# Roadmap to the new relationship model

Transitioning from traditional relationship management to a world of lending, on demand

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Foreword

# A seismic shift in corporate bank positioning

## How commercial and business banks are looking to reposition themselves, in the face of changing customer expectations

Corporate banking is changing. Even prior to the COVID-19 global pandemic, corporate banks were rethinking the way they position themselves and the way they deliver their services – as technological advances increase opportunities to meet client needs in a faster, flexible and more agile way.

However, with financial institutions' corporate banking divisions around the globe set to play a vital role in revitalizing trade and rebuilding the world economy post-COVID-19, the need for banks to fully understand the role digital can play in supporting them and their clients has been heightened.

# Banks prepare to reposition

The way corporate banks interact with their clients can be categorized into three core models, or pillars. All are integrated into their operations to some degree – but most banks generally gravitate more towards one of the three. These are:

### Product Provider

Providing high volume and low margin products

### Relationship Builder

Establishing wider-banking relationships with clients

### Platform Player

Utilising platforms to leverage market opportunity

Recently, we carried out research into how lenders are currently positioned in relation to these three pillars, compared with how they expect to be positioned in 2025. This report will explore the findings of that research – to understand how they need to reposition themselves to meet new customer needs. In addition, it will examine the new infrastructure and digital requirements necessary for banks to achieve their vision.

**A shift among lenders**

The shift from a lending perspective is clear. Banks around the world are moving their focus from operating as traditional 'relationship builders' – building wider-banking relationships with clients to cross-sell additional services – to being platform players and increasingly driven by digital and technology.

This move doesn't completely remove the role of the relationship manager. In fact, it enhances their ability to deliver fast, accurate and flexible solutions – by putting more accurate and relevant data at their fingertips, accelerating and improving decision-making. However, it does change banks' areas of focus over the next five years.

Our research shows that banks in the Americas, in particular, are moving directly towards becoming platform players in that period. It shows that lenders in Europe, the Middle East (EME) and Africa are also leaning towards being platform players – but with product provision remaining a key component. In the Asia-Pacific region, banks are taking a more balanced approach and adopting models that will center them almost evenly among all three pillars – although this still signifies an increased move away from relationship management, towards greater platform provision.

In exploring the findings of our research, we will also examine banks' main priorities for digital transformation in the next five years; the drivers behind them; the major obstacles banks must overcome in their journey; and how they can achieve their aims.

> *"Banks around the world are moving their focus from operating as traditional 'relationship builders' to being platform players."*

## Methodology

This report is based on the findings of more than 700 direct interviews with senior management personnel, conducted over a five-week period in late 2020, with the sample size split evenly among the trade finance, lending, and cash management functions within corporate banks. This sample was also split geographically, to capture the views of senior corporate banking personnel across regions.

**700+**

Direct interviews with senior management

from around the world

# The current lending landscape

## Lenders across different geographical regions currently demonstrate clear strategic differences when it comes to lending activity

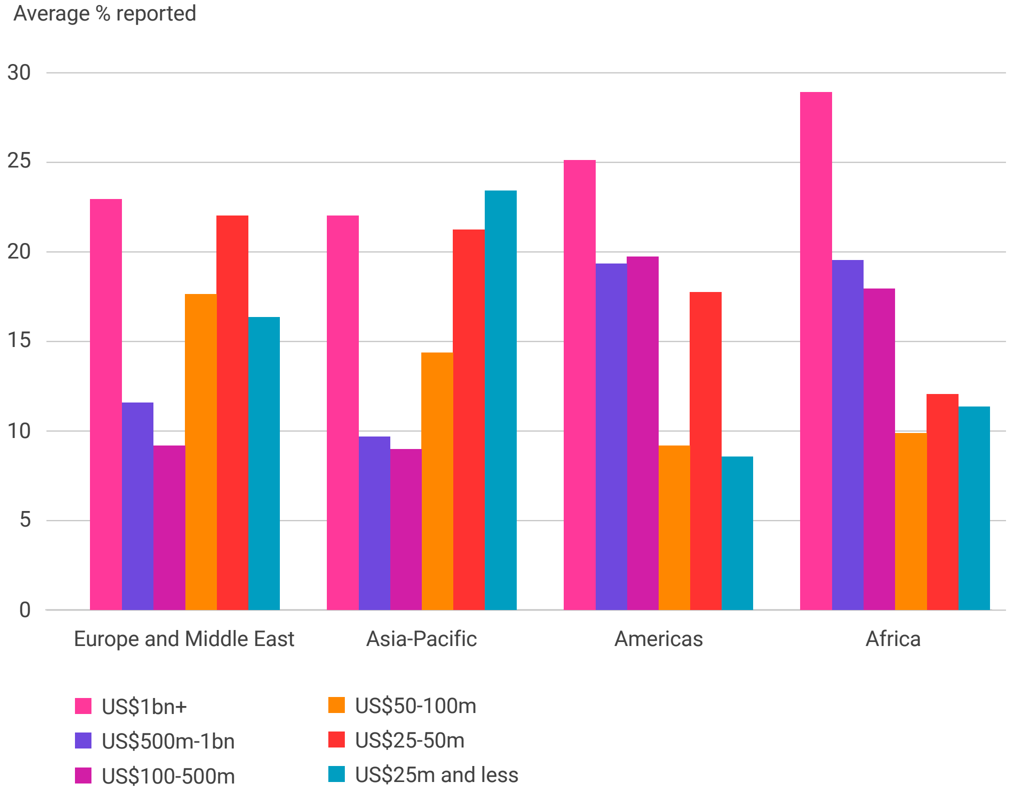
**Revenue differentiation**

In the Americas, financial institutions generate the majority of their revenue from larger corporates. In fact, 64.4% of these banks' annual revenues come from corporates reporting revenues of US$100m or more. In Asia-Pacific and EME, corporate banks are focused on very large corporate clients – those with revenues above US$1bn – but are also much more focused on small and medium-sized enterprises (SMEs).

The story is similar in Africa, where 29% of revenues for banks are generated by businesses turning over US$1bn or more, and 66.6% of revenues comes from businesses turning over US$100million or above.

In Asia-Pacific, corporates with revenues of US$100m or less compose nearly two-thirds (59%) of banks' annual revenue. In EME, the picture is similar – with corporates reporting revenues of US$100m or less contributing 56.6% of banks' annual income.

**Average revenue by segments**



Robert Downs, Global Head of Corporate and Syndicated Lending at Finastra, says lenders' focus on SMEs in Asia-Pacific, Europe, the Middle East and Africa - and to a degree the Americas – can likely be attributed to governments incentivizing the development of the SME sector to fuel economic growth.

"SMEs have been a prime focus for governments in Europe and developing economies, as they provide potential for future growth and sustainability. In the UK, Europe and Middle East specifically, governments have been urging banks to support SMEs, especially throughout the COVID-19 pandemic, and lending has been part of this process.

"In the Americas, too, where lenders have traditionally been very active among the larger corporates, more than a quarter (26%) of banks' annual revenue is now derived from corporates with revenues of US$50m downwards – as trade agreements with the European Union [EU] open doors for SME business expansion and lending prospects."

Despite strategic differences in revenue generation, banks globally are adopting a similar approach when it comes to lending strategies – with all regions carrying out the bulk of their lending activities domestically.

**Industry focus**

While each region is currently focused on domestic lending, there are distinct differences regarding the types of industry each region is focused on.

In North and Latin America, the strong prevalence of large industrial companies is driving most banks' lending business, closely followed by energy and natural resource companies, which depend on flexible lending to service international and domestic markets. The technology, communications, media, entertainment and financial services industries also have large influence in the Americas.

> ***"You can see from these trends that lending in all regions is increasingly focused on sectors that require flexible and dynamic solutions."***
>
> **Robert Downs**
> Global Head of Corporate and Syndicated Lending, Finastra

Industrial manufacturing businesses are a mainstay within Asia-Pacific, particularly China, Vietnam, Japan, and the Philippines. However, the technology industry is also important, with Asia home to many of the big technology companies.

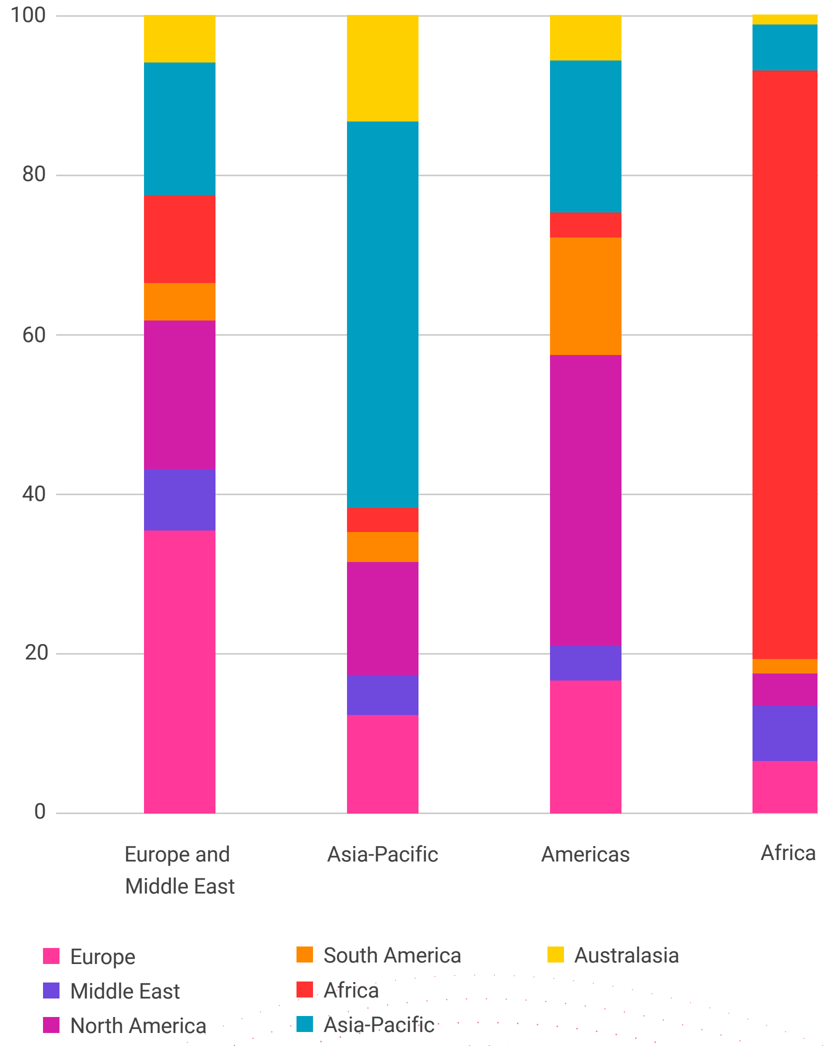
In EME and Africa, by contrast, the real-estate industry has been growing year on year, with major developments in the Middle East and Africa driving lending activities in the region – depending as they do on property development companies having access to flexible funding. In Africa, there is a strong focus on agriculture, energy and natural resources.

Downs says these factors are likely playing a key role in banks' desires to digitally transform – and meet the changing needs of their customers.

"You can see from these trends that lending in all regions is increasingly focused on sectors that require flexible and dynamic solutions – including SMEs and emerging sectors," he says. "That is fuelling the need for corporate banks to deliver fast, flexible and dynamic solutions and services – something that tech can play a key role in supporting and something that is likely driving their increased desire to move to becoming platform players."

**Average revenue by regions**

Average % reported



# Client priorities

We asked corporate banks to rate their corporate clients' top priorities today, versus what they expect their priorities to be in 2025 – across trade finance, lending and cash management. Their responses reveal that account and relationship management will drop in importance relative to other perceived service priorities:

| Corporates' priorities | Today's priority rating | 2025 priority rating |
|---|---|---|
| Online banking portals | 1 | 1 |
| Range of products and services | 2 | 4 |
| Account/ relationship management | 3 | 5 |
| Real-time access and execution | 4 | 2 |
| Value-add services | 5 | 3 |

Future view

# Changing focus

## How lenders are repositioning to meet customer expectations

The need to deliver faster, agile and more tailored lending solutions across industries and sectors is driving lenders to embark on a journey to change how they position themselves to meet new customer needs.

Relationship models are being reimagined through digital transformation – creating a shift away from relationship management to an increased focus on being digitally powered platform players.

The incentive is not to completely remove the relationship manager from banks, but to enhance their digital and analytical capabilities to make more informed, flexible and bespoke decisions – fast. As a result, lenders' core focus in the next five years of enhancing their digital and analytical capabilities – while also enhancing their position as a platform provider – will help automate and accelerate the lending process for many, not least smaller organisations.

When asked to rank their corporate clients' current priorities versus their expected priorities in 2025, across lending, our research exposes the scale of the shift to come.

It reveals that by 2025, across all regions, traditional relationship management will reduce as a priority for servicing corporate clients – an important change for a model that has been the core area of focus for corporate banks for so long.

It is being replaced by demand for value-add services, which will become the number one priority for clients by 2025.

This shift, along with banks transitioning to being online platform providers in the Americas – which is also driven by automated systems – is further evidence of lenders' need to develop their digital capabilities.

*"Across all regions, traditional relationship management will reduce as a priority for servicing corporate clients – an important change for a model that has been the core area of focus for corporate banks for so long."*

**Value-add services** will become the number one priority by 2025

These trends are all the more stark when viewed across corporate banking in general. Our research reveals that when looking across all lines of business – trade finance, lending and cash management – relationship management will slip to being the lowest priority for servicing corporate clients entirely by 2025.

These findings are further supported by research from global market intelligence firm IDC, which stated in a recent report:

"With growing competition from non bank platforms and the commoditization of products, the ability to onboard, connect, and deliver new and existing services to corporate customers digitally is becoming paramount. Open banking is democratizing data access and payment services, which puts corporate banks under immense pressure to modernise corporate bank connectivity and rethink their value proposition to deliver new data-driven and value-adding services to their clients. The economic crisis brought about by the pandemic will only accelerate this transformation, as customers turn to their banking partners for help to navigate the challenging waters ahead."[1]

**Digital transformation priorities**

Our research also reveals the three key transformation priorities banks feel they need to address in the next five years:

It shows that nearly all banks (84.9%) rank regulatory compliance as a digitization priority during that period. The same percentage (84.9%) rank account validation as a priority, and more than two-thirds (65.1%) list risk management.

In terms of back-end process, settlement and clearances are also priorities. Meanwhile, at the front end, execution is a focus for digitization.

Finastra's Robert Downs says addressing these priorities will also help organizations enhance their capabilities around two key areas of responsibility: anti-money laundering (AML) and know your customer (KYC).

"We know AML and KYC are two key areas of responsibility for banks at present. They are areas the regulators are monitoring very closely – and increased pressure from regulators can make the cost to lend very high. Without a clear view of their risks, banks will err on the side of caution by holding more capital than they need – and in a low-interest-rate environment, that can have a negative impact.

**Digitization priorities for the next five years**

% of total


**Top three transformation priorities**


84.9% Regulatory compliance

84.9% Account validation

65.1% Risk management

1. IDC Financial insights https://www.idc.com/getdoc.jsp?containerId=IDC_P37472

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> **Robert Downs**
> Global Head of Corporate and Syndicated Lending at Finastra

"As a result of that, lenders are increasingly looking to better understand the data they have and searching for data that enables them to make more informed decisions, and report more effectively. Technological and automated developments that enhance those capabilities are very beneficial."

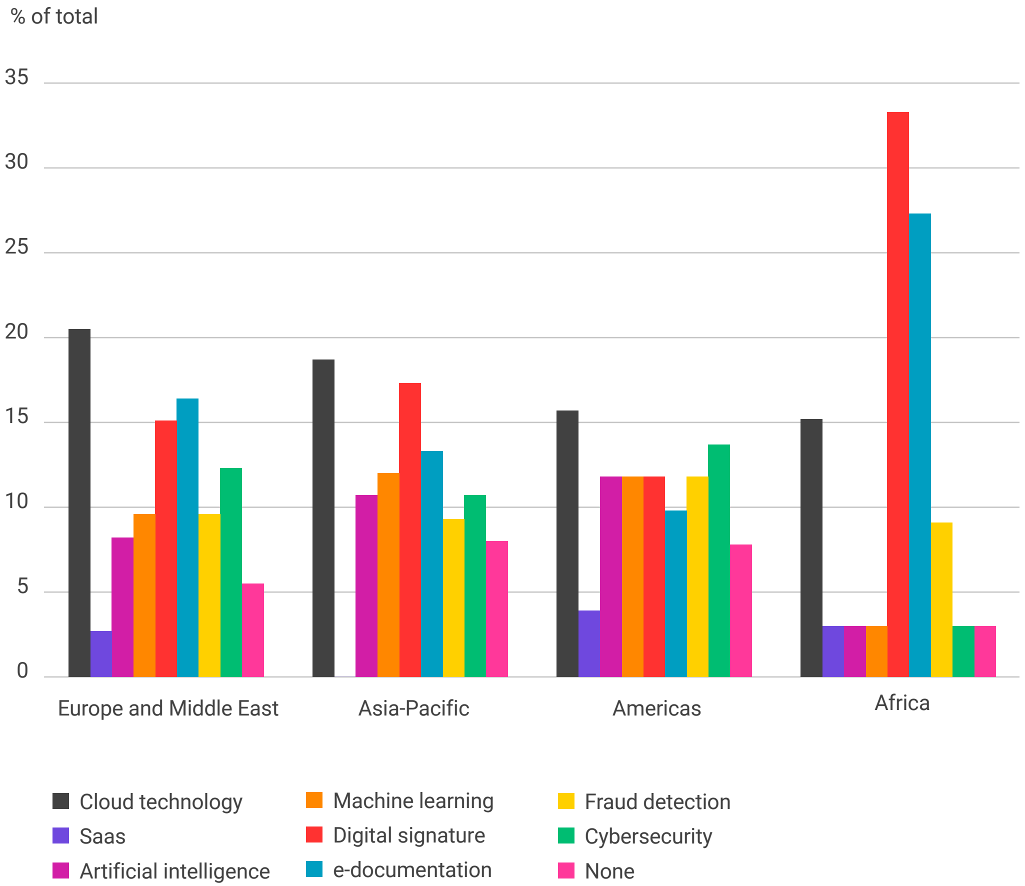
**Immediate needs**

While banks have had to digitize many processes due to restrictions imposed during the COVID-19 pandemic, this period has also exposed a number of immediate gaps in their digital offerings – the implementation of which has also become an immediate-term priority.

Our research reveals that, across all regions, cloud technology is the main digital tool that lenders need as soon as possible, closely followed by digital signature capabilities, e-documentation, cybersecurity and machine learning.

Development of digital signature capabilities is more essential in EME, Africa and Asia-Pacific than in the Americas, where they are already better established, and the same is true for e-documentation. On the other hand, cybersecurity is more pressingly required in Americas than it is in EME, Africa and Asia-Pacific.

**Digital tools currently not accessible**






# A roadmap for transition

## How banks can leverage digital transformation to reposition their offering

It is clear from the shift in client expectations that lenders must act now to stay relevant. The future of corporate banks depends on their ability to provide client experiences that corporates will expect in this fast-changing environment.

The corporate customer is expecting a more retail-like experience – faster response times, digital channels from which to interact with the bank, and visibility over the entire banking relationship, including self-serve capabilities.

"The pandemic has demonstrated that digitally equipped banks – those set up to meet their customers' needs through relationships that are enhanced by technology and data, and services that can be accessed remotely – are at an advantage," explains Robert Downs. "While retail banking customers have long expected this type of service, the pandemic has heightened the demand for it from a corporate banking perspective too, and I expect that to continue post-COVID-19."

Despite these benefits, it's clear regional differences exist when it comes to the role of digital in delivering on customer expectations. For example, in EME and Asia-Pacific, 82.2% and 96% of lenders respectively have digital automated processes to help delivery of their services. On the other hand, in the Americas and Africa, only 51% and 45.5% of banks have implemented digital automation to their processes, respectively.

And while it is clear that digital transformation is set to fuel a seismic shift in how corporate lenders position themselves, a number of barriers remain in the way of a successful transition.

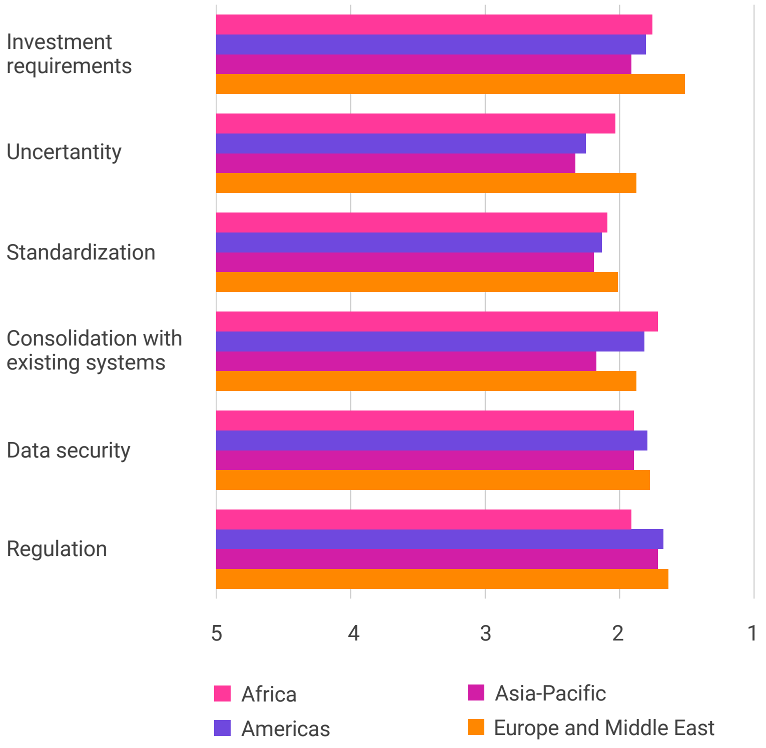
75.4%

of banks are either already engaged with or planning to engage a fintech partner to help them achieve the required transition.

*"Corporates need an omnichannel experience that delivers truly connected corporate banking."*

**Obstacles in digital developments**

Average rating score




Regulation and data security are the first and third largest obstacles for banks globally, our research reveals. With the evolution of cloud computing and digitally based networks, regulation around these systems is constantly changing, making it difficult for banks to keep pace. This poses risks if rules are not adhered to, data is not handled securely, or if regulation creates a barrier to their lending business.

The second largest obstacle for banks is the investment requirements needed for their digital development – this is especially acute in Europe and the Middle East. These requirements include funding, staffing and resources. The level of investment needed may not be commercially viable given the present low-interest-rate environment they are operating in.

**The route forward**

Despite these potential barriers, appetite to change clearly exists. Over the next five years, digital transformation annual budgets for the lending line of business within corporate banks are expected to increase by 20.1%.

And, as Robert Downs explains, many corporate banks are already partnering or expecting to partner with fintechs to aid their digital transformation process.

"Our research reveals that 75.4% of banks are either already engaged with or planning to engage a fintech partner to help them achieve the required transition," he says.

"Most banks have realised that, in order to access the required expertise and capabilities to stay relevant and meet clients' future expectations, they need to work with these partners – to provide clients with the ability to self-serve via digital banking channels, with compliant solutions that integrate front-to-back, 24 hours a day, seven days a week.

"Corporates need an omnichannel experience that delivers truly connected corporate banking – leveraging market-leading solutions through a pre-integration ecosystem. That is something that fintechs can help deliver in a way that banks often struggle to internally," he continues.

"Banks must minimize total cost of ownership in order to deliver solutions to clients efficiently and to surprise and delight customers – and must be future-proof and ready for Open Banking.

"The investment requirements pose too much of a challenge for banks to do it alone. They need outside expertise to manage regulatory and data security pressures, and expert partners who can effectively manage integration with existing systems and standardization across the whole business unit."

# Achieving your desired outcomes

## Finding the right fintech partner to ensure a smooth and successful transition

It is clear from our research that corporate banks' approaches to lending around the globe is changing – and five years from now banks will be very different lending providers than they are today.

While some African lenders will still focus mainly on becoming relationship builders, most focus in Africa will be on providing products. In the Americas, in particular, corporate banks expect to be predominantly platform players. The least focus will be on being relationship builders. In Europe, the Middle East and Asia-Pacific, most banks also see themselves as being platform players.

It is also clear that, to transition successfully, many banks are looking for a trusted and authoritative partner to help them implement digital transformation to deliver a fully end-to-end lending solution – meeting all of the customers' needs.

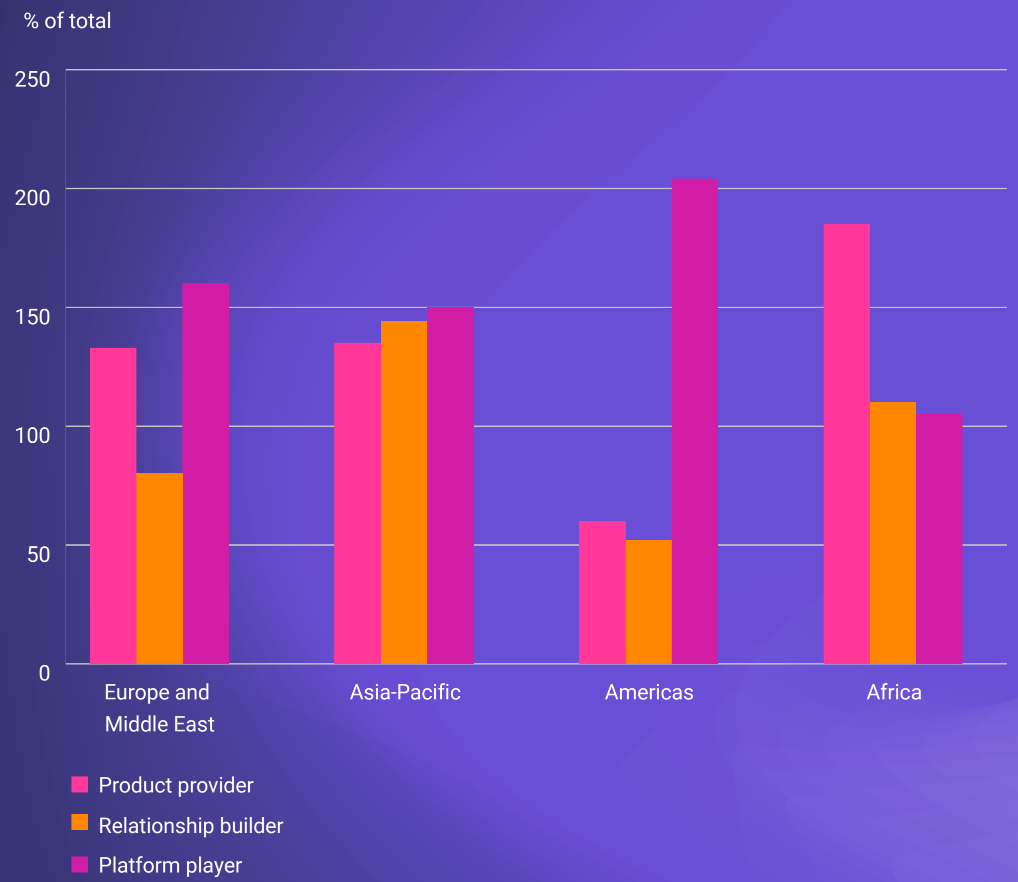
Finastra's suite of solutions are designed to support your success in achieving your outcomes.

We offer the most comprehensive portfolio of lending management software, on demand, in syndicated, commercial, consumer, and mortgage lending. We create a consistent, seamless digital borrower experience for large multinational corporations, SME customers, and consumers.

Our solutions help corporate banks modernize without risk, accelerate growth and resiliency, create digital experiences, leverage data for insight, and enable innovation through collaboration.

To explore how Finastra can help you reach your digital transformation objectives, **contact us today.**

**How banks expect to be structured by 2025**




Note: sums to over 100 because of multiple responding

## About the author

**Robert Downs**
Global Head of Corporate and Syndicated Lending

As Global Head of Corporate and Syndicated Lending, Rob is responsible for the product and engineering teams delivering solutions for the end-to-end lifecycle, including strategic functional direction of Fusion Loan IQ and its partner products within corporate lending.

Working with all disciplines across Finastra, Rob is accountable for ensuring execution of the strategic roadmap to ensure Fusion Loan IQ remains the leading global lending solution, meeting the needs of our corporate and syndicated lending clients.

Rob holds a degree in Computing from Leeds Beckett University, and spent 20 years at Credit Suisse in various roles across Fixed Income and Lending Technology before joining Finastra in 2018.

**About Finastra**
Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at **finastra.com**



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