



# Commercial Banking Top Trends 2021

Drivers, opportunities, and risks shaping financial services





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## Executive Summary

# Lessons learned help us focus on the future

When we published [Top Trends in Commercial Banking 2020](#) (in Q4 2019), few could foresee that a global health crisis would disrupt - and in some cases transform - so many industries. Now, the uncertainty of 2020 is setting the global tone for the immediate future in the financial services industry. So it is no surprise banks are laser-focused on **business resilience**, emphasizing both financial and operational risks. The need to adapt quickly to new normal conditions through virtual customer engagement is clear.



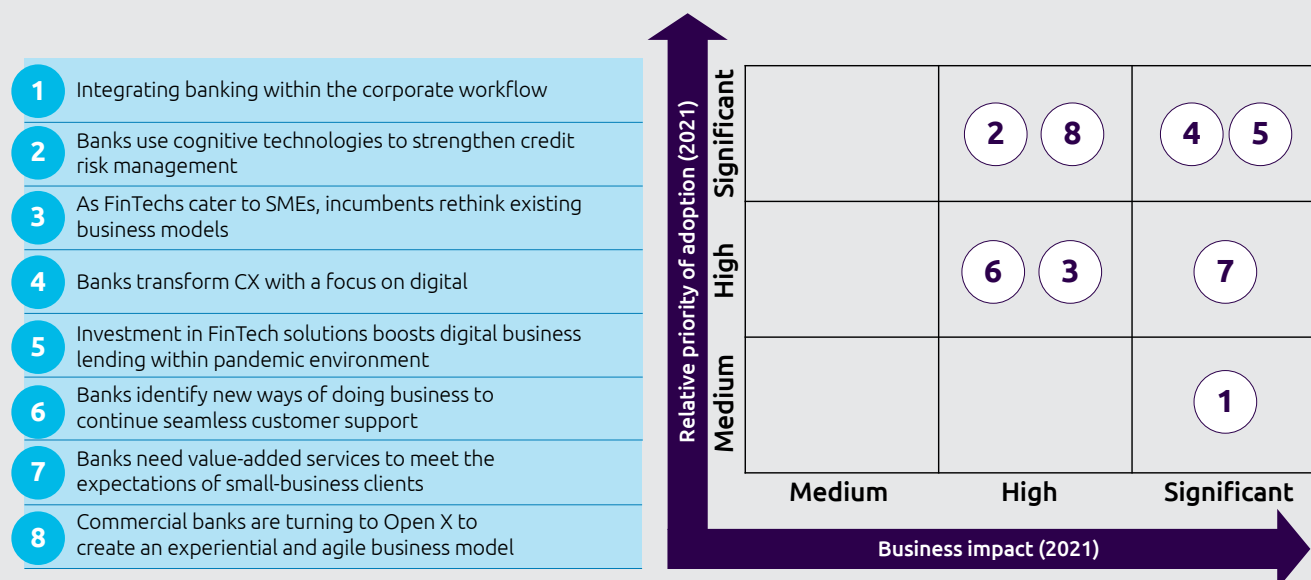
**Customer centricity** continues to drive commercial banks' solution designs. And, the pandemic compelled products that deliver immediate client value - quick digital onboarding, seamless lending, and support for small and medium-sized enterprises (SMEs). The onus is now on banks to go to market more quickly, which requires the implementation of **intelligent processes** and integrating corporates' enterprise resource planning (ERP) systems with banking workflows.

To achieve **go-to-market agility**, banks across the globe are investing in and collaborating with FinTechs. Many of these partnerships are focused on boosting digital lending and providing seamless support to anxious small-business clients in need of assurance.

With newfound impetus for FinTech collaboration, commercial banks have picked up their step on the path toward **OpenX**. COVID-19 made it evident that survival during turbulence is manageable through collaboration with ecosystem players. Hence, banks are transforming their businesses from a product-led, siloed model to an experiential and agile plan.

As we discuss the top industry trends for 2021, we have highlighted the business impact each of these trends is on course to make and the relative priority of their adoption by banks worldwide.

## Exhibit 1: Top Commercial Banking trends 2021- Priority matrix



Source: Capgemini Financial Services Analysis, 2020.

**Priority of adoption** refers to the urgency of adopting a particular trend to maximize value creation in 2021. This is a relative rating based on the identified trends for a normal commercial bank operating in the current environment.

**Business impact** represents impact of an identified trend on the commercial bank's business in 2021. The impact could be on customer experience, operational excellence, regulatory compliance, or profitability.

This represents the view of Capgemini analysts for a hypothetical bank working in the current operating environment:

- Low interest rate
- Operational disruption due to COVID-19
- High competitive environment and increased focus on customer centricity due to new-age players
- Operational cost overruns and high capital lock-ins
- Uncertain regulatory environment

This will vary for a specific bank depending on their business priorities, geographic location, and several other factors. For specific requirements, please contact [banking@capgemini.com](mailto:banking@capgemini.com)

# Trend 01

## Integrating banking within corporate client workflow

*Commercial firms are integrating banking applications within clients' enterprise resource planning (ERP) systems to automate and streamline finance and treasury processes for smoother data interchange and deliver financial services at the point of need.*

### Context

Traditional treasury and account management systems cannot keep up with changing organizational needs within today's dynamic business landscape.



- As corporations grow through global expansion or acquisitions, their treasury and accounting systems become more complex, and they add on multiple banking relationships.
  - The result? Routine financial transactions become more time-consuming as corporates connect with multiple platforms to manage account payables and receivables and obtain a complete view of their liquidity positions.
- Pandemic conditions have exacerbated these challenges. A global survey of more than 250 treasurers and CFOs revealed that 64% are worried about liquidity, 14% are concerned about an increase in cybercrime, and 6% have trouble making payments.<sup>1</sup>

### Catalysts



- As the significance of the treasury function in firms' business strategies grows, the importance of easy access to complete financial data also increases.
- In an uncertain economic environment, corporate clients are also looking for better cash management solutions from their banks.<sup>2</sup>
  - Operating in a capital-intensive industry severely impacted by the pandemic, German car parts maker ZF Group looked to its banks for solutions to effectively manage liquidity and fixed costs.<sup>3</sup>
- Technologies such as application programming interfaces (APIs) and automation are enabling better connectivity and straight-through processing across diverse platforms to support integration between banking and ERP systems.

### In a nutshell



- Supported by APIs, commercial banks are integrating banking applications within clients' ERP, treasury management, and accounting systems. This enables corporates to manage banking and payment transactions within their internal environment without logging into multiple platforms for different functions.
- Apart from convenient and secure transactions, this capability helps clients with real-time payments, visibility over their financial situation, better standardization, and fewer errors.
- With fewer manual operations required, staff can focus on more strategic and value-adding tasks.
- Banks are rolling out integration initiatives with specific ERP systems.

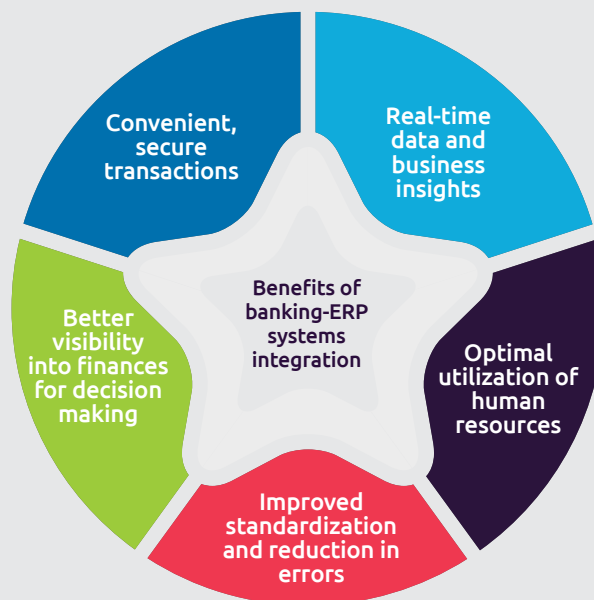
<sup>1</sup> [Treasury Management International](#), "Infographic – Treasury Challenges: Covid-19," accessed October 2020.

<sup>2</sup> [Greenwich](#), "Challenges for European Companies Create Opportunities for Corporate Banks," March 3, 2020.

<sup>3</sup> [Deutsche Bank](#), "Managing treasury in times of COVID-19," April 23, 2020.

- J.P. Morgan’s Treasury Ignition plugs into the NetSuite ERP system to enable payments and other business services without repeated login to different systems and costly or lengthy technology implementations. The bank says it will expand Treasury Ignition to support other ERP systems.<sup>4,5</sup>
- Standard Chartered provides integration with cloud-based ERP Zoho Books for seamless payments and faster reconciliation with secure delivery of transaction instructions.<sup>6</sup>
- Commercial banks can also collaborate with specialized FinTechs to fast-track their integration with client systems.
  - Canadian FinTech FISPAN helps banks integrate with their clients’ ERP and accounting software. Clients can manage payables, receivables, and banking transactions, fully leverage lending services, and they can purchase additional financial services in near-real time from their ERP systems.<sup>7</sup>
  - London-based FinTech Codat is building an API to help financial institutions integrate with small business clients’ financial software to aggregate data for easy processing and faster servicing.<sup>8</sup>

**Figure 1: Bank/ERP systems integration improves corporates’ financial visibility**



Source: Capgemini Financial Services Analysis, 2020.

## Impact



- Through seamless integration with their clients’ systems, banks can enhance CX by enabling fast and convenient treasury and account management.
- Especially within the current uncertainty, easy access and visibility into finances will benefit clients and build bank loyalty and trust.
- Whether they build solutions in-house or collaborate with FinTechs, a critical first step for banks will be to invest in APIs.

<sup>4</sup> [Pymnts.com](https://pymnts.com), “J.P. Morgan On Corporate Treasurers And Their ‘Digitization Journey’,” April 14, 2020.

<sup>5</sup> [J.P. Morgan](https://jpmorgan.com), accessed October 2020.

<sup>6</sup> [Standard Chartered](https://standardchartered.com), accessed October 2020.

<sup>7</sup> [FISPAN](https://fispandigital.com), accessed October 2020.

<sup>8</sup> [TechCrunch](https://techcrunch.com), “Codat raises \$10 million to aggregate all financial data from small businesses,” June 11, 2020.

## Trend 02

# Banks use cognitive technologies to strengthen credit risk management

*Uncertain credit risk evaluations of corporate clients within COVID-19 conditions have driven banks to shift quickly to cognitive technologies.*

### Context

The global health crisis has affected businesses across regions, leading to stressed balance sheets. The situation triggered lending banks to explore new dynamics and potential approaches to manage and mitigate credit risk.

- To manage risk prudently, banks started to leverage cognitive technologies such as AI (artificial intelligence) and ML (machine learning).
- These technologies enable banks to improve their predictive accuracy throughout the value chain of credit risk management: origination to servicing.
- If precisely identified and managed, credit risk can be leveraged as a competitive strategy.

### Catalysts

- COVID-19 increased default probability risks on commercial loans due to poor business performance during the lockdowns, prompting banks to adopt cognitive technology for lending decisions.
- The creditworthiness of potential borrowers - even within a diverse pool of unique risk profiles and exposure parameters - can be accessed accurately and seamlessly through AI and ML.
- Cognitive technologies can mitigate challenges for new or nascent-stage companies that lack sizeable investments and expertise.
- Cognitive technologies enable shorter risk-assessment times and higher credit risk-management efficiency.
- Improved fraud detection while assessing a corporate customer's creditworthiness before lending also drives banks to use cognitive technologies in analyzing the credit risk.

### In a nutshell

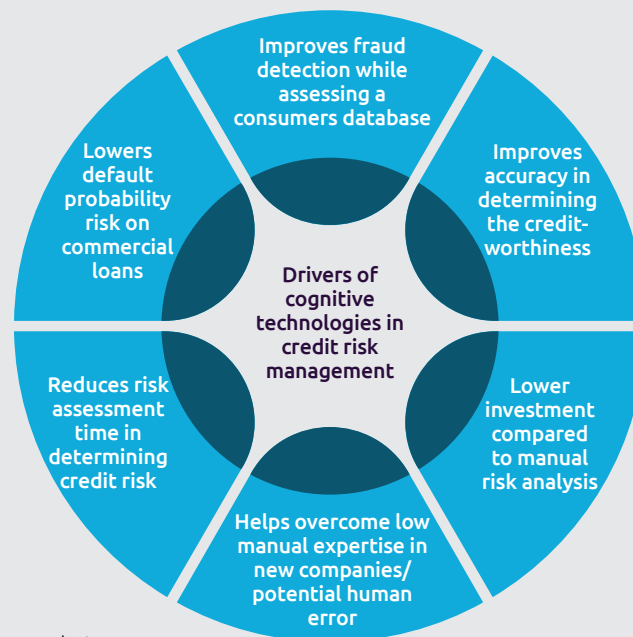
- Determining creditworthiness has been a challenging area for lending firms, given the multiple factors that go into forming company's risk profile.
- With high lending stakes, banks are performing thorough credit assessments to manage risk exposure and mitigate losses.
- Banks are leveraging AI and ML technology solutions to assess credit risk from vast volumes of data in truncated timelines to become incrementally more accurate.
  - AI and ML is also being used for constant monitoring of company's portfolio to enable banks to get early warning for defaults and also to put mitigation plans in place.
  - In September 2020, Bank of America adopted AI to analyze the credit risk of companies affected by COVID-19. The use of AI has increased Bank of America's forecast for defaults by 15 basis points to 5.9%.<sup>9</sup>

<sup>9</sup> [Institutional investor](#), "Bank of America Adopts AI, Finds 'More Significant Credit Stresses' From Covid-19," September 11, 2020.



- Santander UK implemented an AI-based credit risk management platform from German software provider ATICO to manage and execute a portfolio of commercial risk rating models on a centralized system.<sup>10</sup>
- FinTechs are providing AI solutions to banks and credit lenders for a more accurate credit decision-making process.
  - H2O.ai, a global AI-based credit underwriting model provider, leverages the H2O Driverless AI platform to speed up and effectively determine credit lending risk.<sup>11</sup>

**Figure 2 - Cognitive technologies can help in better credit risk management**



Source: Capgemini Financial Services Analysis, 2020.

## Impact



- Using AI and ML, robust risk modeling on parameters such as market resilience, management changes, and currency flux can be made more accessible.
- Cognitive technologies will offer a significant upgrade versus rigid traditional statistical models and enable faster loan processing.
  - It will also help improve accuracy and reduce the time taken in credit decision making.
- While analyzing customer portfolios, AI could spur smart segmentation solutions to gain a deep insight into their profiles and ensure efficient risk recognition.

<sup>10</sup> [IBS Intelligence](#), "Santander UK implements ACTICO's credit risk management platform," September 9, 2020.

<sup>11</sup> [PR newswire](#), "underwrite.ai Leverages H2O.ai to Modernize Credit with AI," May 6, 2019.

## Trend 03

# As FinTechs cater to SMEs, incumbents rethink existing business models

***Revamping legacy business models through product innovation will help commercial banks address evolving SME expectations.***

### Context

Small and medium-sized enterprises (SMEs) account for about 90% of businesses worldwide, and banks play a significant role in their growth by providing various financial and lending offerings.<sup>12</sup> However, in recent times, tough competition has been emerging from new digital challengers and has urged banks to up their game.



- As FinTechs gain a COVID-19 speedpass into SME segment, incumbent banks are urged to shift towards digital-first business model and offer government-backed loans to small businesses at speed to compete with FinTech players.
- To remain stable and relevant, banks are addressing clients' operational and economic needs to offset pandemic business aftershocks.
  - In Singapore, banks are digitizing loan application processes to ensure that funds can be disbursed in as little as a week.<sup>13</sup>
  - In Australia, banks have also announced credit-easing measures for small businesses that extend repayments for six months.<sup>14</sup>

### Catalysts



- Decades-old legacy systems will hinder banks from achieving the full potential of end-to-end digitalization expected by their commercial customers and makes banks rethink their legacy model.
- Small and medium-sized enterprises increasingly expect help in handling their financial activity within pandemic conditions, which means banks must rapidly innovate.
- A rise in competition from non-banks, which have improved technological development, are urging banks towards digitalization in their business model.

### In a nutshell



- SMEs form the backbone of any economy. However, it is estimated that 40% of SMEs globally have an unmet financial need.<sup>15</sup>
- Commercial banks are rethinking their existing business models to capture the SME segment as a new wave of tech companies specialize in SME needs.
- New entrants are offering digital lending - a technology that has gained more traction since COVID-19 - to support the SMEs fearing financial crisis.
  - American Express (AmEx) and Amazon Business have co-launched a new credit card designed specifically for SMEs. Available in two versions, the cards will offer companies a range of benefits, payment flexibility, and spending insights.<sup>16</sup>

<sup>12</sup> [The World Bank](#), "Small and medium enterprises (SMEs) finance," accessed October 2020.

<sup>13</sup> [Financial express](#), "Banks must up their game to fight tough competition from new digital challengers," September 1, 2020.

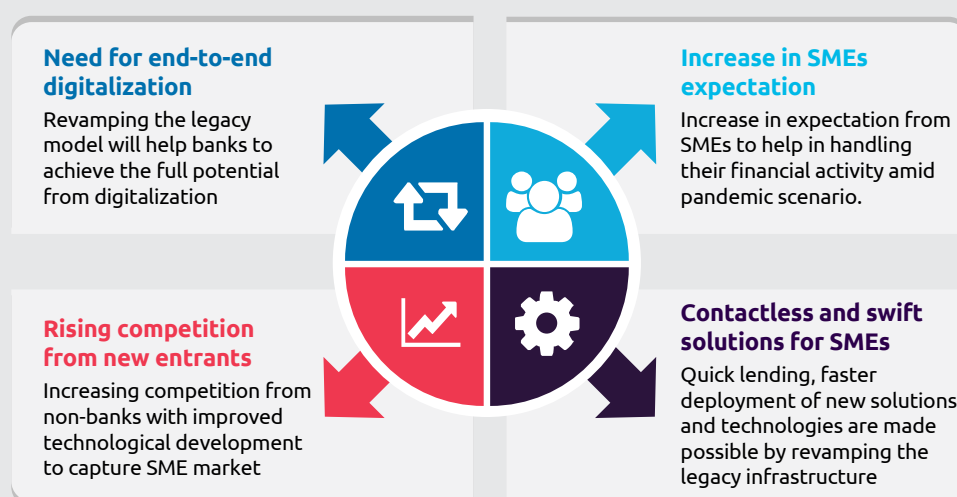
<sup>14</sup> [Ibid.](#)

<sup>15</sup> [In Payments](#), "How digital lending transforming the SME landscape," April 15, 2020.

<sup>16</sup> [FinTech](#), "AmEx and Amazon Business launch credit card for SMBs," September 30, 2020.

- OnDeck, a US-based online digital lender, offers loans from USD5,000–USD500,000 within minutes by removing long wait times for SMEs.<sup>17</sup>
- PayPal offers small business loans to SMEs under the Small Business Association's (SBA's) Paycheck Protection Program (PPP) in response to pandemic. The US government has allotted USD350 billion for that purpose as part of its recent USD2 trillion federal CARES Act.<sup>18</sup>
- New entrants are focusing on enhancing SMEs' customer service through advanced digital technologies and banking experience to outrun the incumbent banks.
  - European FinTech Neo launched a multi-currency SME account in which users are able to trade in over 80 currencies.<sup>19</sup>
  - Southeast Asian SME neobank Aspire offers account holders an instant credit limit for daily business expenses to help with cash flow management.<sup>20</sup>
- Major banks have begun to explore innovative new ways to meet customer needs during the global crisis.
  - In Singapore, DBS worked with startups, Oddle and FirstCom, to help crisis-hit cafes set up an online food ordering site in three business days by absorbing their setup costs.<sup>21</sup>
  - CaixaBank offers EUR25 billion pre-approved loans facility for SMEs and self-employed workers to help reduce their COVID-19 financial impact.<sup>22</sup>

**Figure 3 - Numerous catalysts spur commercial banks to revamp their models**



Source: Capgemini Financial Services Analysis, 2020.



## Impact

- Banks can tighten the competitive gap with new entrants by taking advantage of real-time data and cutting-edge technology, such as AI and ML, to improve the SME experience.
- Providing data-driven personalized customer service for SMEs will help incumbents keep their customer relationships intact and not lose them to nimbler FinTechs.

<sup>17</sup> [Learning hub](#), "How Fintech Is Changing Banking for SMEs," January 7, 2020.

<sup>18</sup> [Pymnts](#), "PayPal Approved To Process SMB PPP Loans," April 12, 2020.

<sup>19</sup> [AltFi](#), "European fintech Neo launches a multi-currency SME account," September 21, 2020.

<sup>20</sup> [Fintech News](#), "Aspire Teams up with Visa and NIUM to Launch Payments Card for Businesses," April 12, 2020.

<sup>21</sup> [Finextra](#), "DBS works with startups to help cafes go online during Covid-19 lockdown," March 30, 2020.

<sup>22</sup> [CaixaBank](#), "CaixaBank offers SMEs and self-employed workers a €25 billion pre-approved loans facility," March 11, 2020.

## Trend 04

# Banks transform CX with a focus on digital

*By leveraging technology with an unprecedented focus on digital offerings, commercial banks are boosting operational efficiencies to enhance client experience.*

### Context

Legacy infrastructure, outdated technology, and siloed systems have prevented banks from becoming more customer-centric, thereby preventing them from providing a holistic client experience.



- With the help of new technologies, banks can leverage vast amounts of data by breaking silos to generate detailed insights and drive digital transformation.
- Commercial banks can create an intuitive client experience by investing in customer-oriented technology capabilities and offerings.

### Catalysts

- Corporate clients are increasingly demanding self-service, seamless customer experience on the transaction banking side, similar to retail banking.
- New-age digital banks are redefining CX by undertaking business transformation initiatives to realize strategic opportunities across commercial and treasury operations.
  - Russian digital-only bank Tinkoff has rolled out new products and services such as a full-scale outsourced banking call center for SMEs to improve CX. Tinkoff recently garnered an award for Best Online Treasury Services for corporate clients in Central and Eastern Europe.<sup>23,24</sup>
  - UK-based OakNorth Bank, which offers debt financing to SMEs, partnered with ComplyAdvantage, an AI-driven financial risk data and detection specialist, to offer a seamless onboarding experience in compliance with AML regulations.<sup>25</sup>



### In a nutshell

- Technological capabilities redefine commercial banking services, address small and large corporate clients' needs, and prioritize their customer needs.
- As digital solutions demand increases, commercial banks are experimenting with fully digital account opening and client onboarding process.
  - Royal Bank of Canada launched an enhanced digital deposit account-opening process that reduced administrative work for its business clients and freed time to grow business.<sup>26</sup>
- Banks are leveraging technology to provide their small business customers a better, more straightforward way of tracking and managing their finances and expenses to run their businesses more effectively.
  - UK-based Metro Bank is rolling out a digital receipts ecosystem from Toronto-based Sensibill to its small business clients. The digital app stores transaction receipts and effectively manages client expenses and taxes with speed and efficiency.<sup>27</sup>



<sup>23</sup> [The Paypers](#), "Helping SMEs grow their business through digital banking – an interview with Tinkoff," September 3, 2020.

<sup>24</sup> [Global Finance](#), "World's Best Digital Banks 2020 Round 1: Covid Raises The Digital Ante," September 14, 2020.

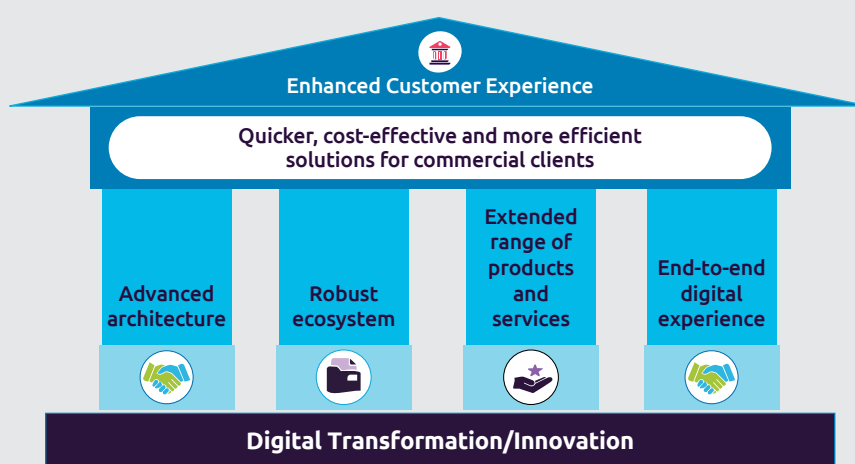
<sup>25</sup> [Global Banking & Finance Review](#), "OakNorth Bank, leading UK bank, partners with innovative AML provider, ComplyAdvantage," October 8, 2020.

<sup>26</sup> [IBS Intelligence](#), "RBC launches digital deposit account open processes for personal & business clients," September 9, 2020.

<sup>27</sup> [Businesswire](#), "Metro Bank Goes Live with Sensibill for Digital Receipt Management," August 11, 2020.

- BBVA is updating its digital banking suite, Global Net Cash, for international corporate clients by providing straightforward and intuitive access to real-time data with a unique digital experience.<sup>28</sup>
- Banks and other financial institutions are also leveraging emerging technologies (such as AI and ML) for faster go-to-market intelligent applications.
  - Royal Bank of Canada partnered with Red Hat and NVIDIA to develop an artificial intelligence computing platform to transform CX. RBC's AI-powered private cloud is a flexible and reliable self-service infrastructure to support next-generation banking applications.<sup>29</sup>
  - Nasdaq launched an automated solution for investigating anti-money laundering (AML) for retail and commercial banks and other financial institutions in September 2020.<sup>30</sup>

**Figure 4 - Digital transformation is a driver for enhanced CX**



Source: Capgemini Financial Services Analysis, 2020.

## Impact



- Fast, transparent onboarding, and quick and efficient lending decisions and fulfillment processes are among the must-haves for commercial banks seeking to retain client loyalty.
  - In partnership with nCino, Santander UK overhauled its commercial banking unit by replacing 13 legacy systems and more than 60 computing systems to meet changing client expectations.<sup>31</sup>
- Competitive commercial banks will bolster their digital capabilities and services with chatbots, voice assistants, and instant merchant payment features.

<sup>28</sup> [Finextra](#), "BBVA refreshes digital banking suite for international corporates," March 19, 2020.

<sup>29</sup> [Newswire](#), "Royal Bank of Canada and Borealis AI announce new AI private cloud platform, developed with Red Hat and NVIDIA," July 23, 2020.

<sup>30</sup> [Finextra](#), "Nasdaq launches AML investigation technology," September 16, 2020.

<sup>31</sup> [GlobeNewswire](#), "Santander UK Wins Multiple Industry Awards for Innovation in Digital Banking With nCino," September 16, 2020.

## Trend 05

# Investment in FinTech solutions boosts digital business lending within pandemic environment

***COVID-19 conditions encouraged commercial banks to invest in FinTech-powered business lending platforms to meet growing customer demands.***

### Context

The global health crisis curtailed bank foot traffic and gave rise to branchless banking.<sup>32</sup> As economies began to open in Q3 2020, firms experienced an increased demand for credit from clients.



- Banks are rethinking traditional lending operations to achieve cost efficiency and provide a better client experience.
- As economies recover, credit demand is up and pushing commercial banks to bolster their lending business.
- Modern banking requires traditional systems to evolve and become more agile. Therefore, banks are forging FinTech partnerships for faster go-to-market capabilities.

### Catalysts



- Global smartphone penetration is on track to grow from nearly 78% in 2020 to more than 92% by 2025, underscoring the need for digital lending tools.<sup>33</sup>
- The rise of technologies - AI/ML, big data analytics, cloud computing, and digital KYC - enables banks to support real-time processing, approval, and disbursement.
  - These technologies pave the way for the digitalization of credit products, which are cheaper and more convenient than traditional products.
  - Similarly, technology is enabling better credit risk assessment, product personalization, and lending control.
- FinTechs and BigTechs such as Google, Apple, Facebook, Apple, Alibaba, and Tencent, have started to provide unique, customer-centric financial products by leveraging technologies that provide alternative credit data, better security, and faster loan processing.
- Regulatory pressure to make the lending process transparent and more disclosure guidelines have increased banks' compliance costs.
- Governmental stimulus packages to support credit flow to businesses during the pandemic forced banks to disburse the credits efficiently and quickly through innovation.

<sup>32</sup> Capgemini Financial Services Analysis, 2020.

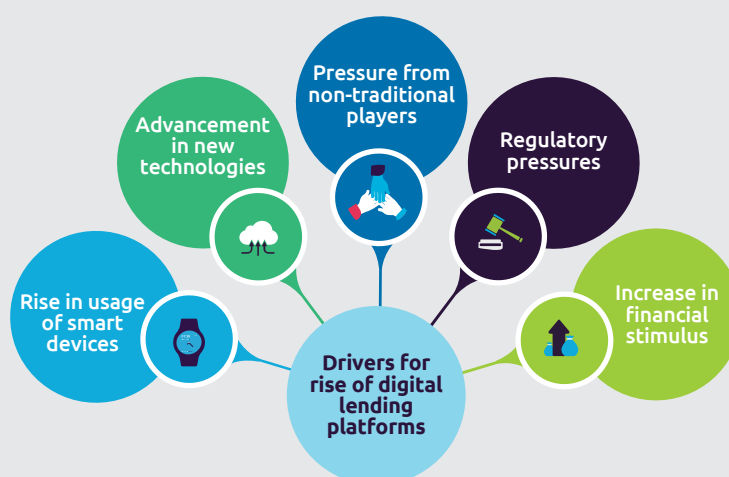
<sup>33</sup> [Ericsson Mobility Report Q2 2020 Update](#), accessed October 2020.

## In a nutshell



- Banks have started to launch in-house lending platforms to provide better client services and ensure business continuity during uncertain times.
  - DBS India recently launched an online credit solutions platform, DBS Digital Business Loans for SMEs, to make loans of up to USD2.7 million available to small and medium-sized businesses. The move was an effort to ensure smooth credit disbursement during the COVID-19 situation.<sup>34</sup>
- Banks have partnered with FinTechs to offer SMEs quick lending solutions in working capital and flexible repayment options on existing loans.
  - US-based Huntington National Bank joined forces with Automated Financial Systems (AFS) to enable connections with third party systems for straight-through processing and real-time lending management through AFS's commercial lending solution.<sup>35</sup>
- As BigTechs enter the SME lending space, they are partnering with banks to launch offerings.
  - Google announced a credit feature for SMEs on its payment platform Google Pay. Google plans to launch the feature by the end of 2020 in partnership with top Indian lenders.<sup>36</sup>
  - In the United States, Amazon partnered with Goldman Sachs to provide merchants with credit up to USD1 million with real-time approval.<sup>37</sup>

Figure 5 – Drivers for the rise of digital lending platforms



Source: Capgemini Financial Services Analysis, 2020.

## Impact



- Traditional lending models are digitally evolving to offer clients simpler, faster, and personalized offerings at a reduced cost for banks.
  - Increased adoption of technologies such as AI/ML, big data analytics, blockchain, and digital KYC will enable banks to reduce costs.
- Bank and FinTech partnerships will prosper as banks seek to boost client experience and develop affordable customized products with higher security and real-time processing.
- Banks will partner with BigTechs, such as Amazon and Google, that have entered the commercial lending space to increase product reach and become part of a broader ecosystem. Banks will have to assess their readiness to collaborate with ecosystem players and move to a modern banking model.

<sup>34</sup> [Deccan Herald](#), "DBS Bank India unveils online loan platform for SMEs, offers credit up to Rs 20 crore," September 16 2020.

<sup>35</sup> [Automated Financial Systems press release](#), "Automated Financial Systems, Inc. announces Huntington National Bank's selection of AFSVISION, the next generation commercial lending system," January 8, 2020.

<sup>36</sup> [The Economic Times](#), "Google is in talks to launch SME lending on Pay platform," June 25, 2020.

<sup>37</sup> [Forbes.com](#), "Amazon And Goldman Sachs: A Small Business Lending Wake-Up Call For Banks," June 15, 2020.

## Trend 06

# Banks identify new ways of doing business to continue seamless customer support

*COVID-19 pushed banks to create a new normal by adopting digital tools.*

## Context

As branches closed during the pandemic, commercial banks were compelled to identify new customer engagement methods as traditional channels were forced out of play.



- Businesses have disrupted with economies going under lockdown leading to a reduction in possible physical touchpoints (branch visits, face-to-face interaction, etc.)
- With customers looking for more digital touchpoints during and post-pandemic, firms are rethinking their customer acquisition strategy and how to improve service channels. Customers have shown increased adoption of digital channels such as mobile banking apps (55%), bank websites (57%), automated voice assistance (21%) in the post-pandemic scenario, which has witnessed an increase from their pre-pandemic adoption rates of 47%, 49%, and 15%, respectively.<sup>38</sup>
- SME clients need advice from their banks about utilizing government aid as they face the need for more credit. With economies slowly reopening, clients will look to banks for easy access to credit lines without the hassle of physical requirements.

## Catalysts



- While physical channels will remain relevant, digital channels have become more popular since the pandemic. The use of physical branches and ATMs has declined, whereas digital channels are experiencing increased use and are poised to grow even more as pandemic conditions subside.<sup>39</sup>
- As the use of smart devices grows - in tandem with the advancement of technologies such as data analytics and AI/ML - banks will be able to assess credit risks better and allow for faster loan approval and processing.
- Technologies such as digital KYC and blockchain have also made customer onboarding easier and more secure.

## In a nutshell



- Legacy systems strained due to increased customer requests have put a toll on bank speed and processes. To provide continuity to customers, banks have identified new ways to do business.
  - In response to the pandemic, DBS offered collateral-free digital loans with disbursement within 24 hours of approval. DBS also digitized its trade financing processes - letters of credit, import bills, trust receipts, and bankers and shipping guarantees - to reduce reliance on over-the-counter trade processing and to make them contact-free.<sup>40</sup>

<sup>38</sup> [Capgemini Research Institute](#), "COVID-19 and the financial services consumer: Supporting customers and driving engagement through the pandemic and beyond," April 2020.

<sup>39</sup> [Ibid.](#)

<sup>40</sup> [DBS press release](#), "DBS rolls out digital solutions to give businesses 'Contact-free' banking options for greater peace of mind during Covid-19," February 26, 2020.



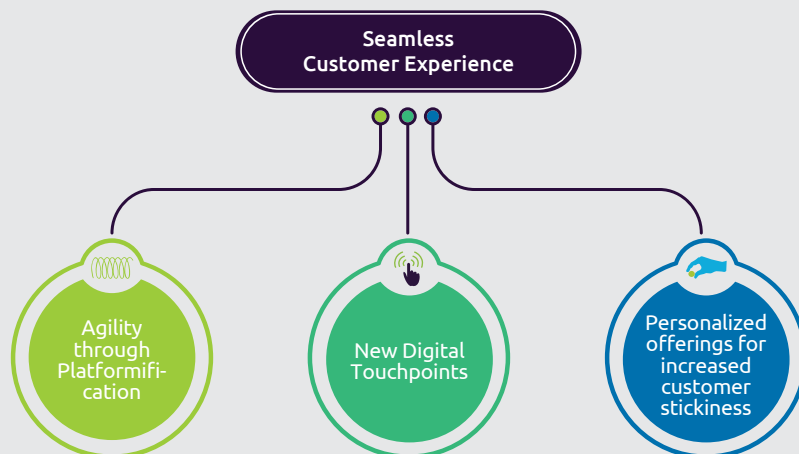
- Citibank pooled its legal, compliance, and market teams in China to work on trade transactions by pushing back payment dates to ensure clients had enough money in their accounts.<sup>41</sup>
- Banks need to roll out customer-centric offerings to help clients prepare to navigate as businesses and economies recover from the global health crisis in 2021.
  - To alleviate the cash flow crisis for companies, BPI France rolled out unsecured loans from EUR10,000 to EUR5 million (USD11,750 to USD5.9 million) for SMEs and EUR30 million (USD35.3 million) for large companies with the facility for a grace period in repayment.<sup>42</sup>

## Impact



- Banks will identify new digital touchpoints with customers as physical interactions are limited. Platformification will offer commercial banks a means to gain the agility necessary to launch new solutions and reach new customers.
- Customers will show stickiness toward banks that provide continued services, personalized offerings, and gestures of solidarity during crises.

Figure 6 – Pillars for seamless customer experience



Source: Capgemini Financial Services Analysis, 2020.

<sup>41</sup> [Capgemini](#), "Lessons from the East can help the global FS industry weather history's perfect storm," May 11, 2020

<sup>42</sup> [BPI France](#), "Covid 19: Bpifrance emergency plan," April 8, 2020.

## Trend 07

# Banks need value-added services to meet the expectations of small-business clients

*Small and medium-sized enterprises (SMEs) find appeal in a comprehensive suite of banking and non-banking services.*

## Context

Constrained by budget and available resources, SMEs in Central and Eastern Europe spend more than half of their time on non-banking activities.<sup>43</sup> Customers are now looking for their banks to provide additional services that complement their banking needs



- In addition to banking solutions, value-added services can enable firms to cover customer journey touchpoints more broadly.
  - Banks need to anticipate viable offerings that will meet customer expectations and can be integrated and scaled easily.
  - With the right set of value-added services, banks can differentiate themselves from competitors by making their banking products meet customers' daily business needs and drive engagement.
- Small and medium-sized enterprises face immense pressure to focus on efficient use of limited resources. Value-added services such as virtual assistants or workforce management software provide alternatives to manual operations and make it easier to do business.

## Catalysts

- Small businesses now expect their financial institution to provide a complete set of banking and non-banking offerings such as invoicing and accounting. The rise of the modern banking model has enabled banks to act as an orchestrator and provide customers with offerings from third parties
- Many FinTechs provide offerings such as workforce/financial management that complement incumbent banks' products and services and deliver solutions to meet clients' dynamic business needs.
- With new regulatory initiatives such as PSD2 and GDPR coming into force, banks have an opportunity to convert their compliance effort into innovative solutions.
- The current crisis has caused firms to rethink their operating model and identify ways to reduce costs to sustain. Value-added services can help SMEs reduce employee workload, improve productivity, and focus on essential activities, resulting in reduced costs.

## In a nutshell

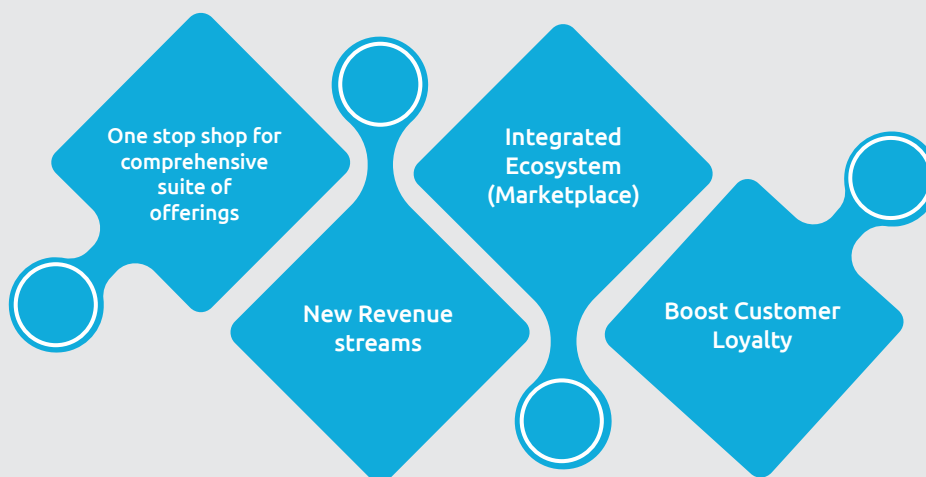
- Banks have started to partner with FinTechs to provide value-added services that increase customer engagement across the value chain.
  - National Bank of Ras-Al-Khaimah, also known as RAKBANK, has launched a new digital platform (SMEsouk) to support small and medium-sized businesses (SMEs). The platform aims to provide a comprehensive suite of non-banking value-added services such as accounting, insurance, licensing, etc. from complimentary industries.<sup>44</sup>



<sup>43</sup> [SME Banking Club](#), "Building of the ecosystem for SME customers: Roundtable in Prague," December 9, 2019.

<sup>44</sup> [RAKBANK](#), "RAKBANK launches a much awaited digital community platform for SMEs in the UAE called 'SMEsouk'," June 11, 2019.

Figure 7 – What is driving banks' need for value-added services?



Source: Capgemini Financial Services Analysis, 2020.

- Banks can help SMEs boost efficiency through productivity tools.
  - KBC Corporate Banking has collaborated with Cashforce and BrightAnalytics to provide Belgian businesses with enhanced support for their working capital management, cash flow forecasting, and management reporting.<sup>45</sup>

### Impact

- Rising pressure will drive higher loyalty for players providing SMEs with value-added services (banking and non-banking) to support their daily business needs and the ability to generate additional revenue.
- With FinTech collaboration, Banks that provide complimentary (non-banking) services will see an increase in customer loyalty and retention post-pandemic.
- Firms that are most prepared to collaborate will embrace modern models such as open banking/ platforms and provide banking and non-banking value-added services from third parties to SMEs.



<sup>45</sup> [Bright Analytics](#), "Partnership with KBC Corporate Banking," accessed October 2020.

## Trend 08

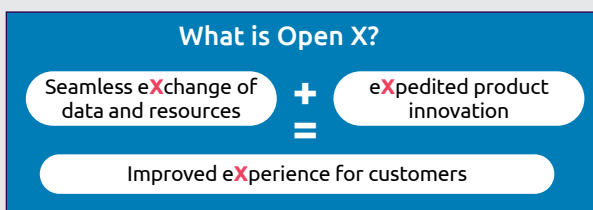
# Commercial banks are turning to Open X to create an experiential and agile business model

*Commercial banks are exploring Open X collaboration to boost capabilities, market reach, and cost-efficiency.*

## Context

The financial services industry is entering the Open X era, which provides various opportunities for firms to rethink their operating models from build or buy models to a partnership model.

- Open X is an ecosystem characterized by a seamless **eX**change of data and resources to **eX**pedite product innovation for excellent customer **eX**perience.



- Instead of a siloed approach to innovation, commercial banks are exploring collaboration with various FinTechs in the Open X ecosystem to develop a competitive advantage.
- Commercial banks have realized that digital players have complementary strengths, hence they are shedding their ownership approach to solutions to a shared access approach.

## Catalysts

- Banks' clunky legacy operations require long lead cycles and credit decisions entail digitization. New-age players have the complementary technology expertise to automate banks' back-end processes.
- More and more, incumbents realize they must move their banking interactions from people-assisted channels to digital offerings, requiring established technology infrastructure. Cutting-edge startups are equipped to provide digital credit origination that can quickly run at scale.
- The pandemic accentuated SME network vulnerabilities based on their lack of business loan resources, which turns out to be an opportunity for commercial banks to provide quick digital lending offerings.
  - This has put the onus on banks to innovate their communication processes to create a fully integrated customer response team that can respond to the influx of calls from anxious business owners.

## In a nutshell

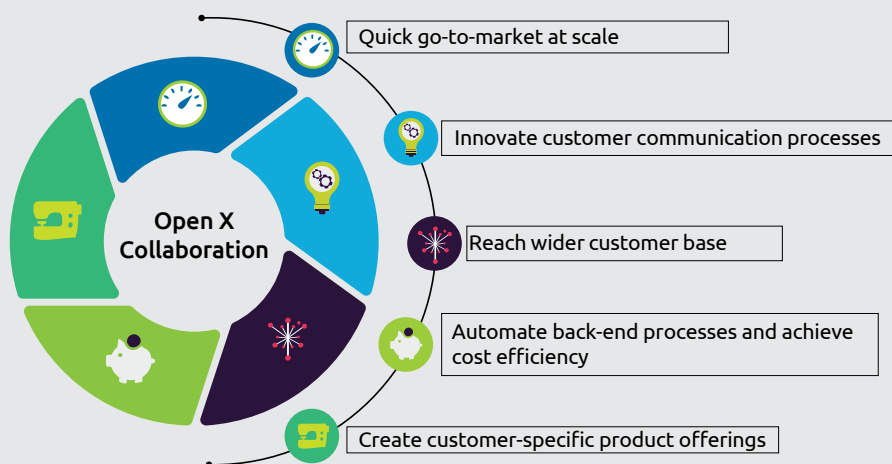
- Banks collaborate with new-age players to overhaul their legacy operating infrastructure for a seamless digital transformation.
  - Santander UK's adoption of nCino's cloud-based operating system has helped the bank win multiple industry awards for innovation. Santander UK replaced its manual processes and three disparate legacy systems in favor of a single, end-to-end solution spanning services to SMEs, corporates, and commercial clients.<sup>46</sup>



<sup>46</sup> [GlobeNewswire](#), "Santander UK Wins Multiple Industry Awards for Innovation in Digital Banking With nCino," September 16, 2020.

- Commercial banks are boosting their business operations by investing in new technology players. Banks' primary focus with these investments is to expand their offerings to meet their corporate clients' changing needs.
  - Deutsche Bank has invested in Frankfurt-based Traxpay to expand its supply chain finance offering. The bank aims to provide its corporate clients dynamic discounting and reverse factoring solutions to manage its cash flows flexibly.<sup>47</sup>
- Major banks are partnering with FinTechs and BigTechs to expand their reach in the SME lending business space.
  - Metro Bank partnered with ezbob to enhance its digital lending offering for businesses. The bank wants to utilize ezbob's end-to-end digital lending solutions and offer its corporate customers a new lending experience.<sup>48</sup>
  - Goldman Sachs has also partnered with Amazon to provide lines of credit up to USD1 million to merchants selling on the Amazon platform.<sup>49</sup>
  - J.P. Morgan collaborated with Taulia, the leader in working capital technology solutions, to develop a unique and differentiated trade finance solution for its clients.<sup>50</sup>

**Figure 8: Open X collaboration can help banks accelerate capability building**



Source: Capgemini Financial Services Analysis, 2020.

## Impact



- Embedding data analytics and AI to monitor credit portfolios proactively will be critical in the aftermath of COVID-19. Banks can benefit from collaborating with data-centric FinTechs to develop a more robust customer-centric approach.
- A strategically sound move, is for banks to quickly identify and partner with digitally capable players to create a seamless digital loan origination and disbursement process running at scale.
- Commercial banks are now obliged to strategize new business opportunities and client value propositions. Open X can allow banks to quickly develop customer-specific product offerings, including discounts and waivers, such as moratoriums on funded facility repayment, etc.

<sup>47</sup> [Fintech Bulletin](#), "Deutsche Bank invests in Traxpay to boost supply chain finance," July 27, 2020.

<sup>48</sup> [Business Insider](#), "Metro Bank partnered with ezbob to enhance its digital lending offering for businesses," March 10, 2020.

<sup>49</sup> [Forbes](#), "Amazon And Goldman Sachs: A Small Business Lending Wake-Up Call For Banks," June 15, 2020.

<sup>50</sup> [Businesswire](#), "Taulia Announces Strategic Alliance with J.P. Morgan," April 27, 2020.

# Conclusion

The year 2020 presented unforeseen circumstances that shook the resilience of both incumbents and new-age players. The ultimate black swan - COVID-19 - forced all players to be more virtual, experiential, and collaborative.

The global health crisis was a catalyst prompting banks to prioritize digital transformation and build digital channels and capabilities across their value chains. It showcased SME vulnerabilities due to the lack of available funds. Digital lending is an opportunity for customer-centric firms to leverage technology to offer products that solve customer pain points and drive loyalty and growth.

As the pandemic challenged the business resilience of commercial banks, it brought to light intelligent business processes for that will remain relevant well after the crisis abates. Data-driven capabilities will be critical for implementing intelligent processes. Hence, bank integration with clients' ERP (enterprise resource planning systems), TMS (treasury management system), and accounting systems will be critical to automate and streamline finance and treasury processes for smoother data interchange.

Banks are also focusing on collaboration and co-innovation with FinTechs, which has increased Open X adoption among incumbent banks to boost capabilities, expand reach, speed go-to-market capabilities, and cut costs.

Our 2020 lessons learned were to "expect the unexpected" and prepare to act swiftly to keep customers informed, engaged, and delighted. For 2021, commercial banks now have to focus more on being business resilient while maintaining the customer-centricity approach in their offerings.

# Ask the experts

## Elias Ghanem

*Global Head of Financial Services Market Intelligence*



[elias.ghanem@capgemini.com](mailto:elias.ghanem@capgemini.com)

**Elias** is responsible for Capgemini's global portfolio of financial services thought leadership. He has more than 20 years of experience in FS with a focus on effective collaboration between banks and the startup ecosystem.

## Nilesh Vaidya

*Global Head of Banking and Capital Markets practice*



[nilesh.vaidya@capgemini.com](mailto:nilesh.vaidya@capgemini.com)

**Nilesh** leads the global Banking and Capital Markets practice in Capgemini. He is an expert in managing digital journeys for clients in areas of core banking transformation, payments, and wealth management. In the last 20 years, he has helped several clients launch new banking products and its underlying technology.

## Cliff Evans

*Head of Digital and Cloud Practice for Europe*



[cliff.evans@capgemini.com](mailto:cliff.evans@capgemini.com)

**Cliff** is a thought leader in digital transformation and the creation of new business models, with a 20 year track record which embraces multiple sectors, from Consumer Goods, to Media and Financial Services. He is applying this experience to the Banking area, helping organizations respond to the wave of disruption that technology and new entrants are bringing.

## Michael Baez

*North American Banking and Diversified Financials Practice*



[michael.baez@capgemini.com](mailto:michael.baez@capgemini.com)

**Michael** is leader in the Banking & Diversified Financials practice. For over 35 years, he has worked extensively in the financial services industry with global experience in equipment finance, commercial and consumer lending, credit risk, payments, process management, operations and technology.

## Gaurav Sophat

*Global Banking practice*



[gaurav.sophat@capgemini.com](mailto:gaurav.sophat@capgemini.com)

**Gaurav** is commercial banking solution lead. He has 15 years of business consulting experience in trade finance, cash management and lending and has helped design business and technology operating models and implement vendor packages.

## Chirag Thakral

*Deputy Head of Market Intelligence*



[chirag.thakral@capgemini.com](mailto:chirag.thakral@capgemini.com)

**Chirag** leads the Banking and Capital Markets practice in Market Intelligence. He has more than 14 years' experience as a strategy and thought leadership professional with in-depth FS expertise.

# For more information, please contact

## Global

**Nilesh Vaidya**

[nilesh.vaidya@capgemini.com](mailto:nilesh.vaidya@capgemini.com)

**Shinichi Tonomura**

[shinichi.tonomura@capgemini.com](mailto:shinichi.tonomura@capgemini.com)

**Stanislas de Roys de Ledignan**

[stanislas.deroy@capgemini.com](mailto:stanislas.deroy@capgemini.com)

## Germany, Austria, Switzerland

**Jens Korb**

[jens.korb@capgemini.com](mailto:jens.korb@capgemini.com)

**Sandra Ficht**

[sandra.ficht@capgemini.com](mailto:sandra.ficht@capgemini.com)

## Netherlands

**Alexander Eerdman**

[alexander.eerdman@capgemini.com](mailto:alexander.eerdman@capgemini.com)

**Vincent Fokke**

[vincent.fokke@capgemini.com](mailto:vincent.fokke@capgemini.com)

## Asia

(China, Hong Kong, Singapore)

**Kimberly Douglas**

[kim.douglas@capgemini.com](mailto:kim.douglas@capgemini.com)

**Ravi Makhija**

[ravi.makhija@capgemini.com](mailto:ravi.makhija@capgemini.com)

## India

**Ashish Patharkar**

[ashish.patharkar@capgemini.com](mailto:ashish.patharkar@capgemini.com)

**Eric Anklesaria**

[eric.anklesaria@capgemini.com](mailto:eric.anklesaria@capgemini.com)

**Neha Punater**

[neha.punater@capgemini.com](mailto:neha.punater@capgemini.com)

## Nordics

(Finland, Norway, Sweden)

**Johan Bergstrom**

[johan.bergstrom@capgemini.com](mailto:johan.bergstrom@capgemini.com)

**Saumitra Srivastava**

[saumitra.srivastava@capgemini.com](mailto:saumitra.srivastava@capgemini.com)

## Australia

**Manoj Khera**

[manoj.khera@capgemini.com](mailto:manoj.khera@capgemini.com)

**Susan Beeston**

[susan.beeston@capgemini.com](mailto:susan.beeston@capgemini.com)

## Italy

**Daniela Leoni**

[daniela.leoni@capgemini.com](mailto:daniela.leoni@capgemini.com)

**Raffaella Guerra**

[raffaele.guerra@capgemini.com](mailto:raffaele.guerra@capgemini.com)

## Spain

**Carmen Castellvi Cervello**

[carmen.castellvi@capgemini.com](mailto:carmen.castellvi@capgemini.com)

**Pedro Perez Iruela**

[pedro.perez-iruela@capgemini.com](mailto:pedro.perez-iruela@capgemini.com)

## Belgium

**Alain Swolfs**

[alain.swolfs@capgemini.com](mailto:alain.swolfs@capgemini.com)

## Japan

**Yasunori Taima**

[yasunori.taima@capgemini.com](mailto:yasunori.taima@capgemini.com)

**Makiko Takahashi**

[makiko.takahashi@capgemini.com](mailto:makiko.takahashi@capgemini.com)

## United Kingdom

**Carlos Salta**

[carlos.salta@capgemini.com](mailto:carlos.salta@capgemini.com)

**Cliff Evans**

[cliff.evans@capgemini.com](mailto:cliff.evans@capgemini.com)

**Colin Payne**

[colin.payne@capgemini.com](mailto:colin.payne@capgemini.com)

## France

**Arnaud Brenier**

[arnaud.brenier@capgemini.com](mailto:arnaud.brenier@capgemini.com)

**Valerie Gitenay**

[valerie.gitenay@capgemini.com](mailto:valerie.gitenay@capgemini.com)

## Middle East

**Bilel Guedhami**

[bilel.guedhami@capgemini.com](mailto:bilel.guedhami@capgemini.com)

## United States

**Babu Mauze**

[babu.mauze@capgemini.com](mailto:babu.mauze@capgemini.com)

**Christopher Tapley**

[christopher.tapley@capgemini.com](mailto:christopher.tapley@capgemini.com)

**Jennifer Lindstrom**

[jennifer.lindstrom@capgemini.com](mailto:jennifer.lindstrom@capgemini.com)



# Market Intelligence core analyst team



## **Shanmugapriya M**

Industry Analyst, Banking  
Financial Services – Market Intelligence



## **Ashutosh Kukreti**

Industry Analyst, Banking  
Financial Services – Market Intelligence



## **Anand Kumar Singh**

Industry Analyst, Banking  
Financial Services – Market Intelligence

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Kalpesh Kothari and Tamara Berry for overall leadership; Ayush Poddar, and Krithika Venkataraman, for researching, compiling and drafting the findings, as well as providing in-depth market analysis. Dinesh Dhandapani Dhesigan for illustrating the findings.

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