

# IMPACT NOTE

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## **Top 10 Trends in Wholesale Banking & Payments, 2018: The Customer Comes First**

# TABLE OF CONTENTS

INTRODUCTION ..... 3

TEN TRENDS FOR 2018 ..... 4

    TREND #1: BANKS SHIFT AWAY FROM A ONE-SIZE-FITS-ALL APPROACH ..... 4

    TREND #2: AGILE DEVELOPMENT METHODOLOGIES WILL BE ADOPTED ..... 5

    TREND #3: APIS AND OPEN BANKING WILL DOMINATE THE CONVERSATION ..... 6

    TREND #4: PAYMENTS CONTINUE TO EVOLVE ..... 7

    TREND #5: ENABLING INNOVATION BECOMES CRITICAL ..... 8

    TREND #6: BANKS WILL MAKE INVESTMENTS IN SMALL-BUSINESS BANKING ..... 10

    TREND #7: ALTERNATIVE LENDERS LOSE SOME STEAM ..... 11

    TREND #8: BANKS INCREASE FOCUS ON DIGITALIZATION, AUTOMATION, AND EFFICIENCY ..... 12

    TREND #9: DATA BECOMES MORE EASILY TRANSFERABLE ..... 13

    TREND #10: SECURITY AND COMPLIANCE CONTINUE TO HAVE AN IMPACT ..... 15

CONCLUSION ..... 17

RELATED AITE GROUP RESEARCH ..... 18

ABOUT AITE GROUP..... 19

    CONTACT..... 19

## INTRODUCTION

Business and corporate customers are more demanding than ever before. The role of the corporate treasurer continues to expand, creating new needs and expectations around the tools, data, and overall experience these individuals receive from their banks. Those factors, coupled with the greater presence of emerging fintech providers, are creating new opportunities and challenges for banks around the globe. Banks must not only re-evaluate their product offerings but also restructure their organizations, revamp their product development methodologies, and align their technology workflows with how their customers use their offerings as opposed to forcing customers to work around them. The customer, rather than the individual product, is now central to every bank decision and initiative. All aspects of banking are being closely monitored to identify new opportunities for digitalization, automation, and consolidation, but change must go beyond simply the technical aspects and also encompass customer interaction, change management, and needed new skills.

Aite Group identifies 10 trends that will shape wholesale banking and payments around the globe in 2018 and beyond:

- Banks shift away from a one-size-fits-all approach
- Agile development methodologies will be adopted
- Application programming interfaces (APIs) and open banking will dominate the conversation
- Payments continue to evolve
- Enabling innovation becomes critical
- Banks will make investments in small-business banking
- Alternative lenders lose some steam
- Banks increase focus on digitalization, automation, and efficiency
- Data becomes more easily transferable
- Security and compliance continue to have an impact

## TEN TRENDS FOR 2018

### TREND #1: BANKS SHIFT AWAY FROM A ONE-SIZE-FITS-ALL APPROACH

By Christine Barry

User experience is front and center in the minds of bank executives around the globe, and it is a key consideration in every IT decision they make. This focus is being driven primarily by customers' higher expectations based on their digital experiences at banks and within their personal lives, and the impact of fintech companies offering sleek and agile user interfaces for their products. The result is a bank shift away from product-focused strategies to more customer-centric ones and an acknowledgment that one size no longer fits all, despite goals to serve all customers from a single platform. During 2018, banks will strive to offer highly customized, customer-driven, segment-specific experiences to their small-business, middle-market, and large corporate customers, especially around digital transformation.

Migrating toward a single digital platform capable of meeting the needs of all sizes of business customers does not mean adopting a one-size-fits-all strategy. In fact, it requires higher levels of customization to ensure that the needs of customers of different revenue sizes, industry groups, sophistication levels, and tech-savviness are all effectively being served. It requires banks to adopt segmentation strategies beyond those that only take into account revenue and industry group. It also requires banks to leverage analytics to better understand customer needs. Banks' use of analytics for purposes beyond fraud prevention will advance during 2018 but will still not fully reach its potential. That will be a work in progress over the next few years, despite banks recognizing that greater use of analytics represents the future of banking.

The next step for banks is to build digital transformation strategies around different customer segments. For most, that means a strong focus on and investment in better serving their middle-market customers. These customers typically provide the greatest revenue potential to banks and are most often the primary users of banks' digital offerings. These customers require single sign-on across products, next-generation portals with dashboards that place them in control of the information they see upon login, and more tools to better manage their funds and create reports. Banks also need to focus on providing these customers with more consolidated information and more actionable insights. They often don't have treasury workstations and are largely dependent on Microsoft Excel; thus, they would see great value from enhanced cash flow forecasting/management tools and reports. Many banks have initiatives already underway to build more user-friendly and sophisticated next-generation portals with these customers in mind, as well as plans to roll out more flexible reporting.

Bank will significantly enhance their focus on segmentation strategies for their small-business customer base during 2018. In addition to reducing the number of platforms from which these customers are served, most banks have a goal of ultimately moving them to commercial platforms on which they can be offered true business capabilities and more sophisticated functionalities as their needs mature. The products these customers use, their speed of technology adoption, and the ways in which they prefer to interact with their banks and receive

information from them vary significantly across the segment. Banks are quickly realizing that revenue size is not an accurate predictor of their customers' needs and have begun thinking about new segmentation strategies. A growing number of banks will be developing strategies focused on millennial-run businesses throughout 2018 as a starting point, but far more needs to be done to create effective product bundles for these customers and to begin demonstrating a better understanding of their needs.

Finally, digital transformation strategies targeted toward banks' largest corporate customers will be largely dependent on APIs. These customers often have many bank relationships and rely on treasury workstations/enterprise resource planning systems to pull everything together and create forecasts for them. Thus, these customers are less interested in the usability of bank dashboards and portals, and more interested in the speed at which banks can deliver the information directly to them and their systems. Banks around the globe are at various stages of API development. Those with mandates such as the second Payments Services Directive (PSD2) in place are often further along. In just two short years, we have witnessed the banking industry's attitude toward new use cases for APIs shift from unknown, to denial, to where we are today—with many industry players believing APIs will greatly transform the banking industry.

During 2018, banks will look to create more effective segmentation as part of their larger digital transformation initiatives and advance their desire to move toward single platform strategies.

## **TREND #2: AGILE DEVELOPMENT METHODOLOGIES WILL BE ADOPTED**

**By Erika Baumann**

Large technology projects are notoriously complex and expensive, and they inevitably hit roadblocks with defects and delays that equal more complexity and even greater cost. At the end of the project, there is still a level of user dissatisfaction due to discoveries made all too late. Agile development is a methodology that aims to solve this all-too-familiar issue and will be a hot topic for banks in 2018.

Technology projects at banks are often mission-critical, with key processing and activities dependent on success. Combined with the current pace of change, these projects must be flexible and adaptable to meet customer expectations that are sometimes changing as fast as the technology is being developed. Fintech firms have certainly led the charge in embracing agile methodologies. However, this becomes less efficient when looking at technology projects that are not standard software installs for the bank client. Bank methodology tends to be less mature than that of the fintech world because of their ingrained traditional practices and because they are not true development shops. In a few instances, very large banks have a more mature development process that has hit optimal velocity, but the majority of banks are lagging behind. The misalignment when one half of a project team is agile and other half is not adds another element of instability to large technology projects. During 2018, banks will start to close this gap and focus more on true agile development practices.

The agile manifesto outlines the values and principles of agile methodology. The values make clear where the focus should be. These values are:

- **Individuals and interactions** over processes and tools
- **Working software** over comprehensive documentation
- **Customer collaboration** over contract negotiation
- **Responding to change** over following a plan

The items on the right are important, but the items on the left are more important in agile methodology. With new payment types and complex initiatives such as integrated receivables and real-time payment processing making up a large percentage of top bank technology initiatives in 2018, being responsive and adaptive is critical to a solid market entry. When delivering an improved customer experience with measurable business value is table stakes and technology is moving at a record pace, valuing the ability to respond to change and working software is essential. More banks are recognizing this, and there will be a more rapid shift from waterfall to agile in the coming year.

Hiring practices will also reflect this shift as banks realize that exclusively hiring banking experts is not an effective strategy. More banks will be seeking technology and development experts outside of the financial industry to meet strategic technology goals. Banks face high expectations and the heavy burden of rising demand for quicker rollouts of needed functionality. Agile development methodology and practices will help them rise to the challenge.

## **TREND #3: APIS AND OPEN BANKING WILL DOMINATE THE CONVERSATION**

**By Enrico Camerinelli**

An API is like a user interface but with different users in mind, i.e., computer applications and their programmers. By publishing an API, a provider of a service (e.g., a bank) makes it easier for developers to build applications that use that service. Banks are beginning to expose their data for use by third parties, in particular fintech companies, through APIs. Banks can not only make their own product data available but can also allow their customers to share their bank data with third-party providers, thus paving the way for “open banking.”

An API is called “open” when it can be accessed—under specified conditions—by third-party developers (from outside the service provider’s organization). In our digital world, the use of open APIs is common, even fundamental to the growth of companies such as Amazon, Google, Facebook, and other digital leaders.

APIs better position banks to meet the more demanding needs of today’s corporate customers. Collaboration with fintech companies is the most effective and efficient way for banks to progress. Forward-looking banks will start opening APIs as a competitive tool to collaborate with their corporate clients in business-to-business transactions that span all global corporate banking processes, such as cash management, cash forecasting, cash pooling, liquidity management, treasury, and trade finance.

To ensure adoption and distribution of their APIs, banks must follow the basic rules of any innovative IT application's launch:

- Create scale through reuse
- Enable self-servicing
- Retain visibility and control

These rules must then be applied to the set of APIs that a bank may want to develop. Front-end APIs, for example, must orchestrate the bank's services with the client's multichannel user interfaces. The problem banks must solve is how to best engineer an API's front end to expose the banks' legacy services; this also depends on the bank's size. Tier-1 banks cooperate directly with solution vendors because payment transactions—the most frequently offered service—must go through systems and applications that banks have likely acquired from third parties. Tier-1 banks' digital strategies cross multiple lines of business, so it becomes extremely relevant to establish how APIs will be used within the corporate organization and which bank systems will be engaged.

While Tier-1 banks have begun consolidating some common practices, most midtier banks do not yet show any extended API growth strategy, as they are mainly expecting the bare minimum solution set for compliance. Despite this reactive attitude overall, some regional banks are considering the opportunity to offer—once regulatory compliance is achieved—treasury services to small and midsize businesses. Since fintech firms are totally concentrated on servicing large banks, some aggressive portal vendors may plug in to banks' APIs and expose services to smaller businesses through a thin-layer treasury gateway. Such vendor platforms will act as front ends, removing the need for a bank to build and manage its own portal. This will allow Tier-3—and below—banks to concentrate on building and exposing the APIs.

## **TREND #4: PAYMENTS CONTINUE TO EVOLVE**

**By Erika Baumann**

2018 will be an exciting time to be in the payments industry. A global revolution is removing traditional barriers and providing the foundation for a true frictionless payment world. Real-time payments are all the buzz and finally becoming a practical reality, but so much more accompanies the rise in faster payments. As banks allow clients to send and receive on-demand payments, ways to reconcile those payments and easier access to consolidated information are regaining focus in the market.

Real-time payment volumes are already on the rise around the globe, and in the U.S. the real-time person-to-person (P2P) payments adoption has proved that the demand for real-time payments is high and growing stronger.

2018 will see an explosion of interest and early adoption as The Clearing House fulfills its promise to make the Real-Time Payment System (RTPS) accessible to all U.S. banks by the year 2020. The RTPS is the first new core payment structure introduced in the U.S. in over 40 years. While other countries such as the U.K., Switzerland, Brazil, and China have already implemented

real-time payment schemes and other countries such as Canada, Argentina, and Australia are in the process of planning a real-time payments scheme, the U.S. has been trying to execute a plan that accommodates the complex and decentralized banking structure. RTPS is The Clearing House's answer to this problem and has already begun completing real-time transactions among the six initial pilot banks. The reliability, security, and accessibility of RTPS will start to lift the stigma of risk associated with real-time payments in the U.S. and aid adoption rates. Across the globe, dozens of other countries will execute on real-time payment system initiatives in 2018, creating a great need for a way to communicate and send payments across national systems.

With payments moving faster and remittance information being disjointed and in different formats and delivery methods, next-generation integrated receivables solutions will be a major focus area for corporate customers and banks. According to a 2017 Aite Group study of the top 50 U.S. banks, integrated receivables will be a high priority in 2018 for 70% of large and midsize banks. In an October 2017 Aite Group study of 145 corporate customers, 83% of corporate receivables managers report that more efficient matching of payments with remittance information is important or very important to them. Forty-four percent of these corporate customers report a straight-through processing rate of less than 75%.

Banks have a large market opportunity to serve these corporate customers by providing a solution that can streamline the receivables process through enhanced matching, capture and view exception items online, and offer learning/artificial intelligence (AI) insights and easy search capabilities across all payment types. Aite Group estimates that only 4% of the 100 largest U.S. banks are currently live or piloting a robust integrated receivables solution, with an additional 5% anticipated to go live in 2018. More will be building internal business cases, looking for funding, and evaluating vendor solutions. Aite Group estimates that 40% of large and midsize banks will be live with such solutions by the end of 2020.

Another component of the payments revolution that builds off integrated receivables is the re-energizing of centralized payment hubs. Excitement around payment hubs has come full circle over the last decade, and few banks have truly been able to boast a complete solution. Banks are finding themselves in an expensive predicament with the maintenance of multiple high-cost and high-support platforms. There is little integration or data sharing across these disparate components, which creates duplication, risk, and operational costs. In a new era of on-demand payments, on-demand data becomes critical.

The payments revolution will be fast-paced during 2018, with real-time payment adoption, streamlined payment data, and analytical insights provided by integrated receivables and payments hubs at the center of the activity.

## **TREND #5: ENABLING INNOVATION BECOMES CRITICAL**

**By Gilles Ubaghs**

The pace of technology diversification for banks shows no signs of slowing down in 2018 and will only continue to gather for the foreseeable future. Technologies such as AI, big data, analytics, blockchain, biometrics, and APIs are among the hottest topics of conversation for banks and their corporate clients, even if they are not yet part of the wider strategic technology roadmap.



Simply keeping up with the pace of innovation is a challenge, let alone deploying these new technologies into full commercial production. While banks explore the implications and potential benefits of these technologies, creating the right environment to enable broader innovation is now becoming a core part of banks' wider technology strategies.

Many of these emerging technologies have profound implications for banks and corporate customers, and have the potential to dramatically improve the customer experience, increase data visibility, and create a broad range of functional capabilities. This poses a challenge for banks, as not only do these emerging technologies need to be integrated into existing infrastructure, and indeed business models, but most financial institutions also need to find the resources and skill sets to develop these capabilities.

The potential implications and challenges brought on by the level of innovation the market is now seeing are well illustrated by the explosion in interest and activity around AI technologies. The volume of noise in the market surrounding AI is largely due to its potential applications across a bank's infrastructure, with long-term implications for business and revenue models:

- **Back office:** AI can help to improve data processing, compliance, and automation. This includes use cases such as real-time fraud prevention and transaction monitoring.
- **Middle office:** AI has the potential to enable greater integration of data sets across banks' product silos and improve the speed and efficiency of existing processes. For instance, Australia's ANZ Bank is deploying AI-based machine learning and automation to reduce decisioning time on unsecured and personal loans.
- **Front office:** Using AI, growing numbers of banks are able to offer more personalized and contextually relevant information and services to clients at both the consumer and corporate level. The use of technologies such as chatbots and digital assistants can result in highly specific offers and cross-marketing opportunities.

While appetite for AI development is growing among banks, as is their interest in numerous other areas of technology innovation, finding the necessary resources for development is becoming increasingly problematic. Fierce competition between banks, corporations, and technology players means that most organizations will not be able to undertake these sorts of developments purely on their own and will need to partner with other firms. Aided by their growing use of APIs (itself another form of technology innovation), banks are increasingly willing to work with fintech firms and third-party providers to help enable the latest forms of technology innovation within the bank. This in turn is driving the growing presence of sandbox environments at banks and a greater focus on partnerships with fintech firms rather than the competitive stances of the past.

Banking, just like any other sector, undergoes its own hype cycles for specific technologies, and undoubtedly some of the hot topics of today will fall by the wayside over the next few months and years, while others will emerge and take their place. Although these technologies have the power to profoundly change banks and their corporate clients, many banks will continue to struggle with the cultural challenges of creating the space for these new technologies' rapid agile development. Organizations that can gain a lead in developing and deploying these innovations, through actions such as adopting agile development strategies, shifting away from

product silos in their internal organizations, and developing sandboxes for experimentation, will be best placed to maximize the benefits that these new technologies can bring to their institutions.

## **TREND #6: BANKS WILL MAKE INVESTMENTS IN SMALL-BUSINESS BANKING**

**By Christine Barry and David O'Connell**

Banks' focus on the small-business segment will continue to increase during 2018, and a growing number will implement some of the strategies that have occupied their roadmaps the last couple of years. Migration of these customers off consumer and stand-alone small-business banking platforms will be a big part of the strategies for many institutions. This will enable banks to offer the more business-specific capabilities these customers need. Partnerships with fintech companies will also pick up pace among the largest banks with the resources to properly vet these companies and manage multiple relationships. Such partnerships will help banks differentiate themselves in the market, and more importantly, provide much-needed tools around money management to these customers. This highlights an industrywide recognition that banking capabilities must evolve beyond the basics, and that customers need tools to help with tasks before and after the payment. Most investments will be around more integrated receivables and payables as well as helping these customers prepare better forecasts. These new product rollouts are part of a larger bank strategy to deliver less product-focused strategies and instead offer value propositions better aligned with customer pain points and day-to-day business processes.

In addition to offering new tools, banks will also expand the breadth of capabilities within existing ones. Products such as mobile capture, mobile banking in general, and electronic bill pay will be enhanced with more business-specific capabilities that truly meet small-business customer needs, as opposed to ineffectively serving them through consumer offerings.

The final key area of banks' small-business focus on the deposit side will be on enhancing their offerings' ease of use for a better overall user experience. As small-business payments continue to shift toward electronic vehicles, new tools are needed to help small-business customers through the process. A few banks have already begun to roll out rules-based engines to help these customers ensure they are selecting the correct payment types. Such tools will become more widespread throughout 2018.

In the competitive business of lending to small businesses, Aite Group expects increased digitalization of the applicant experience in response to alternative lenders' strong market share, to how credit-seeking small businesses select their lenders, and how these businesses feel about the credit-seeking experience.

One promoter of digitalization of the small-business customer experience is its necessity as a competitive response to the alternative lenders, which, despite only having been around since the global financial crisis, have a 13% share of the market by closed loans. Their share of the market by application is 18%. Also compelling digitalization is credit-seeking small business' response to the credit acquisition process. When Aite Group asked these businesses how

satisfied they were with the application process, no more than 76% stated they are very or extremely satisfied. Similarly, no more than 84% percent said they are very satisfied or extremely satisfied with the speed of the close.

Also driving digitalization is the need to accommodate how these businesses decide where to apply and where to close. Surveying by Aite Group indicates that lending terms, ease of process, and the presence of a personal relationship are the primary factors considered when a small business decides where to apply and where to close.<sup>1</sup> Although the rate on a loan or the term over which it is repaid can be loosened to attract a customer, doing so lowers risk-adjusted returns on capital and loosens credit protections; either would require a justification to regulators. Also hard to change is the presence of personal relationships with credit-seeking small businesses. If they exist, terrific. If not, acquiring a small business-lending sales force with personal relationships that close loans requires a strategic change. This leaves the customer experience.

Despite the ubiquity of technology for TurboTax-like drag-and-drop capabilities that allow for the transfer of financial documents to a financial institution, credit-seeking small businesses tell Aite Group that when applying for credit, processes are poorly managed, too many are repeated, and it's too difficult to provide financial documents related to their business, principals, obligors, and collateral. Improving the customer experience by digitalizing it means banks can defend their market share without ceding on price or term and buy time to cultivate the kind of sales force that can field and close lending opportunities because of its established relationships.

During 2018, one should expect to see banks' digitalization of the small-business lending experience. This will come in the form of capabilities such as drag-and-drop functionality for the provision of various document types, machine learning in which robots—rather than humans—read financial statements to accelerate credit evaluations and loan closing, and ultimately straight-through processing of the lending procedure from application to funding and collections.

## **TREND #7: ALTERNATIVE LENDERS LOSE SOME STEAM**

**By David O'Connell**

Despite hype that portrays alternative lenders as disrupters on par with Uber or Amazon, Aite Group expects alternative lenders to significantly slow their rate of market share acquisition. Two factors are expected to drive this trend. First, credit-seeking small businesses assign importance to the presence of a personal relationship when borrowing. When Aite Group asked credit-seeking small businesses to characterize the importance of various factors when deciding where to apply for credit, 89% said that a prior relationship or interactions with a banker or branch staff was very important or extremely important. Despite alternative lenders' perceived edge in providing a rapid and digitalized credit-acquisition experience, their web-based model prevents them from cultivating personal relationships.

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1. See Aite Group's report *Thriving in the SMB Credit Market: A Capability Checklist*, January 2017.

Alternative lenders' appeal among more credit-challenged credit-seeking small businesses is also expected to place an upward limit on these new lenders' growth trajectory. When Aite Group examined the differences between alt-friendly and alt-averse small businesses, those that are alt-friendly are significantly more likely to agree with the statement "I need to turn to an alternative lender because of difficulty in obtaining credit." Although there might be plenty of businesses with limited creditworthiness, only a portion hold appeal for banks. Among these, fewer still are willing to enter into a credit-critical relationship with a financial institution. Add to this the possibility of a rising interest rate environment that would severely stress the alternative lenders' credit strength and overall business models, and cloudy days for these innovators become even more likely.

The anticipated cessation of alternative lenders' market share growth is a growth opportunity for banks. Hyped though the digitalized advantages of the alternative lenders are, many credit-seeking small businesses want more than just an online portal when selecting a lender. After all, the principals of these businesses identify deeply with these endeavors and know that when their businesses grow, they'll need advice in areas such as cash management, fraud prevention, and the hedging of risks that will eventually arise. Vaunted though alternative lenders are, they cannot step into the role of the trusted advisor. Banks should seek to cultivate armies of business bankers capable of both taking on the trusted advisor role and networking with accountants, lawyers, and consultants, which Aite Group has identified as the most influential when small businesses seek credit.

## **TREND #8: BANKS INCREASE FOCUS ON DIGITALIZATION, AUTOMATION, AND EFFICIENCY**

**By Enrico Camerinelli and Christine Barry**

Corporate customers are more technically focused, agile, and demanding than in the past, while banks have less money, less time, and a greater focus on security, which hinders their ability to focus on and deliver what's needed in today's competitive market. Bank relationship managers are primarily focused on solutions and products that bring immediate revenue results, so banks seek help from innovative incubation projects (e.g., blockchain, AI, APIs) to build the case for relationship managers. Wholesale banking is a source of profit for banks, and wholesale clients are steadily demanding access to services that go beyond payments, or rather, that integrate payments with the cash management, liquidity management, treasury, and trade finance portions of a bank's business.

In many ways, transaction banking equates to the manufacturing industry; transaction banking, like manufacturing, always has its focus on automation and enabling technologies to speed processing, improve quality, and reduce cost. Transaction banking is receiving heightened attention from fintech companies, which could impact traditional banks in similar ways to the way automation affects manufacturing, particularly in terms of staff reductions. The march to greater levels of automation is inevitable, so banks must choose whether to embrace automation and gain the benefits, or reject it and potentially be replaced in the market.

Aite Group anticipates that blockchain will continue to be one of the most significant innovations that will keep banks busy throughout 2018. While blockchain-based solutions in the financial

supply chain for payments, clearing, and settlement still represent the biggest share of use cases, banks must be aware that blockchain also has important possible applications in the physical supply chain. While financial institutions are spending time and resources to find out how much business they can gain by adopting blockchain technology, corporations are taking a more pragmatic approach. If corporations start working on blockchain projects, it will be for critical applications while waiting for the “big thing” to occur.

Banks also see significant opportunities to enhance automation and efficiency levels within their onboarding processes. Most banks admit to having onboarding processes that are plagued by the exchange of paper, manual processes, and the need for customers to provide the same information over and over. Processes are not as efficient as customers expect, and abandonment rates average anywhere from 5% to 15%, depending on the product. Banks recognize improvements are needed, and 95% of large and midsize banks around the globe state that enhancing their onboarding processes will be a key user-experience initiative for their institution over the next few years.<sup>2</sup>

Key onboarding enhancements will include a shift to digital signatures; the ability to leverage cameras, scanning technology with optical character recognition, and other devices to digitally upload and exchange documents; online project plans and dashboards for greater process management and transparency; and the use of digital forms. The most commonly talked about component of digital forms is that they enable customers to enter information once and have it auto-populate other forms. For existing customers, forms may be prefilled with information from customer relationship management and core banking systems. Finally, if a customer is interested in more than one product, multiple forms may be bundled into a single process with information shared across the forms and not required to be submitted.

The onboarding process is often the first impression a customer gets of a bank, and paper-based processes that repeatedly ask for the same information make a bank’s technical architecture look dated and suggest that a bank does not know its customers. Banks can’t afford to make such an impression in today’s competitive market, making onboarding improvements a critical focus area for banks throughout 2018.

## **TREND #9: DATA BECOMES MORE EASILY TRANSFERABLE**

**By Gilles Ubaghs and Enrico Camerinelli**

Data is becoming an increasingly critical asset for all enterprises, and banks are poised to benefit from their unique foothold across markets. Banks themselves need to become more customer-centric via the use of data rather than focused on the product-led silos of the past. However, organizations that can leverage their own and customers’ data more effectively have a significant opportunity to become critical partners to their corporate customers and generate new revenue streams. This will require the development of new business models and data strategies.

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2. See Aite Group’s report *Creating the User Experience Your Cash Management Customers Expect*, September 2017.

As soon as a bank places the corporate customer at the center of its delivery strategy, that bank has to follow the peculiar business dynamics that influence and shape the corporate client's business decisions. Almost any business decision has an impact on the supply chain, and in a globalized world, supply chain collaboration is one of the most highly prioritized corporate objectives.

The continually changing global market dynamics are forcing supply chain managers to establish a strong cross-functional approach on a set of factors that characterize successfully organized supply chains. To reap the rewards of collaboration, banks must anticipate and service corporate needs, recognizing the following elements that motivate supply chain business partners:

- **Certainty of payments:** Increased visibility of trading parties will mitigate risk concentration and increase risk appetite at banks' credit risk offices.
- **Demand-driven supply chains:** The role of supply chain finance will be to sustain supply chain execution while companies adapt to the new model.
- **Sub-investment-grade companies that anchor a significant portion of SCF programs:** Banks will profile corporate credit risk, blending financial indicators with supply chain performance metrics.

This last point represents the hinge that will connect corporate supply chain process data with innovative credit risk models for banks: Banks will capture and analyze events in the physical supply chain to generate a more profound and realistic representation of a company's risk profile. This goes well beyond the set of performance indicators that a bank's credit scoring office currently uses to analyze that same company's financial statements.

Aite Group predicts that banks will get inspiration—and feel competitive pressure—from business-to-business marketplaces (e.g., Amazon, Alibaba, SAP Ariba). These marketplaces already integrate the physical and the financial supply chains of the companies in the network, detecting events that trigger the need for financial support: A purchase order triggers the need for pre-shipment finance; an issued invoice triggers the need for reverse factoring; a shipment leaving the port triggers the need for trade finance instruments. Hence, these marketplaces are already able to anticipate the financial needs of their corporate network partners. A clear example comes from the concept of a Bank of Amazon that could offer online financial services.

Banks have little option but to become “supply chain banks”: financial institutions that aim to provide financial support to groups of companies that belong to a common supply chain. The risk will be distributed across the group and will be transferred from the anchor to all participating trading companies. Data capture and analysis of the operational performance of the supply chain network's constituents will represent the collateral for a supply chain bank.

## **TREND #10: SECURITY AND COMPLIANCE CONTINUE TO HAVE AN IMPACT**

**By Gilles Ubaghs**

2018 is set to be a year of considerable milestones in the global regulatory environment that will both drive innovation in some areas and hold it back in others. Much of the regulatory shifts set to occur in 2018 have implications that go beyond the respective regions they cover, as regulatory goals in areas such as faster payments, open banking, legacy infrastructure modernization, and security become growing concerns globally. Regulators, banks, corporate clients, and technology vendors are now increasingly looking at the global experience to guide their preparation for the future.

Among the most high-profile regulations set to have an impact in 2018 are the PSD2 regulations set to take effect in January 2018 across the 31 countries in the European Economic Area. Chief among the many components of the PSD2 regulation is the requirement for banks to provide third-party payment providers access to account information to help enable new payment services and increase competition in the market. This is achievable through the use of open APIs. As a result, PSD2 has become the biggest driver of banks' open API developments, and its full impact will be felt globally.

Many European banks and regional regulators are going beyond the PSD2 mandates to push for a broader range of open API standards, driven in large part by PSD2 and efforts to future-proof for further innovation. This includes the U.K. Open Banking initiative, which is set to standardize APIs for U.K. banks (despite Brexit, or the British exit from the EU). Other regions outside Europe are pushing for their own open-banking standards, including Australia and Thailand. As PSD2 takes effect, and it's likely many organizations will miss the deadline for compliance, global attention will focus on how the market evolves as a result of PSD2 regulations.

Other major areas of regulatory development include the push for faster payments, such as the New Payments Platform (NPP) now in development in Australia and the Faster Payments System (FPS) in Hong Kong. While some markets, the U.S. in particular, are driven primarily by commercial pressures, these regulator mandates for the development of immediate payments infrastructure undoubtedly act as a spur to banks' significant investments and ultimately help to drive technology innovation in all markets as vendor capabilities and industry experience in building out the necessary infrastructure improve.

Data security also remains very high on the agenda, and this includes nearly continual tightening of key requirements for banks and corporate clients in areas such as anti-money laundering, Know Your Customer, and anti-terrorist funding. Tellingly, the forms of data security required by banks and their corporate clients are changing, and this will be felt most notably in 2018 by the General Data Protection Requirement (GDPR) regulations in Europe mandating greater security of consumer information. Unlike PSD2, which only directly impacts EU firms, the GDPR has a direct impact on any organization that comes into contact with data collected from EU residents. Lack of compliance by enterprises—both banks and corporate institutions—will place them at risk of numerous sanctions, including fines of up to 20 million euros or 4% of annual revenue.

As a whole, the stream of regulations and mandates impacting banks ends up having a push-and-pull effect on banks and their technology strategies. While open banking and faster payment

initiatives help to spur major investment and technology growth, concerns over data security and compliance will hold back investment in others. This fear of security and regulatory compliance is a critical factor, for instance, in many banks' slow shift to cloud-driven deployment of critical infrastructure in recent years. Many regulators are now becoming increasingly aware of the potential negatives that overregulation or unclear regulations can have on areas such as blockchain technologies and fintech, and they are trying to take a more nuanced approach. As the regulatory environment becomes more complex, expect to see greater willingness from regulators to support innovation as well as growing use of technology and regulatory sandboxes by banks and technology developers to provide a safer way to push innovation.



## CONCLUSION

In 2018, Aite Group anticipates the following trends in wholesale banking and payments:

- **Banks shift away from a one-size-fits-all approach.** Banks will look to create more effective segmentation as part of their larger digital transformation initiatives and advance their desire to move toward single-platform strategies.
- **Agile development methodologies will be adopted.** Agile development methodologies and practices will help banks meet shifting market demands that are moving at a faster pace than ever before.
- **APIs and open banking will dominate the conversation.** Move steadily beyond payment-centric APIs and explore corporate banking services.
- **Payments continue to evolve.** As banks allow clients to send and receive on-demand payments, ways to reconcile those payments and easier access to consolidated information are regaining focus in the market.
- **Enabling innovation becomes critical.** While emerging technologies have potentially profound implications for wholesale banking, banks that can create a better environment to nurture innovation will see the most benefit long term.
- **Banks will make investments in small-business banking.** Banks will strive to ensure small-business customers are being offered the needed capabilities by partnering with fintech firms, migrating small-business customers to commercial platforms, and enhancing existing offerings with more business-specific capabilities.
- **Alternative lenders lose some steam.** Hyped though the digitalized advantages of the alternative lenders are, many credit-seeking SMBs want more than just an online portal when selecting a lender.
- **Banks increase focus on digitalization, automation, and efficiency.** Timely and punctual information is as important as product delivery and time to market. Corporate clients are not inclined to be the testing environment for a bank's unclear strategy.
- **Data becomes more easily transferable.** Be ready to go beyond traditional credit-risk scoring models and assess a company's creditworthiness by incorporating supply chain process data, using supply chain operational performance as a metric for innovative risk profiling.
- **Security and compliance continue to have an impact.** Regulatory mandates and compliance needs are having a push-and-pull effect on bank technology development, and banks need to look at the global experience to learn how to best navigate an increasingly complex space.

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