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WHITE PAPER

CORPORATE BANKING MARKET SCAPE – BEYOND 2020

Changing Priorities of Corporate Treasurers in an Open Banking World

THE FUTURE OF FINANCE IS OPEN

CONTENTS

FORWARD

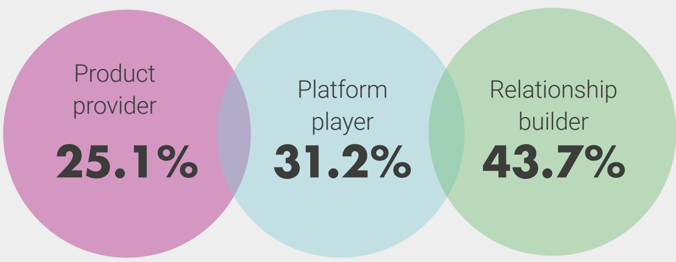
I'm pleased to provide the foreword to this "Corporate Banking Market Scape – Beyond 2020" paper, in collaboration with Accenture.

With corporate treasurers already adopting open banking in a strategic move to create further value in their organizations, it is now time for financial institutions (FIs) to both align their future product and servicing roadmaps to those of their clients, as well as begin to embrace the opportunities that present themselves in the open digital ecosystem. In a recent poll of 60 financial institutions that attended a Finastra webinar, it was clear that the gap between the priorities that treasurers expect to have in 2022, and what FIs perceive they will be, are on two different spectrums.

Our research, which was commissioned with IDC, surveyed 400 corporate treasurers and indicated that real-time data and payments and improved access to funding will be the two main priorities for treasurers in 2022; however, when FIs were asked the same questions about their client priorities, liquidity optimization, in addition to predicting and managing risk were top. This reflects the misalignment within the financial ecosystem, and means that, within three years, corporate treasurers may not be engaging with their primary financial institutions for services that they actually require to enhance their business activities. This is not all doom and gloom; liquidity optimization is a key function that will bring advantages to corporate treasurers in the areas of data management and predictive analytics and, as long as FIs also stay focused on mitigating risk, their relationships with their clients will only be further enhanced – keeping traditional FIs competitive against the threat of new entrants.

The IDC research also found that 47% of corporate treasurers see a need for banks to improve their product offerings and provide more innovative solutions – beyond traditional services. This presents opportunities for banks to partner with ecosystem players and deliver value-added services. Although, when polled, many of the financial institutions seemed to still be on the roadmap of engaging in further enhancing their solutions to provide a more relationship-focused service.

Financial Institutions' perceived roadmap destination

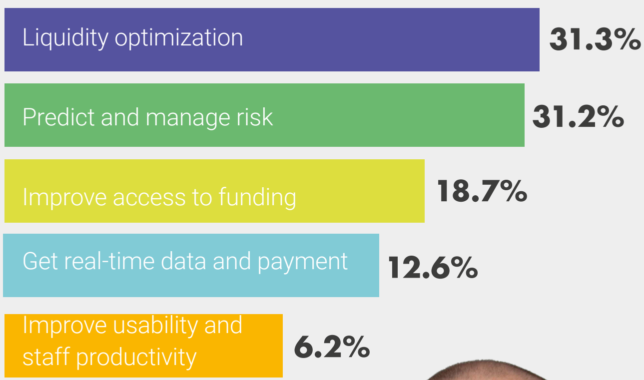


A relationship-based business model still requires banks to be agile and act with speed to respond to the changing priorities of their clients as well as innovation trends within the marketplace. Open Banking and evolving technologies are transforming the corporate banking sector, forcing financial services providers to evaluate the role they want to play in the digital ecosystem. To stay relevant, it will be critical that banks harness APIs and cloud-based solutions.

Through 2020 and beyond, we expect to see changes in both bank and corporate treasury business models, with greater importance placed on collaboration and choice, particularly through the creation of digital platforms. Platforms like Finastra's FusionFabric.cloud will allow banks and their corporate clients to co-innovate and co-develop new solutions. We are also seeing an increasing trend of banks and corporates participating in hackathons around the future of corporate banking, focusing on specific challenges that the corporate banking industry faces and how best to tackle them, including leveraging emerging technologies such as AI, machine learning, blockchain and digital personal assistants.

I hope that you take value from these reports and do not hesitate to contact the team here at Finastra to support you on your own open banking journey.

Financial Institutions' Perceptions of Treasurers' Priorities in 2022



[1] Source: online poll conducted during our Open Corporate Banking webinar, 27 Nov 2019

[2] Source: IDC Global Corporate Treasury Survey, 2019

Corporate Treasurers' Priorities and Service Expectations of Their Banks are Changing

Banks must respond with open banking-based strategies and services – or face losing relevance to corporates' needs.

TODAY

Today's number one priority for corporate treasurers is access to funding cited by 84% of treasurers worldwide[3].

2022

The top priority in 2022 will be access to real-time data and payments cited by 59% – with liquidity optimization also rising up the list.

To meet these evolving corporate needs, banks have three strategic approaches to choose from – becoming a:

- Product provider
- Relationship builder, or
- Platform Player

Banks' strategic choices around open banking will vary – but as competition intensifies, and successful open banking use cases continue to emerge in the corporate treasury space, banks have no time to lose.

The top three services that corporate treasurers are looking for from their banks in the future are:

- **70%** Treasury as-a-service
- **61%** KYC as-a-service
- **56%** Accounting as-a-service

This whitepaper examines corporate treasurers' evolving needs and demands in terms of banking services, and how banks can respond most effectively in the years to come.

[3]Source: IDC Global Corporate Treasury Survey, 2019: n=400

Transformation is Gathering Pace – as Corporate Treasuries Become Strategic Agents for Change

Historically, corporate treasury was regarded as a "mere" support function responsible for managing its organization's finances. No longer. Today's corporate treasuries are adopting an increasingly strategic role – a transformation that reflects profound changes across three dimensions: organization, technology and ecosystem strategy.

1. In terms of ***organization***, treasuries are moving from a fragmented, tactical model to a more mature one founded on a centralized, strategic treasury function. The goal is to make the treasury an essential partner to management in its decision-making. The steps to achieve it include adding new skills and capabilities.
2. These organizational advances are mirrored on the ***technology*** front, where treasuries are integrating systems and consolidating data while also embracing process automation and predictive capabilities. The aim is to enable treasuries to respond faster and more proactively to change through greater control and agility.
3. And on ***ecosystem strategy***, treasuries are actively integrating with their wider ecosystems. This means consolidating and aggregating activities across banks and geographies, integrating data from both internal and external sources, and collaborating with different parties for specific projects. Objectives include greater access to data analytics and more diversification of funding sources.

In combination, these changes are driving a growing recognition of the corporate treasury's pivotal role as an essential change agent, driving higher productivity and efficiency across the organization. It's a transformation that offers major benefits to enterprises. But many are responding slowly – and treasury often remains an underinvested function.

Better Access to Funding is Today's Number One Priority…

As corporate treasuries navigate this journey, what are the priorities for their leaders? And how will those priorities change over the next two years? To find out, Finastra has partnered with IDC to conduct the IDC Global Corporate Treasury Survey 2019. Based on responses from 400 of corporate treasury leaders globally, the study uncovers the current and future state of treasury ecosystems.

So, what are the top-line findings?

In terms of today's priorities for corporate treasuries, access to funding leads by a wide margin – reflecting the fact that it remains one of their biggest challenges, encompassing hurdles ranging from complex KYC processes to the difficulty of accessing alternative funding sources. That said, banks' strength in corporate risk management makes them an especially attractive source of finance in the event of a downturn. Treasuries are also eager to improve their access to corporate bonds and related data.

The second-placed priority is predicting and managing risk more accurately. Here analytics is key, including for helping to tackle fraud, drive automation of compliance, accelerate onboarding of customers, and improve liquidity management through real-time insight. Third comes improving usability and staff productivity, through advances like more automated controls, proactive notifications and better use of mobility tools.

…But by 2022, Real-Time Data and Payments Will Top the List[4]

While those are today's priorities, our respondents think they'll have changed significantly in two years' time, becoming more diverse and evenly-balanced. The biggest shift is that having access to real-time data and payments will leap to the top of the list. As corporates move toward a 24/7 receivables management approach, they're anticipating the benefits that real-time payments systems will bring – with rising value in prospect as more overlay services emerge, and the benefits from standardized SWIFT gpi access flow through.

[4] Source: IDC Global Corporate Treasury Survey, 2019 - https://www.finastra.com/treasury-ecosystems.
Note:Weighted scores based on respondents' top 3 priorities with a score of >50%

TODAY'S TREASURY PRIORITIES ARE LED BY IMPROVING ACCESS TO FUNDING

Weighted Priority Score

1. Improve Access to Funding:
1. Improved KYC Process
2. Access to alternative funding sources
3. Access to corporate bonds, bond data

84%

2. Predict and Manage Risk:
1. Advanced fraud analytics
2. Automated compliance, faster onboarding
3. Real-time liquidity position

57%

3. Improve access to funding:
1. Proactive alerts and notifications
2. Enterprise mobility
3. Back-office automation

53%

BY 2022, ACCESS TO REAL-TIME DATA AND PAYMENTS WILL TOP THE LIST[5]

Weighted Priority Score	Three-year trend	
59%	↑	**1. Get real-time data and payments** 1. 24x7 receivables management 2. New transaction types (e.g. requset to pay) 3. SWIFT gpi access
54%	↓	**2. Improve access to funding**
52%	↓	**3. Predict and manage risk**
51%	↑	**4. Liquidity optimization** 1. Cashflow forecasting 2. Virtual accounts 3. In-house bank

The other major change will be the emergence of liquidity optimization as a strong priority in its own right, as treasuries strive for higher predictability in areas like cash flow forecasting and virtual accounts. In some cases, developing an in-house bank is also a priority in the next few years, particularly with the continued push for greater efficiency. Interestingly, liquidity optimization topped our real-time poll of webinar participants' priorities for 2022, underlining its rise up the list.

As the chart shows, IDC research found that the corporate wish-list for new services is topped by Treasury-as-a-service, followed by KYC-as-a-service and Accounting-as-a-service. Analytics-as-service is rising up the agenda, as treasuries seek to become more data-driven and capitalize on cloud advancements and adoption. And Advisory services also offer major potential, with banks' deep market knowledge making them attractive partners for treasuries to turn to for advice.

Seeking New Services from Banking Partners

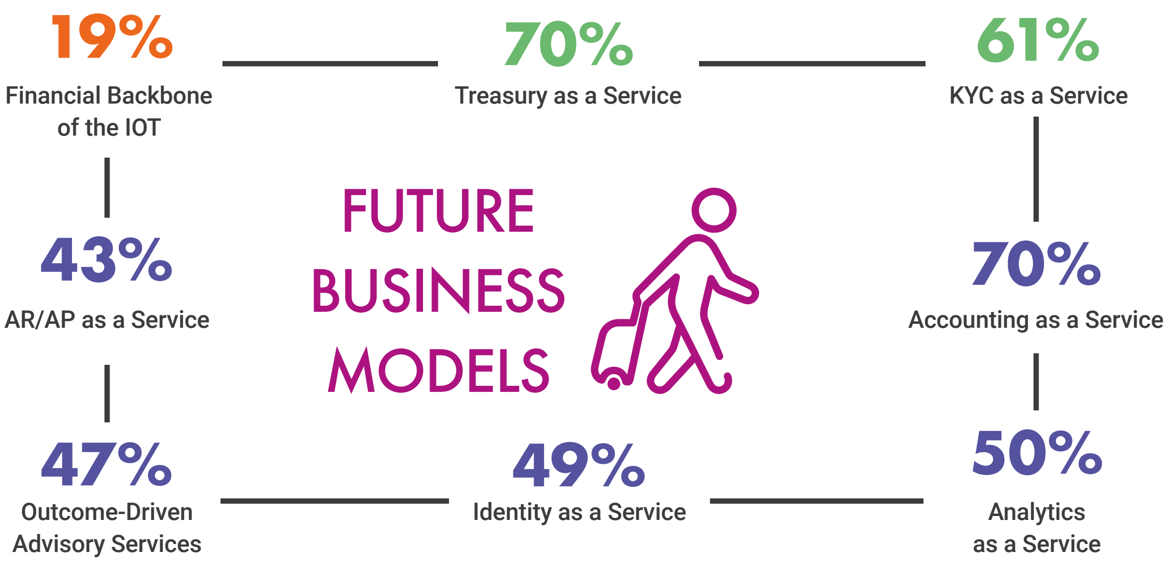
Given these findings, what services will treasurers look for from their banking partners in the future? We think they fall into three main areas.

First, ***a new services model*** that helps corporate treasurers leverage automation to streamline their operations, thereby minimizing their tactical day-to-day work, and enabling them to focus on higher-value tasks and more strategic value generation.

Second, ***a new generation of advisory services*** that help them achieve their desired business outcomes – and that are measured based on success, not transactions.

Third, ***a richer, more connected ecosystem experience*** that utilizes specialized, best-of-breed players to remove the friction that hampers today's complex supply chains.

New Services That Treasurers Want from Their Banks in the Future[6]



[5] Source: IDC Global Corporate Treasury Survey, 2019 - https://www.finastra.com/treasury-ecosystems.
Note: Weighted scores based on respondents' top 3 priorities with a score of >50%

[6] Source: IDC Global Corporate Treasury Survey, 2019 - https://www.finastra.com/treasury-ecosystems.

Actions Today, For Tomorrow

As corporate treasurers' priorities change, how should banks respond? With real-time data and payments rising up treasurers' list of priorities, it's clear that a key underlying driver is the transformation of banking and payments to become real-time or near-real time. This shift has a seismic impact on how treasury operations will run in the future, and its effects are set to be amplified as real-time extends to cross-border payments.

A further driver that's helping to reshape corporate treasuries' priorities is digitalization – not least the aspiration to be able to pick out the key elements from an ever-expanding volume of data, whether it's in their ERP, treasury management system (TMS) or elsewhere. A key goal is being able to access that data "on demand" in real time as opposed to "on request" for delivery later.

The rising importance of liquidity optimization is related to the move to real time, and, to some extent, is a side-effect of it. Real-time payments and banking have major impacts on cashflow forecasting, by equipping the corporate to understand what funds it has at any given time, and where and how it can access them. A five-day forecast is no longer enough: increasingly, demand will focus on having a same-day forecast for that afternoon.

Banks need to think today about which of these models they're aiming towards. But it's not an either/or choice: in one area or business line, a bank might decide to be a product provider, running the rails, while in another it may focus on building advisory relationships. But whatever the choice, it must be made soon to keep pace with changing customer demands.

Three Potential Pathways to the Future

Given these tectonic shifts, the key questions for banks are how they can service treasuries' changing needs, what this will mean for their own operations, and how they should revamp their internal mechanisms now to be ready.

The way to answer these questions is to draw up a roadmap of future pathways. Our research findings suggest that every bank has three options for its future business model for serving corporate treasury customers in an open banking world. As the schematic shows, these are to become a product provider, relationship builder, and/or platform player.

The ***product provider*** will focus on "owning" the transactional element and optimizing everything around it. This will mean being a leader in automation, maximizing speed and reducing the cost of transaction processing to generate profits from high volumes at relatively narrow margins. These players will also be strong on customer connectivity, closely "plugged in" to their customers' operations.

The ***relationship builder*** will become a trusted adviser to its corporate treasury clients, working hand-in-hand with them to deliver business outcomes. This model will require world-class data and analytics capabilities, enabling the bank to integrate, aggregate and interrogate digital data islands to offer insightful, proactive advice-as-a-service in areas ranging from funding options to liquidity management.

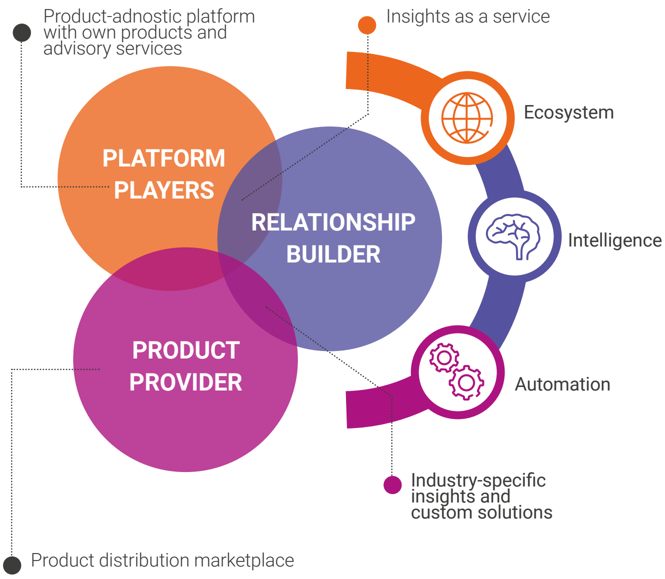
The ***platform player*** will share some characteristics with a technology platform, but will be subtly different from it. This model is about leveraging the bank's economies of scale and combining cloud, automation and analytics to offer virtually any business process as-a-service to corporate clients – be it payables, receivables, or the entire treasury. To do this, banks will need to open up fully to the wider ecosystem: the future is not single-vendor, and collaboration is the new innovation.

The Strategic Open Banking Roadmaps for Coporate Banks[7]

Platform Players
- Combine cloud, hyper-automation and data analytics
- XaaS - deliver business process as a service
- Open ecosystem player

Relationship Builders
- Trusted advisor
- Focus on delivering business outcomes
- Advice as a service driven by data and analytics

Product Providers
- Focus on incremental improvement
- Increased customer connectivity
- Enhanced integrated automation



The Final Destination: Benefits on Every Route

Why undertake the journey to one of these three models? Because each option can bring significant benefits both to the bank and its corporate customers.

With the ***platform player*** model, the corporate gains advantages around vendor consolidation, wider distribution of operational risk via an ecosystem, and reduced operating overheads. The bank gets to maximize its share of wallet via horizontal offerings and increase its customer retention.

With the ***relationship builder***, corporate customers benefit from better and faster data insight, enhanced capital optimization, and well-informed industry- and region-specific advice. The banks get automated insights that enable RMs to focus on forging more profitable relationships and proactive cross-selling opportunities.

Finally, with the ***product provider*** option, corporates get greater process automation, lower transactional costs, and more intense competition between providers fueled by standards-based open banking. Banks get significantly reduced operational costs and automated pricing to drive customer acquisition. The fact that each model has its own respective attractions was reflected in the results of our webinar poll, with no model scoring less than 25%. However, first choice by a significant margin (43.7%) was the relationship builder model.

[7] Source: Finastra analysis

Competition: The Banking Market Structure Continues to Evolve

Banks are having to rethink their corporate banking business models at a time when the competitive environment is continuing to shift rapidly. Since 2005[8], the number of players in the global banking market has fallen from 24,000 to 19,300 – but the exit of more than 8,000 traditional banks has been partially offset by the entry of a diverse range of about 3,600 new players, including some backed by incumbents.

These newcomers now account for some 17% of banking and payment licenses, and 7% of total industry revenues. And fragmentation of the market is continuing, with a significant acceleration in 2018. While the US stayed stable at a 19% fragmentation rate, Europe increased from 20% to 22%, and the UK from 63% to 66%. Such figures confirm that we're seeing some revenues taken out of the banks.

Growth: Neobanks are Seeing Explosive Customer Uptake – and Profitability Will Come

A breakdown of customer growth rates across the industry underlines the advancing fragmentation. Research by Accenture shows that neobanks have been achieving year-on-year growth in customer numbers of around 150% in recent years, while incumbent digital banking providers are sustaining a more modest but relatively constant speed of customer acquisition. At the same time, BigTech players – denied banking licenses in the US – are looking to enter the corporate banking market in partnership with incumbents.

To date, the expansion in neobanks' customer base has not been matched by their profitability. But within the next three years, a large chunk of the neobank players will be profitable, particularly those that succeed in capturing a high-potential market such as SMEs. Take Ant Financial in China, which has attracted 15 million out of 38 million Chinese SMEs to onboard into its MYbank platform. It's estimated that the opportunity for financing SME trade out of China using Ant's platform will be US$70 to US$120 billion a year[8].

Strategy: Approaches Vary Depending on Branding and Product Line Decisions

So, what are the banks doing in terms of strategic responses to these new players? Different approaches are emerging, reflecting banks' branding and product line decisions, with three distinct strategies coming to the fore, all involving establishing a separate neobank sub-brand.

"Digital Attacker" – Creating a new capability targeting SMEs or millennials
Examples include using digital either to create new solutions for millennials, or to capitalize on underserved markets such as SMEs by reducing cost-to-serve and increasing profitability.

"Partnerships & Platform" approach
This strategy can involve consortia of banks collaborating to create new offerings that improve customer loyalty, such as P2P payment and merchant point-of-sale apps.

Acquire a customer-facing neobanks brand
This approach enables banks to expand their portfolio of digital businesses, broaden their brand portfolio and complement their overall transformation process. It's an approach that is now expanding from retail banking to segments including SMEs.

Each of these strategies can be the optimal approach for any bank in a particular market at a given time. And they can all provide incumbents with a way to take the fight back to the neobanks. We'll now look at some case studies of how banks are using open banking and APIs to serve corporate treasury customers better.

Number of Players in the Global Banking and Payments Market

[8]Accenture – APIs in treasury and cash management 2019

USE CASE 1: DIRECT API-ENABLED INTEGRATION WITH CORPORATES' TMS AND ERP PLATFORMS

While PSD2 was a piece of consumer-focused regulation, it had the effect of kick-starting open banking for corporates. It's now clear that the greatest opportunities for banks in the open banking space may be in the commercial segment, all the way from SMEs to global corporates. As banks target these opportunities, many successful use cases are now emerging in corporate open banking. Here are profiles of two of them.

The Challenge

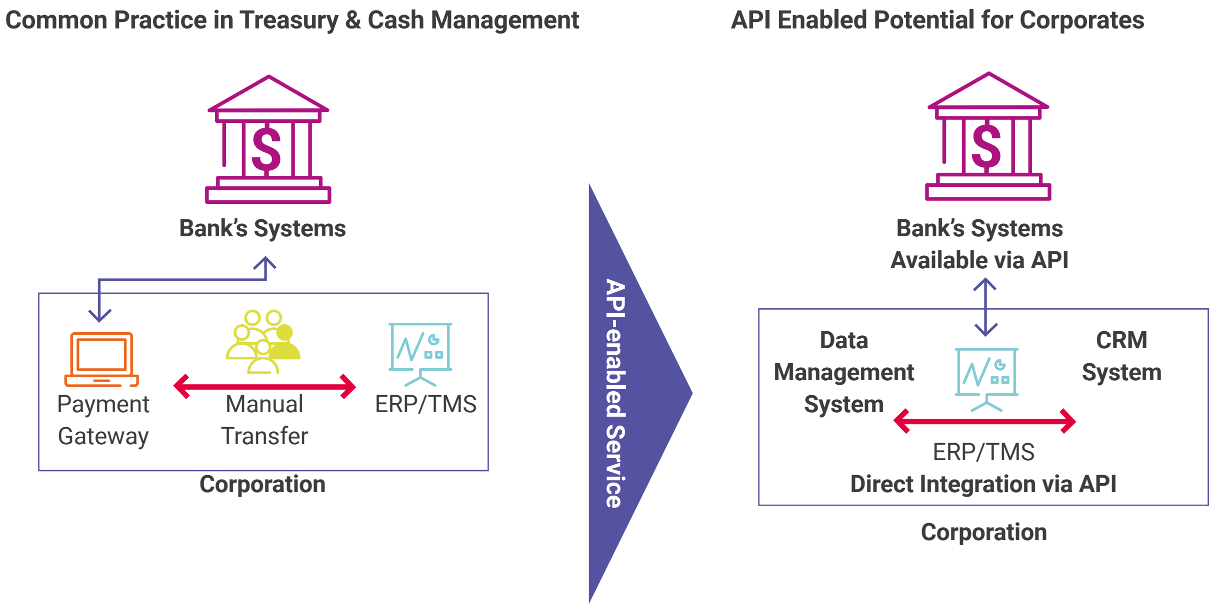
Current common practice is that corporate treasurers and cash managers operate different systems for internal operations and external file exchanges and messaging. The resulting manual reconciliation and payment initiation processes slow down operations. Specific pain points for treasurers include semi-automated format conversions of payment files, the low frequency of account status updates, and cumbersome payments reconciliation.

The Solution

New offerings now integrate the bank's APIs with corporates' TMS and ERP platforms, for example by using RESTful APIs with ISO 20022XML and JSON formats. The result is a single channel for automated payment initiations, payment status and account information. Additional service components can also be layered on, such as FX rates and non-financial elements like cut-off time and branch holiday schedules.

The Benefits for Corporate Treasurers

Outcomes for corporate customers include faster integration of the bank's APIs into their TMS/ERP; direct access to bank accounts, with the ability to manage payments and account information centrally from the TMS/ERP; and intraday data for faster decision making and intraday payments.



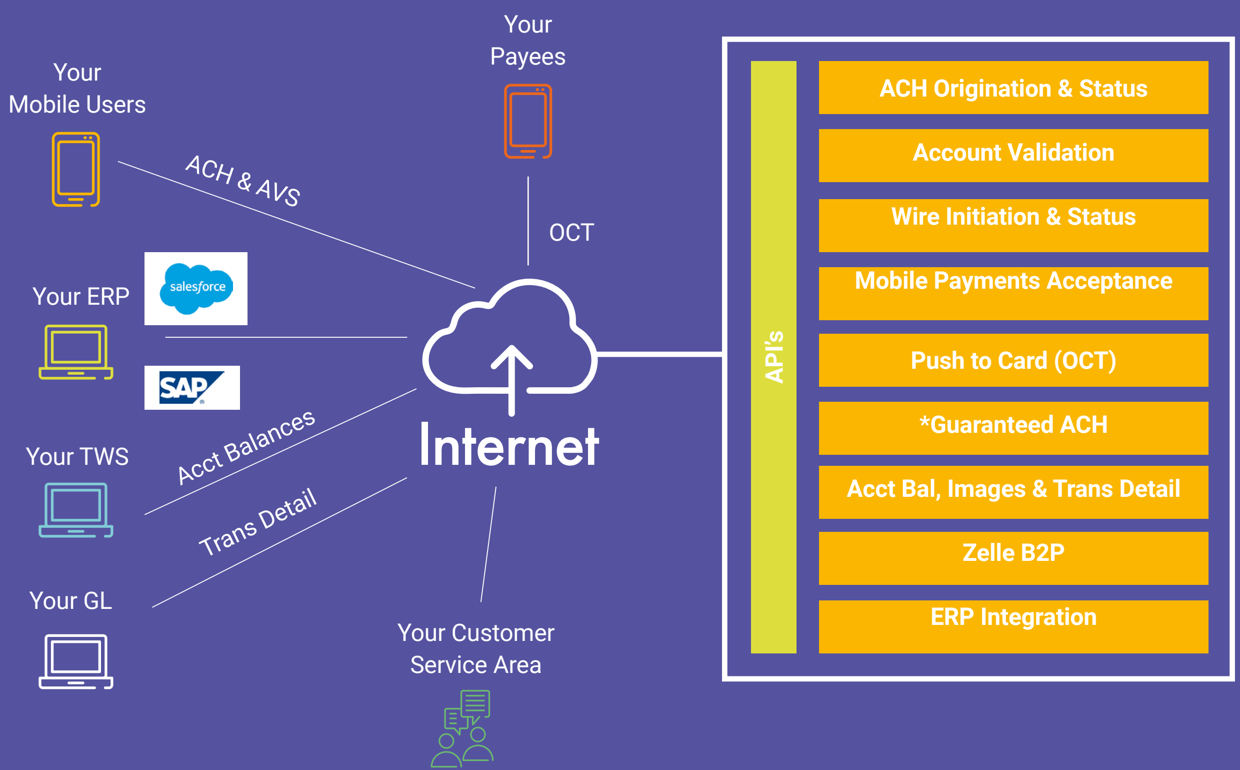
USE CASE 2: API-ENABLED REAL-TIME GATEWAY BETWEEN BANK AND CORPORATE SYSTEMS

The Challenge
Corporate treasuries' communications with their banks are often fragmented and siloed between different services, with frequent manual interventions hampering speed and efficiency while increasing the risk of errors.

The Solution
Some banks are now using API connectivity to enable direct and real-time communication between their own systems and corporate customers via a real-time gateway, allowing efficient and direct integration with the corporate's ERP or TMS system. The gateway enables automated submission of single payment files for same-day processing, and provides a single point of access to all of the treasury and liquidity management services that the customer requires.

Some banks are now using API connectivity to enable direct and real-time communication between their own systems and corporate customers via a real-time gateway, allowing efficient and direct integration with the corporate's ERP or TMS system. The gateway enables automated submission of single payment files for same-day processing, and provides a single point of access to all of the treasury and liquidity management services that the customer requires.

The Benefits for Corporate Treasurers
Corporates using such a gateway benefit from real-time visibility and access to all their banking data, and opportunities to implement comprehensive automation of treasury processes. They also get same-day payment processing of payments.



No Time to Lose

Banks worldwide serving the corporate segment are now mapping out their strategic journeys for the future of corporate open banking, working out where and how they will play, and what services they will offer to their corporate treasury customers.

While every bank's journey will be unique, what's clear is that the window of opportunity to plan and undertake it is short – and shrinking rapidly. Banks that hold back today will face a struggle to catch up with peers and competitors who have moved faster to realize the opportunities that open banking offers in the corporate segment.

This is why banks should review their strategic options now to determine their optimal way forward. If your bank hasn't begun to do this already, it's high time it did. Put simply, there's no time to lose.

Find Out More from our Latest Research

Treasury Ecosystems – Opening Today for Tomorrow
The IDC Global Corporate Treasury Survey 2019, in partnership with Finastra, uncovers the current and future state of treasury ecosystems, proposing various roadmaps for banks to stay ahead of the curve.

Are you evolving today for the digital corporate treasury ecosystems of tomorrow?

Learn More

Corporate Banking APIs - Open for Business

In partnership with Accenture, across two industry surveys, spanning over 1,000 treasurers, located across several continents, the findings explore APIs in the corporate banking context, what business models are available and what corporate banks should do next.

Are you ready to deliver the next generation standard of customer service?

Learn More

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With a history of innovation in financial services, Tim was most recently responsible for combining both his technical and business background to deliver the first release of Finastra's Corporate Banking platform. To prove the value of the platform, Tim moved from his product management role in the R&D organization to solution consulting, and now acts as a global industry principal, working closely with banks and partners across the world, and across lines of business bringing a holistic view to cash and liquidity management, trade finance, supply chain finance, commercial lending, payments, treasury, revenue management, digital channels and analytics. Tim is also the named inventor on the patent application for the use of location aggregation in transaction approval processes.

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Cécile André Leruste is managing director for Accenture Banking in Europe. She is responsible for the industry group strategy and offering across Europe. She has more than 20 years of experience both in consulting and banking. Mrs. André Leruste worked at McKinsey, Société Générale, Roland Berger and Capgemini prior to joining Accenture. She graduated from HEC Paris business school and has an MBA from the Wharton School and the Lauder Institute. A mother of three, she has a passion for education and is vice president of the Paris-Ile de France Chamber of Commerce, overseeing its 19 schools. She is also a Board member of Savencia Gourmet. In 2013, she founded the Cercle des Femmes Dirigeantes, which gathers top female business leaders in France. Mrs. André Leruste is based in Paris.

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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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