banking License
Need for Agile Time-to-Market	APIs for Client Connectivity – Real-Time Straight Through Processing
Provide Improved Products and Services	
Increased Acceptance of Cloud Services	APIs for Integration

Source: Capgemini Financial Services Analysis, 2018

## Trend Overview



- To accelerate innovation and closely work with the FinTechs and corporate clients, banks are opening API developer portals and gateways.
  - DBS launched a banking API developer platform to create innovative and customer-centric experiences by enabling a wide array of APIs for other brands, FinTechs, corporations, and developers to plug into it.<sup>25</sup>
  - Bank of America Merrill Lynch launched API gateway so that its corporate clients benefit from direct API connections between them and banks, directly into internal enterprise resource planning (ERP) and treasury management systems (TMS). This will aid integration and clients can more easily access their banking information and initiate real-time transactions.<sup>26</sup>
- Open banking is set to have a significant impact on SME financing, enabling small firms to connect to innovative FinTech services via banks to streamline processes and improve efficiencies.
  - Using BBVA's open APIs, Xero lets small businesses gain streamlined reconciliation capabilities while maintaining data security.<sup>27</sup>
- In line to improve real-time payments, Citi has been the first corporate bank to enroll in the U.K.'s Open Banking Directory and join as a Payment Initiation Service Provider (PISP) for enhancing payment and collection services for business clients.<sup>28</sup>

## Implications



- As more banks share APIs with FinTechs and third-party developers and move from sandbox to production data, they will need a comprehensive API strategy that aligns with their overall business strategy.
- While open banking may benefit the retail and corporate customer, as well as foster innovations, it is likely to spur an entirely new financial services ecosystem, in which banks take on new roles.
- Open banking eliminates traditional security walls, which will make a clear cyber risk management framework necessary.

---

25 DBS Bank website, "Reimagining banking, DBS launches world's largest banking API developer platform," November 02, 2017, [https://www.dbs.com/newsroom/Reimagining\\_banking\\_DBs\\_launches\\_worlds\\_largest\\_banking\\_API\\_developer\\_platform](https://www.dbs.com/newsroom/Reimagining_banking_DBs_launches_worlds_largest_banking_API_developer_platform)

26 *America Banker*, "Bank of America launches APIs for corporate clients," Penny Crosman, January 24, 2018, <https://www.americanbanker.com/news/bank-of-america-launches-apis-for-corporate-clients>

27 *Pymnts.com*, "Xero Connects To BBVA Compass Accounts Via API," June 12, 2018, <https://www.pymnts.com/news/b2b-payments/2018/xero-bbva-api-small-business-accounting-open-banking/>

28 *Finextra*, "Citi corporate bank joins UK Open Banking framework," June 04, 2018, <https://www.finextra.com/newsarticle/32194/citi-corporate-bank-joins-uk-open-banking-framework>

# Trend 09: Marketplace Models Impact Traditional Lending

*Marketplace lending continues to evolve with agile firms operating at lower costs and innovating with technology at their core.*



## Background

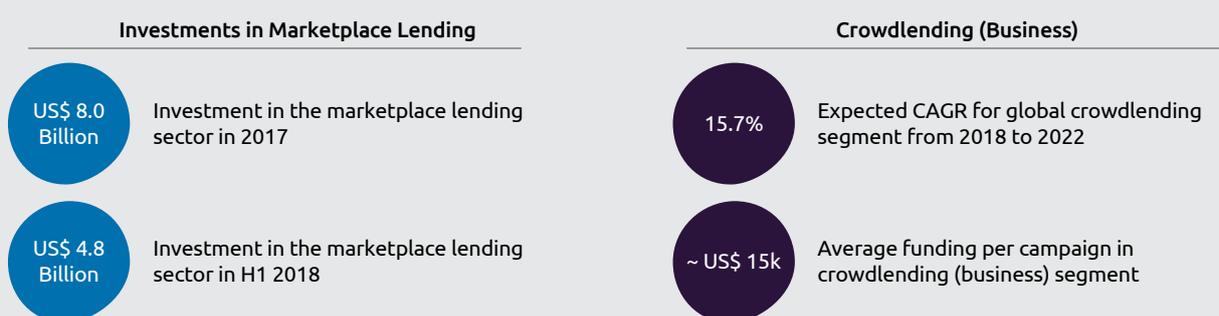
- Banks have generally demanded high levels of creditworthiness for providing loans to small businesses, and post the financial crisis, they have been slow to bridge the demand-supply gap for capital.
- Banks have generally employed the same workflow processes and resources for most of the loans (irrespective of their size), making small business lending a high-cost and less profitable endeavor.
- With the advent of FinTechs and digital pure-plays, marketplace lending emerged a decade ago, and innovators have offered small businesses and corporates, quick and alternative options to secure financing.



## Key Drivers

- Customers have demanded faster and cheaper loans, and investors have looked to cash-in by receiving higher returns than they would through traditional deposit schemes and fixed income investments.
  - Compared with banks, marketplace lenders have lower operating costs as they do not have to maintain physical branches, thus enabling them to price loans more aggressively.
- Increasing digitization and emerging technologies have aided marketplace lenders in evaluating and processing loans quickly and seamlessly.

Exhibit 10: Alternate Lending Statistics<sup>29, 30</sup>



Source: Capgemini Financial Services Analysis, 2018.

29 FinTech Global, "Global Marketplace Lending investment on track to surpass funding levels from last year," September 19, 2018, <http://fintech.global/global-marketplace-lending-investment-on-track-to-surpass-funding-levels-from-last-year>

30 Statista, <https://www.statista.com/outlook/334/100/crowdfunding--business-/worldwide>, Accessed September 26, 2018

## Trend Overview



- Innovative and agile firms have disrupted the traditional SME lending process, and they leverage technology to make instant lending decisions.
  - Founded in 2006, Lending Club and Prosper were the first U.S. marketplace lenders. Today the country has more than 200 marketplace lenders.
- BigTechs, with a vast customer base, brand, and technological know-how have also entered lending, providing loans through their digital platforms.
  - Amazon offers short-term business loans ranging from US\$ 1,000 to US\$ 750,000 (for up to 1 year) to micro, small, and medium businesses selling on Amazon platform, and has made more than US\$ 3 billion in business loans till date.<sup>31</sup>
    - › In India, Amazon has launched a platform wherein sellers can choose different rates and loan offers, and it will also open its APIs to lenders to plug in and lend to sellers.<sup>32</sup>
  - Ant Financial's online MYbank features the Zhao Cai Bao marketplace which offers small- and medium-sized businesses microloans with a net interest margin of 3% to 5% higher than China's major banks.<sup>33</sup>
- Banks have begun to take notice and are investing in marketplace lending.
  - Commerzbank launched an online marketplace lending platform that helps small- and medium-sized businesses pitch to investors.<sup>34</sup>

## Implications



- Marketplace lending is an innovation that will continue to disrupt the business lending sector, and continued growth in this sector will drive banks to reinvent their lending offerings on price, service, and strategy.
- The demand for capital will remain high, and both traditional and alternative lenders will look to revisit their business strategies to maximize opportunities.
- Favorable regulations (such as PSD2) for open banking will result in data sharing; wherein alternate lenders can leverage this data to determine creditworthiness further.

31 *Forbes*, "How Amazon Is Impacting Small Business Finance", Rohit Arora, March 13, 2018, <https://www.forbes.com/sites/rohitarora/2018/03/13/how-amazon-is-impacting-small-business-finance/#f3865274dade>

32 *Economic Times*, "Amazon launches lending platform for sellers," Mugdha Variyar, June 13, 2018, <https://economictimes.indiatimes.com/small-biz/sme-sector/amazon-india-launches-lending-marketplace-for-sellers/articleshow/64572592.cms>

33 *Reuters*, "Alibaba-backed online lender MYbank owes cost-savings to home-made tech", Shu Zhang, Ryan Woo, February 1, 2018, <https://in.reuters.com/article/us-china-banking-mybank/alibaba-backed-online-lender-mybank-owes-cost-savings-to-home-made-tech-idINKBN1FL356>

34 *Knowis*, "Corporate Banking - Lagging Behind in Digital Revolution," Tobias Baumgarten, July 12, 2018, <https://www.knowis.com/blog/corporate-banking-the-laggard-of-the-digital-revolution>

# Trend 10: Banks Heighten Cyber Security Investments

*Banks are maintaining robust cyber-security practices to win the confidence of customers.*

## Background



- Financial services firms realize they cannot ignore the economic impact of cybersecurity, as cybercrimes can quickly morph into a reputational crisis.
- As banks have increasingly started collaborating with third-party providers, they need to have a clear understanding of the risk environment.
- Cybercriminals have become innovative and commit fraud or attack bank systems faster than many banks are equipped to thwart.
  - Compared with retail banking, hackers raid commercial banks more often because corporate transactions are typically greater than consumer transactions which increases the potential reward.

## Key Drivers



- As banking increasingly embraces digital, it also increases the risks and vulnerabilities of breaches and data theft.
- Banks have begun to prioritize customer trust as a key business objective and are investing in cyber-security to retain client confidence.
- Emerging technologies are improving the assessment of risk profiles and fraud prevention processes.

## Exhibit 11: Importance of Cyber Security

### Rising Cybercrime Fears



Firms have been targets of payments fraud in 2017

Source: Capgemini Financial Services Analysis, 2018.

35 Finextra, "FS firms ramp up cybersecurity investment," May 7, 2018, <https://www.finextra.com/newsarticle/32063/fs-firms-ramp-up-cybersecurity-investment>

36 Payments Journal, "Corporate Banking Customers List Cybersecurity as the Reason They Are Sticking with Checks," Steve Murphy, July 23, 2018, <http://paymentsjournal.com/corporate-banking-customers-list-cybersecurity-as-the-reason-they-are-sticking-with-checks/>

37 JPMC website, "2018 AFP Payments Fraud and Control Survey Report," <https://commercial.jpmorganchase.com/pages/commercial-banking/services/2018-AFP-Survey>

## Trend Overview

- Digital technologies are growing fast, and banks are incorporating security solutions for keeping up with the fast pace of development.
  - Deutsche Bank has mandated information security training for all employees, which also involves the bank’s Chief Information Security Office training employees to recognize aberrations, thus creating a *human firewall* beyond the protection of digital systems themselves.<sup>38</sup>
- Banks are leveraging technologies such as machine learning and data analytics to combat security issues in corporate banking.
  - These technologies add multiple layers of security to detect potentially fraudulent activities.
  - Banks are also beefing up defense strategies through new techniques and tools such as strong identity and access management programs.
- Commercial banks have begun to focus on data recoverability by implementing secondary systems to sustain operations during a cybersecurity breach.
- Banks seek to prioritize and upgrade security for cross-border transactions, which are 5.4 times more likely to be fraudulent than domestic transactions.<sup>39</sup>
- The Financial Services Information Sharing and Analysis Center (FS-ISAC) launched a global platform between central banks, regulators, and supervisors to share international security and resilience information.<sup>40</sup>



## Implications

- A common problem faced by banks has been to understand the real financial impact of a cyber-attack and any compromises on customer data can badly dent banks’ reputation.
- Generally, complying to regulations has been the primary reason for investing in cybersecurity, but commercial banks will need to prioritize cybersecurity strategies, to thwart growing cyber threats.
- Banks will need strong governance and operational planning focused on cyber-risk activities to prepare for cyber threat mitigation.



38 *The Paypers*, “How to address cyber vulnerabilities in corporate treasury”, November 8, 2017, <https://www.thepaypers.com/expert-opinion/how-to-address-cyber-vulnerabilities-in-corporate-treasury/770761>

39 *ThreatMetrix*, “Three Top Cybersecurity Trends Shaping the Future of Global Banking,” June 14, 2018, <https://www.threatmetrix.com/digital-identity-blog/cybersecurity/three-top-cybersecurity-trends-shaping-future-global-banking/>

40 PR Newswire, “FS-ISAC Launches the CERES Forum: World’s First Threat Information Sharing Group for Central Banks, Regulators and Supervisors”, June 11, 2018, <https://www.prnewswire.com/news-releases/fs-isac-launches-the-eres-forum-worlds-first-threat-information-sharing-group-for-central-banks-regulators-and-supervisors-300663921.html>



## Disclaimer

The information contained herein is general in nature and is not intended, and should not be construed, as professional advice or opinion provided to the user. Furthermore, the information contained herein is not legal advice; Capgemini is not a law firm, and we recommend that users seeking legal advice consult with a lawyer. This document does not purport to be a complete statement of the approaches or steps, which may vary accordingly to individual factors and circumstances, necessary for a business to accomplish any particular business, legal, or regulatory goal. This document is provided for informational purposes only; it is meant solely to provide helpful information to the user. This document is not a recommendation of any particular approach and should not be relied upon to address or solve any particular matter. The text of this document was originally written in English. Translation to languages other than English is provided as a convenience to our users. Capgemini disclaims any responsibility for translation inaccuracies. The information provided herein is on an 'as-is' basis. Capgemini disclaims any and all representations and warranties of any kind concerning any information provided in this report and will not be liable for any direct, indirect, special, incidental, consequential loss or loss of profits arising in any way from the information contained herein.

## About the Authors

**Amith Chandrashekar** is a Senior Consultant with the market intelligence team at Capgemini Financial Services. He has more than six years of experience in IT, consulting and strategic analysis.

**Amit Kumar** is a Senior Consultant with the market intelligence team at Capgemini Financial Services. He has more than seven years of experience in consulting and strategic analysis with a core focus on banking and financial services.

**Avinash Saxena** is a Senior Consultant with the market intelligence team at Capgemini Financial Services. He has more than eight years of experience in strategic market research and IT consulting with a focus on banking and financial services industry.

The authors would like to thank the SMEs listed below for their contributions to this paper:

- **Alvi Abuaf**, Executive Vice President
- **Erik Van Druten**, Principal, Solution Manager Banking
- **Chirag Thakral**, Portfolio Manager
- **William Sullivan**, Vice President, Global Head of Market Intelligence
- **Tamara Berry**, Editor, Content Manager, Market Intelligence Group

## About Capgemini

A global leader in consulting, technology services and digital transformation, Capgemini is at the forefront of innovation to address the entire breadth of clients' opportunities in the evolving world of cloud, digital and platforms. Building on its strong 50-year heritage and deep industry-specific expertise, Capgemini enables organizations to realize their business ambitions through an array of services from strategy to operations. Capgemini is driven by the conviction that the business value of technology comes from and through people. It is a multicultural company of 200,000 team members in over 40 countries. The Group reported 2017 global revenues of EUR 12.8 billion.

Visit us at [www.capgemini.com](http://www.capgemini.com)

Learn more about us at: [www.capgemini.com/banking](http://www.capgemini.com/banking) or email: [banking@capgemini.com](mailto:banking@capgemini.com)



**People matter, results count.**