What is next in corporate banking?

Summary

BCG recently opined that corporates want an Amazon like experience from their bankers. What might this mean? And are banks best placed to deliver?

Amazon for corporates

"Today's corporate banking clients want the efficiency and convenience they experience every day on retail websites such as Amazon and eBay." (From "What Do Corporate Banking Customers Really Want?")

It is striking that this comparison is not to tech financial services like PayPal or AliPay. BCG is comparing banking to an e-commerce platform. Even if arguably unfair, it raises a good question about what corporates want.

In the same way, as a home buyer does not want a mortgage (they want a home and a mortgage is just an annoying step along the way), corporate banking customers do not want banking services – they want to do business. They want to delight customers and sell product. To do that, corporates need to collect from customers and pay to vendors, but handling cash is not their core mission.

DBS, whose advertising used to promote "joyful banking", have changed their advertising to "live more, bank less" in recognition of the reality that we do not really want banking per se, rather banking is a means to an end.

Tellingly, e-commerce platforms like Amazon do everything they can to make payment invisible or at least minimally disruptive. If you think about the Uber experience, payment is completely invisible. And Amazon itself developed one click shopping.

It may be uncomfortable for some treasurers but this is where corporates are heading regarding banking. It is analogous to how corporate IT has migrated to the cloud, and how physical production has migrated to outsourcers. Both IT and manufacturing were considered core in the past, and now businesses have found that they do not need to do them in house.

Simply integrate

"Recent BCG interviews with bankers and corporate customers reveal that—along with cheap, reliable financing, of course—what corporate banking customers want most are simple, straightforward transactions and the option of self-service. For example, they want a single login page for all active services; seamless transfers of data between the website, their mobile device, and their relationship manager (RM); and the ability to view their balances and conduct transactions online. And they never want to complete the same form or send the same documentation twice." (From the same BCG article)

Before we get to business platform nirvana, there are a lot of basics to fix in the short term. Banks have tended to mirror organisational silos in the technology, resulting in a confusing mix of software with which corporates have to contend. Even if many banks now understand that this is not ideal, issues with legacy systems and cost make for slow progress.

In this sense the advent of open banking and the regulators enthusiasm for API banking gives some hope. APIs are the glue that enables integration within and between businesses, and will enable business platforms going forward.

All basic business processes can be offered as services via APIs. In turn different software clients can 'consume' these services via APIs; services might be getting a statement or making a payment. The clients include user interfaces, file transfer via middle ware to do file format conversion, other software such as ERPs ‘consuming’ services through API, and even abstraction layers to translate one API ‘language’ to another.

This is decades old. Application software interacts with operating systems via API to interact with screen and keyboard and network and so forth. Same for databases and finger print readers – the world of software comprises layers and layers of APIs.

Platforms and end to end

On the other hand big and small tech companies come to this situation without legacy and with the API mindset in their DNA. They do not suffer from the compulsion to reinvent wheels in house. They pick and choose amongst existing services and integrate them with APIs. If they want to enable sales in China, it does not cross their minds to get a banking licence, they simply connect via API to WeChat etc.

Platforms like Alibaba take a holistic view of the customers’ needs – they extend into logistics because their merchants need to get product to customers and they extend into finance because their merchants need to collect from customers. The underlying mindset is to facilitate business – to handle all the support services so that their merchants can focus on whatever they do best.

Cloud ERPs like Xero come to this from a slightly different angle but also with the API mindset. Xero has a number of APIs for statements and transactions. Tally in India has integrated with DBS via API so that Tally user no longer need to work through DBS’ e-banking website.

This is quite similar to TMS offering SWIFT and other bank connectivity solutions in the box, so that corporates no longer need to do their own implementation.

Shared Service Centres

Driven by cost savings, the first SSCs were designed to reap scale economies by centralising back office functions like accounting, reporting, fixed assets, payroll, etc. This resulted in depressing targets like maximising the number of invoices processed per employee and the delightful management challenge of firing N% of employees every year.

In one sense, the logical end point for scale economies should be to share services across many corporations, but this does not seem to have occurred much. Most of the notable exceptions are for very specific activities and niches which are close to external requirements – for example, statutory reporting and payroll.

Following the dot bust at the turn of the century, Sarbanes-Oxley and its ilk brought a second driver for centralisation and consistent processes – compliance. SSCs need consistent processes for efficiency which makes them natural tools to ensure process compliance. Furthermore, SSCs represent a powerful degree of segregation of duties – it is hard to collude with colleagues from a very different cultures on the other side of the planet.

Faced with ever faster moving businesses, many corporations saw a third driver for SSCs. Some called it "plug and play business processes", though Microsoft's infamous use of the same term drove others to seek out less loaded terms such as "common business services". The underlying idea was that many back office functions have sufficient commonality that they can be offered as standard services to various different parts of the business. The core concept is that business units should not worry about back office at all so they can focus on their key business priorities – normally customers and product – and leave the admin to SSCs.

Another related concept is the – by no means universally accepted – trope that SAP encodes best practice. According to this view, implementing SAP can also be a process re-engineering exercise to align with best practice. Thus users change their processes to meet

SAP rather than try to customise SAP to existing processes. Of course, Dell famously rolled back their SAP implementation when they found that SAP did not meet their functional requirements.

Platformisation of business processes

If corporate action in the SSC space is a good indicator of what corporates want, then this will probably look more like one or many platforms handling end to end business processes so that organisation can focus on core value adding efforts. For most businesses, other than business service providers, accounting and payroll and other back office processes are not core. They are necessary and even important hygiene but they neither core nor value adding nor differentiating.

If we consider processes adjacent to treasury such as O2C (order / opportunity to cash) and P2P (procure / plan to pay), it is only the customer and vendor touch points that may differentiate. For e-commerce, payments have to be easy otherwise sales will be lost because any hiccups give buyers an opportunity to sober up about impulse purchases or search elsewhere for needed purchases.

Generally, the stuff banks (and treasurers) worry about – payments, accounts, even reconciliation – are non core and not value adding. Of course, they have to work effectively; they are hygiene factors which are invisible when functioning well and very negative if they go wrong. In other words, they are perfect candidates for outsourcing to a competent external service provider.

Banks and business processes

Banks have lots of complex processes internally. In fact, for many of their customers, they have too many and too complex processes. Bogged down as they are with their internal processes – many to satisfy regulatory and fiduciary constraints – it often seems banks do not have bandwidth for their corporate customers commercial processes.

Banks touting "payment outsourcing" which is little more than file transfer show how far from holistic their view is. SSCs typically take care of everything after order initiation for their internal business colleagues. Even if banks were to offer deep integration into client ERPs, it is not obvious that clients would even want this, especially since for most that would mean integrating multiple banks. Given how difficult it is to get banks connected for basic payments and statements, many corporates will be understandably sceptical about deeper integration.

To be fair, businesses often have silos that separate their internal teams, so that the finance or treasury staff with whom banks typically communicate may not always think holistically.

Once business process platforms begin to scale, they will provide service quality and scale economies unthinkable for any but the largest companies. This will create allow platform users to better satisfy their customers while reducing prices so that they will out compete companies who still do everything in house.

The current bank focus on pushing product and narrow focus on the banking end of corporate processes will not result in end to end process handling. Even if banks have a holistic understanding, it is not clear that they would be able to overcome challenges like legacy systems and regulatory constraints and bloated cost structures to compete against nimbler tech companies who are also coming to this space from other angles.

Whither business platforms?

If we look at what is happening with the new virtual banks and existing e-commerce platforms, we can get some inklings about what business platforms might look like.

Virtual banks often use data analytics to predict customer needs – for example when you go to the supermarket you normally spend $250 so if your balance is less than $250 offer you on the fly credit and warn you if you spend more than $250. Large e-commerce platforms routinely use the data they have on the businesses on the platforms to inform credit decisions and flag potential problems. They can offer foreign exchange conversion as well as price list hedging.

Businesses using such platforms will not have to explicitly worry about banking, risk management, accounting, payroll and so forth. All sales and purchases go through the platform which takes care of invoicing, settling (maybe on the platform's own netting system), conversion and hedging where required, and funding when needed. The dashboard indicates to management when they are at risk of exceeding their credit lines and proposes corrective measures, possibly including more expensive funding. But there is no more balance sheet analysis on Excel, nor funding negotiations with banks. Credit quality and business size determine margins and pricing, and these are in any case far lower than can be achieved off platform.

Just as cloud platforms today already get updated more or less continuously, business platforms will probably be continuously evolving in terms of their own functionality and technical platform but also in terms of their API integrated specialist services. Businesses using the platform will not care if a bank or payroll provider is changed so long as their businesses continue to run smoothly.

Some might object that these things are too important to outsource. We used to think that about IT technology but we have now largely accepted the move to cloud. Likewise, many product companies outsource their manufacturing to specialists – for example Apple outsources to Hon Hai. Business platforms are the next logical step. Just as we do not care how many virtual servers we have on the cloud so long as our website remains responsive, in the same way we will not care which bank or payroll provider is used so long as our processes run smoothly and our customers and employees are happy.

Business platforms will probably combine ERP, banking, payroll, taxes, insurance, and so forth in one integrated platform, together with multi functional APIs to integrate with customers and vendors.

They will not need to do it all themselves. They can connect with APIs to best of breed service providers for banking, accounting, payroll insurance, etc. Thus business platforms specialising in different sectors may use common specialist service providers via API.

Conclusion

Based on the evidence from the worlds of SSC and cloud, the platformisation of back office business processes seems inevitable. The benefits of scale economies and service quality that business platforms will offer will force companies to platformise or die. This will seriously change corporate banking and corporate treasury. Most banking is likely to be commodity services provided directly to business platforms. Treasurers will have to migrate away from back office towards core business.

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