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Winning the Battle in Corporate Banking

Emerging Challenges in
Driving Return on Equity

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1.0 Executive summary

Since the financial crisis of 2008, corporate and institutional banking has been viewed by universal banks as a key focus area for profitable growth based on its lower capital requirements and strong client franchises. This growth, however, has proved elusive due to increasing competition, as well as shifting client demands. A complex regulatory environment, emerging global standards, and real-time transactions also have driven up costs and impeded growth. So, how is the landscape changing and how should corporate banks respond?

For the last three years, CGI has sponsored an annual survey on corporate banking trends and issues conducted by leading financial research provider GTNews. In this report, we analyze survey data from the last three years (2013-2015) to shed light on how the market is changing and identify actions needed to win in the corporate banking market.

Overall, satisfaction among corporates has declined by 3%, which is disappointing and suggests that there are some serious underlying issues with the way that banks continue to serve their corporate clients. There are high points, however, in the research, as well as indicators that investments made in some product lines are beginning to show dividends.

The research also shows a clear link between bank mobile and digital strategies and corporate client satisfaction. Interestingly, satisfaction across all products and services, with the exception of forecasting, tends to fall within a narrow band, indicating that there is not a lot of variation among products and services in terms of client satisfaction. The exception, forecasting, falls far behind all other services in terms of satisfaction, despite showing signs of improvement.

As corporates began to benefit from the gentle economic upturn in 2015, their expectations in terms of services and areas for improvement began to change. Interestingly, while satisfaction levels have historically been quite high for core services like cash management, cash management is now under the most scrutiny by corporates. This indicates that many banks simply are not evolving fast enough for corporates. Corporates are demanding improvements and are prepared to switch providers. They also are looking for seamless customer journeys across traditional product silos, where data and forecasts accurately represent their preferences.

Our research shows that 41% of corporates surveyed expect to renegotiate their banking relationships in 2016. Institutions at most risk are those with poor service levels, disparate channels and a lack of digitalization, which are seen as the most important factors driving corporate satisfaction.



Penny Hembrow

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Corporates also are continuing to reduce the number of accounts and relationships they maintain to simplify their banking and reduce their operational costs. They have indicated that they are experiencing a “sea change” in their attitude towards multi-bank banking and a desire to achieve this through a single portal. It is underpinned by the harmonization of standards among banks, which is the area most highly rated for improvement and is a key enabler for easier multi-bank connectivity. The disparate processes of banks are creating service friction for corporates with multi-bank relationships. Corporates are seeking to reduce the cost of service friction, and banks that address this issue will create competitive advantage.

Even though digitization has a direct link to corporate satisfaction, many banks continue to see their IT budgets drain away due to compliance and regulatory change and, as a result, they have limited funds available to invest in replacing their aging legacy environments and completing their digital transformation. CGI’s own research indicates the level of IT spend available for investment in digital transformation is between 8-17% of bank IT budgets—not enough to meet the accelerating demands of corporates.

This is the key issue now facing most of the traditional providers. Urgent action is required to structurally reduce the costs of legacy applications and release funding for digital transformation, as well as to improve revenue generating services. Piecemeal and time-intensive legacy modernization will no longer enable banks to compete.

Overall, in the ideal world, most corporates would like to have a multi-bank portal providing a single view across all their banking relationships, underpinned with more real-time information and fully integrated key services, such as fraud control, know your customer (KYC) and payments.

Learn more about corporate client expectations and corporate banking trends in this report, and feel free to contact us at banking.solutions@cgi.com if you have any questions or are looking for additional insight.

More about GTNews and AFP

CGI has sponsored transaction banking surveys for the past three years (2013-2015), and this paper provides a comparison of year-over-year survey results, along with insight to help banks better understand corporate client relationships.

GTNews is a leading online global knowledge resource for more than 65,000 treasury, finance, payments and cash management professionals. GTNews is updated daily and provides subscribers with access to an archive of 9,000+ treasury articles, special reports, commentaries, research, polls, news, webinars, and white papers—all with a global focus.

AFP Research provides financial professionals with proprietary and timely research that drives business performance. AFP Research draws on the knowledge of the Association’s members and its subject matter experts in areas that include bank relationship management, risk management, payments, and financial accounting and reporting. (Please note that during 2014/2015 GTNews was a subsidiary of AFP)



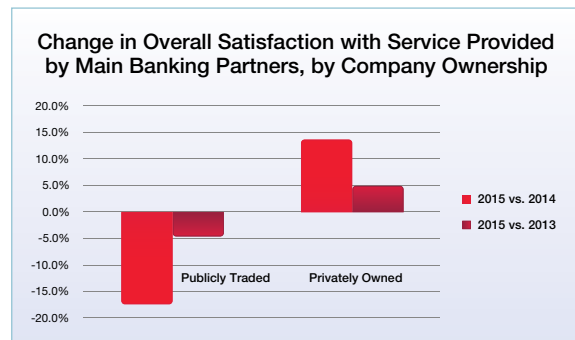
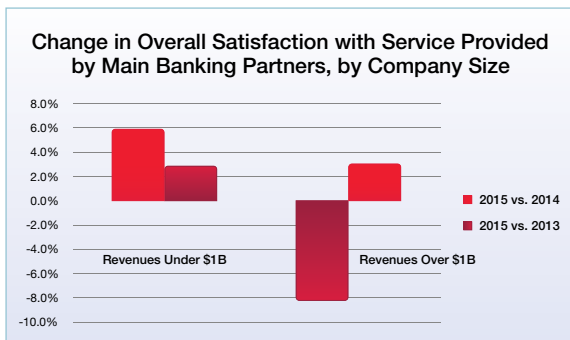
2.0 Client satisfaction

There was a 3% decline in corporate satisfaction levels in 2015, compared to 2014. Overall, satisfaction has increased by only 3% over the last three surveys, compared to the 2013 level of 66%. This is clearly disappointing. The only increase in satisfaction came from smaller and privately-owned firms, which is the reverse of the 2014 survey (where almost all other segments were the ones that saw an increase). This finding reflects a possible increased focus by banks on small businesses.

Based on a two year view, Western European banks slipped back 7% in terms of satisfaction in 2015 after gaining significant ground in 2014, a finding that reinforces corporates are becoming more knowledgeable and demanding in terms of their bank expectations.

North American and small companies demonstrate the highest satisfaction levels, tied at 72%. That said, North American firms have experienced declining satisfaction over the last two years (resulting in an overall decrease of 6.5% versus 2013), while smaller firms have seen a consistent rise (+3% versus 2013 and +6% versus 2014).

Meanwhile, publicly traded firms' satisfaction levels have seesawed over the last two years, rising 15% from 66% in 2013 to 76% in 2014, and then sharply falling by 17% in 2015 to 63%, a net decrease of 4.5% over the two years. This is perhaps the biggest concern.



2.1 Most improved services

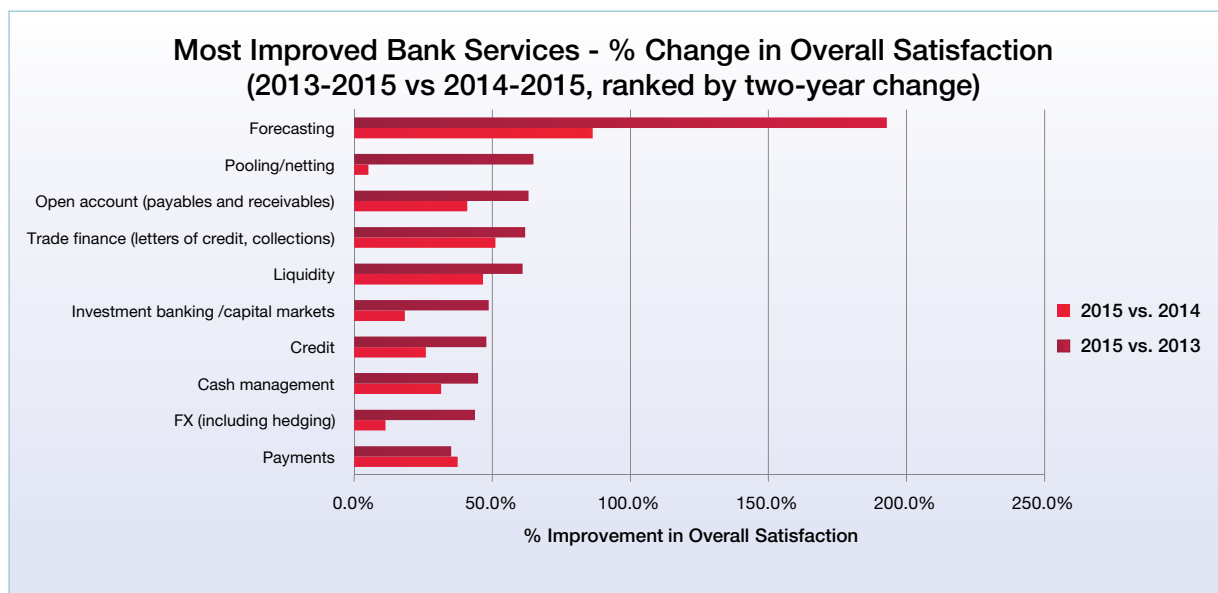
While **forecasting** remains the most consistently improved service area in the last two years (up nearly 200% since 2013), it still remains the lowest ranked service area in terms of satisfaction three years running (from only 14% of firms satisfied in 2013 to 41% satisfied in 2015). This means that 60% of clients are still not happy, and this is an area where banks should consider developing a niche service for clients, which also could serve as a differentiator.

These findings indicate how complex forecasting is and how many banks remain challenged in delivering this service via their aging legacy infrastructures. Improving forecasting for a single product silo is not sufficient. Corporates want forecasting across all products.

On the other end of the spectrum, **payments** (the highest ranked service) continues to receive attention and improvements by service providers and regulators, with overall satisfaction rising (+35% since 2013 to 77% in 2015). Western European firms, in particular, are driving increased satisfaction (+66% since 2013).

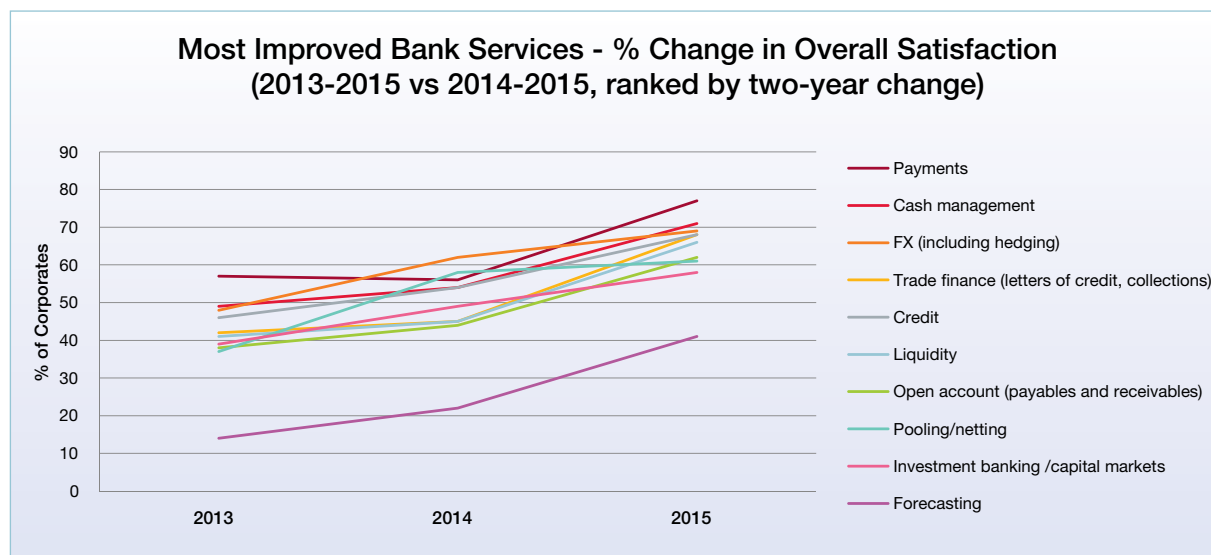
With the implementation of SEPA now settled, it seems that corporates are beginning to see the benefits of a single credit and debit instrument across Europe. Given recent announcements in many regions to implement immediate payment systems in 2016/2017, this area will continue to be under the spotlight and could be an opportunity for further differentiation if the implementation is well executed and cleverly integrated across core services.

All other products, meanwhile, have seen 44-65% increases in satisfaction since 2013, with relative rankings remaining essentially unchanged. That said, **pooling/netting's** dramatic satisfaction gains in 2014—moving from the ninth to the second ranked service—were all but lost, as it is now ranked eighth again.



2.1.1 Areas for differentiation

Given recent announcements in the U.S., Canada and across the Eurozone on the introduction of new immediate payment infrastructures, we expect payments to re-emerge as a key area of opportunity for differentiation.



2.1.2 Analysis

The renewed focus of banks on satisfying smaller, private firms may be occurring at the expense of other market segments in 2015 (particularly in North America and Western Europe). Banks are thus advised to maintain focus on all segments, even as they increase their focus on underserved segments.

The status of **payments** and **cash management** as the most satisfactory services over the past two years signals strong bank investment in both areas, which continued into 2015 (+37.5% and +31.5% satisfaction level improvements, respectively). With promising and growing interest in the application of block chain technologies bank-wide, it is likely that these areas also would become beneficiaries of research and development. Together with the introduction of next generation immediate payment infrastructures and other legacy transformation programs, we expect the increase in satisfaction levels of both services to continue to accelerate.

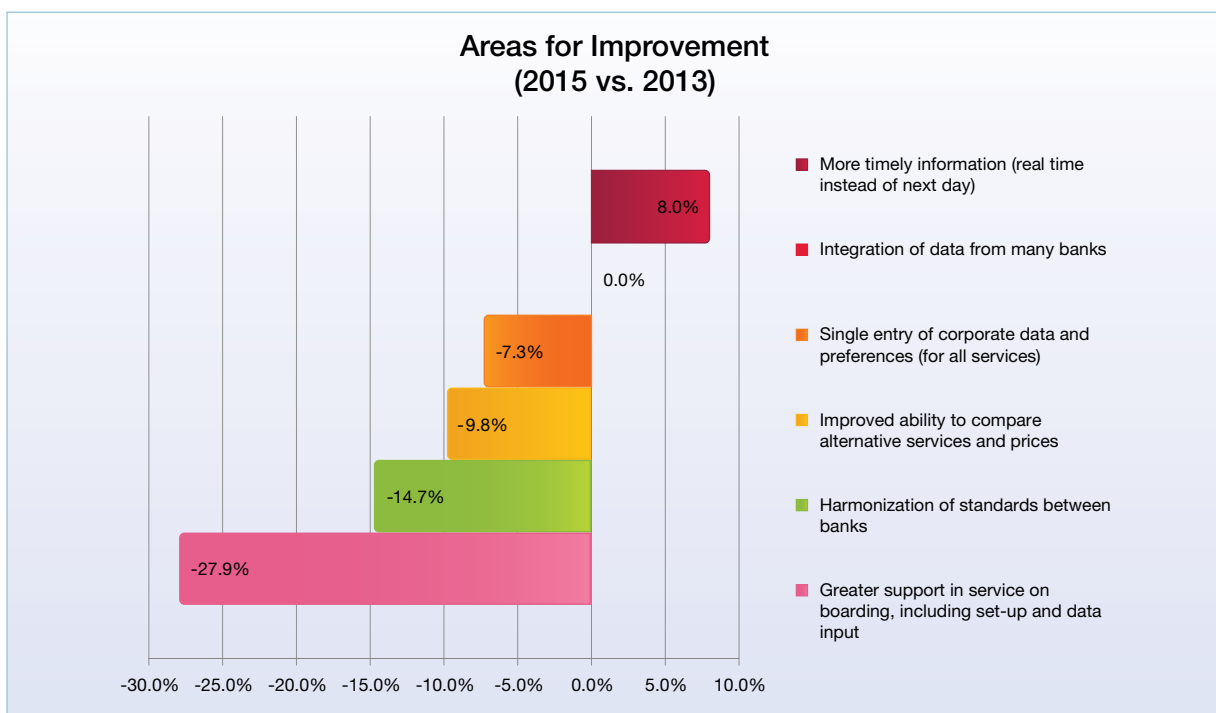
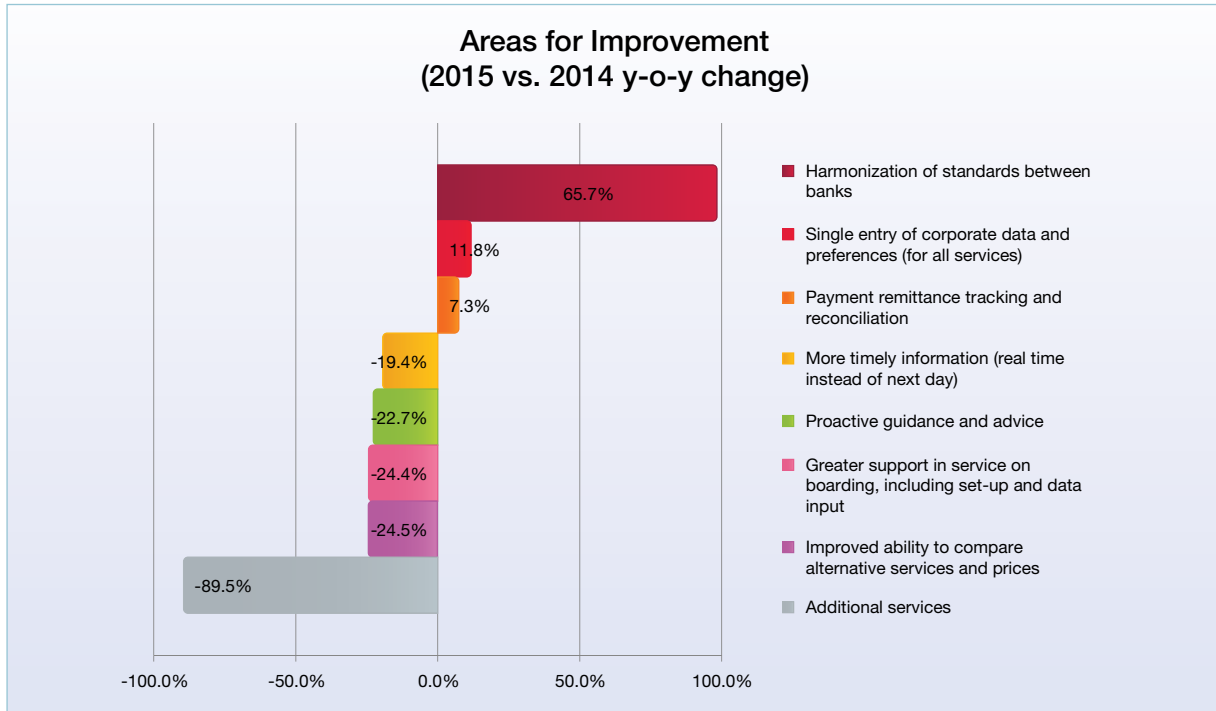
Trade finance, meanwhile, experienced the second highest satisfaction level increase in 2015 (68%, up from 45% just a year prior), though it remains the fourth ranked service overall since 2013. This increase signals that businesses are more focused on this service, as global trade itself continues to grow year over year.

However, **trade finance** automation has not materially changed for many years. With the introduction of block chain based solutions on the horizon, significant developments are highly likely. We expect these solutions to result in dramatically lower costs, faster and easier access to information, and improved and simplified processes. The early adopters—and challengers—will make significant inroads and disrupt the status quo in trade.

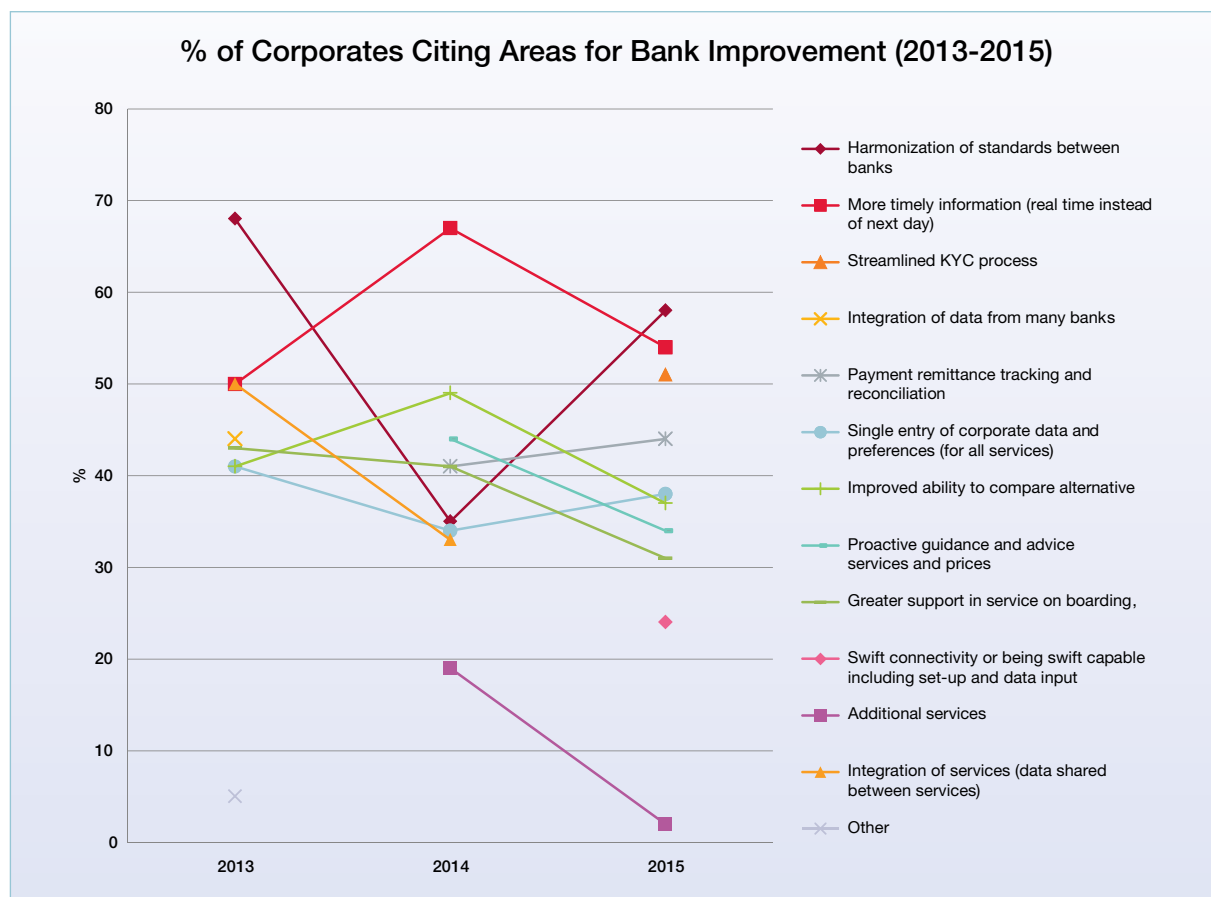
As economic growth has picked up, so has attention to and satisfaction with **liquidity** services (+47% increase in satisfaction to 66% in 2015).

2.2 Areas for improvement

In 2015, banks delivered on their clients' 2014 desire for **more timely information** and **improved ability to compare alternative services and prices**, both seeing satisfaction improvement increases of ~20%+. Changing customer sentiments in 2015 have now shifted the focus back to the need for **harmonization of standards among banks** (+66%, ranked first overall), having **single entry of data** (+12%, ranked fifth overall), and improvements in **payments remittance tracking and reconciliation** (+7%, ranked fourth overall, tied with **integration of data from many banks**). The latter improvement area is particularly sought after by North American (+32%) and large firms (+24%).



Based on a two year view, the desire for improvements in **having more timely information** still grew by 8% (cited by 54% of corporates). This is not surprising, however, since this service has returned to the second position following a sharp spike in 2014. **Harmonization of standards between banks**, meanwhile, remains the top ranked area for improvement (after experiencing a marked ranking drop in 2014 to fifth place), although it is now cited by a smaller proportion of corporates (58% in 2015 versus 68% in 2013).



2.2.1 Analysis

Corporates ultimately are seeking improved visibility and control of their balances, overall liquidity, cash flows, payments, etc. Given that most firms have multiple banking relationships, harmonization of standards among banks is a necessary enabler to providing a single view across providers. More timely information and improved remittance tracking and reconciliation also are key to increasing the visibility of balances and cash flow. Standards can help, such as ISO20222, which will continue to be an enabler in delivering these enhancements.

Corporates, particularly those that are publicly traded, are striving to deliver cost savings and improve their financial operations to ensure that they can deliver improved return on equity. As they invest in new digital services and enhanced real-time operations, their expectations for banking providers will continue to increase. Many banks, on the other hand, continue to be challenged by a perfect storm created by the reliance on too much legacy and a continual stream of regulatory work soaking up their transformation budgets.

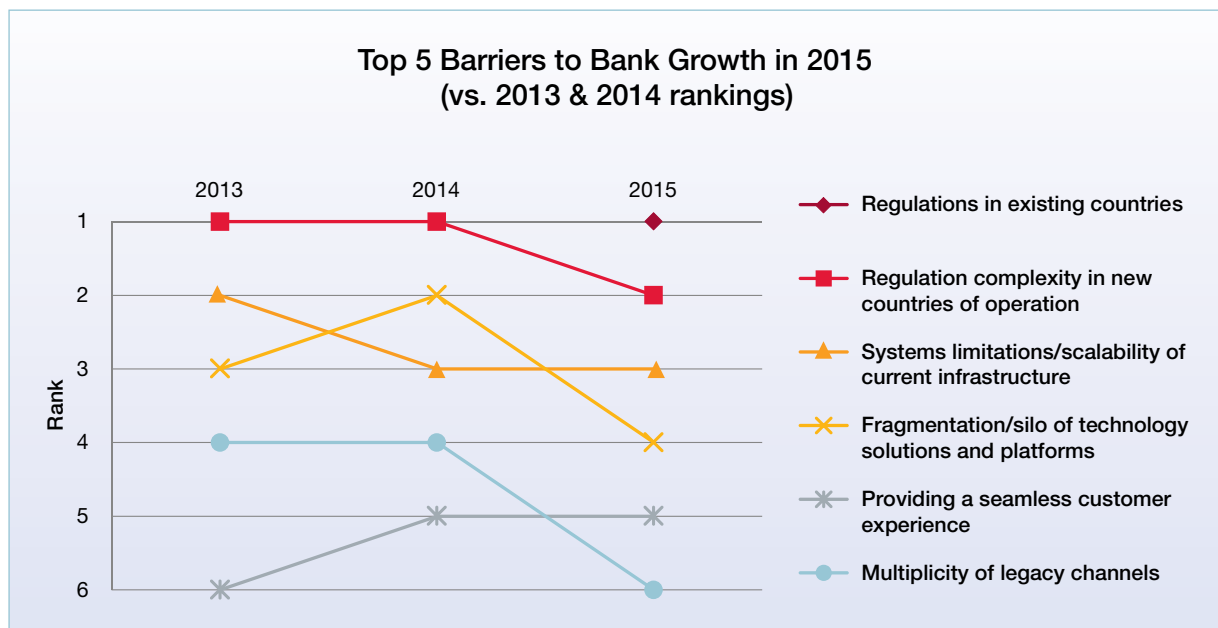
2.2.2 Areas for differentiation

Banks that can deliver a truly multi-product, seamless customer experience will move ahead of the competition, grow market share and increase their corporate client satisfaction. However, this means breaking down operational silos and finally removing remaining legacy applications, as well as re-architecting the core infrastructure.

2.3 Challenges for banks

While top cited barriers to bank growth have remained largely the same year over year, some shuffling did occur. **Technological fragmentation** saw the greatest improvement (at -16%), moving from the second ranked barrier in 2014 to the fourth ranked in 2015 and cited by 38% of banking service providers (versus 45% in 2014). **Multiplicity of legacy channels** also experienced marked improvement (at -12%), knocking it out of the top 5 list, down to sixth (from 34% in 2014 to 30% in 2015).

The biggest change in 2015 came from the **inability to provide a seamless customer experience** (from 29% in 2014 to 38% in 2015), highlighting banking service providers' realization of the importance of omni-channel user journeys and the need for consistency and reduced friction. This remains the fifth ranked barrier two years running. Since the third and fourth ranked barriers are technology-based, tackling these first would presumably aid in addressing customer experience issues in a trickle-down fashion.



2.3.1 Analysis

A piecemeal approach to IT investment simply is no longer sufficient. It seems that many banks are currently allocating their investments to achieving efficiency gains, improving the client experience and delivering innovation in individual services. The research shows a need for banks to determine what they want to be and more clearly identify their target client base.

The combination of system limitations, scalability issues, technology and service silos, and ongoing legacy challenges is dramatically impeding the ability of many banks to manage the constant stream of regulatory change and risk to deliver real innovation such as a seamless customer experience.

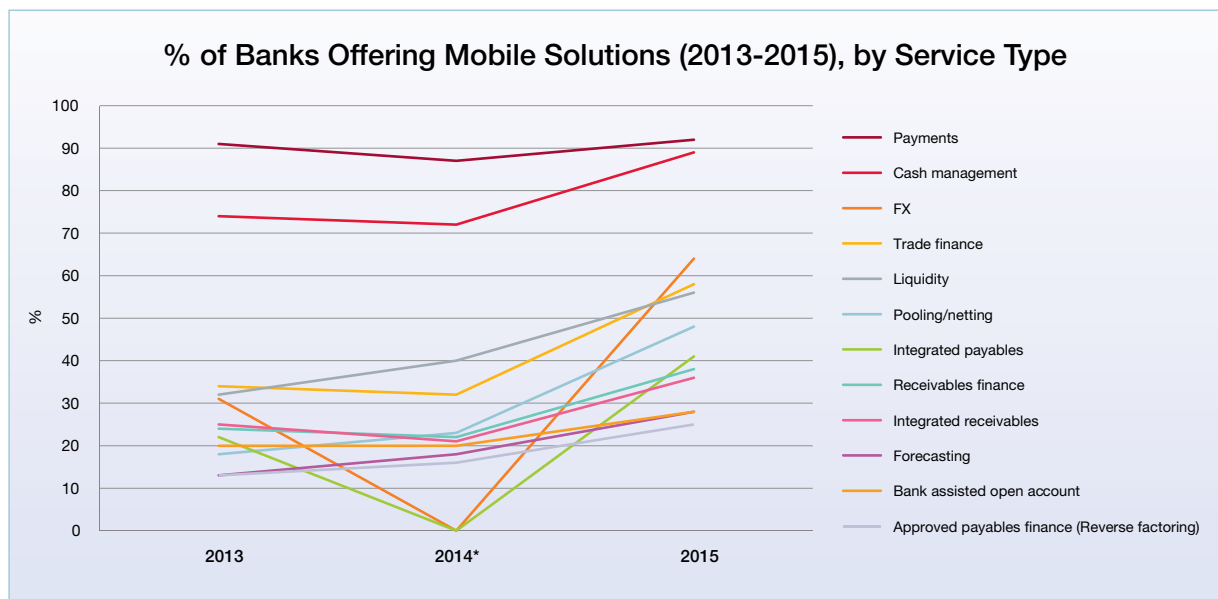
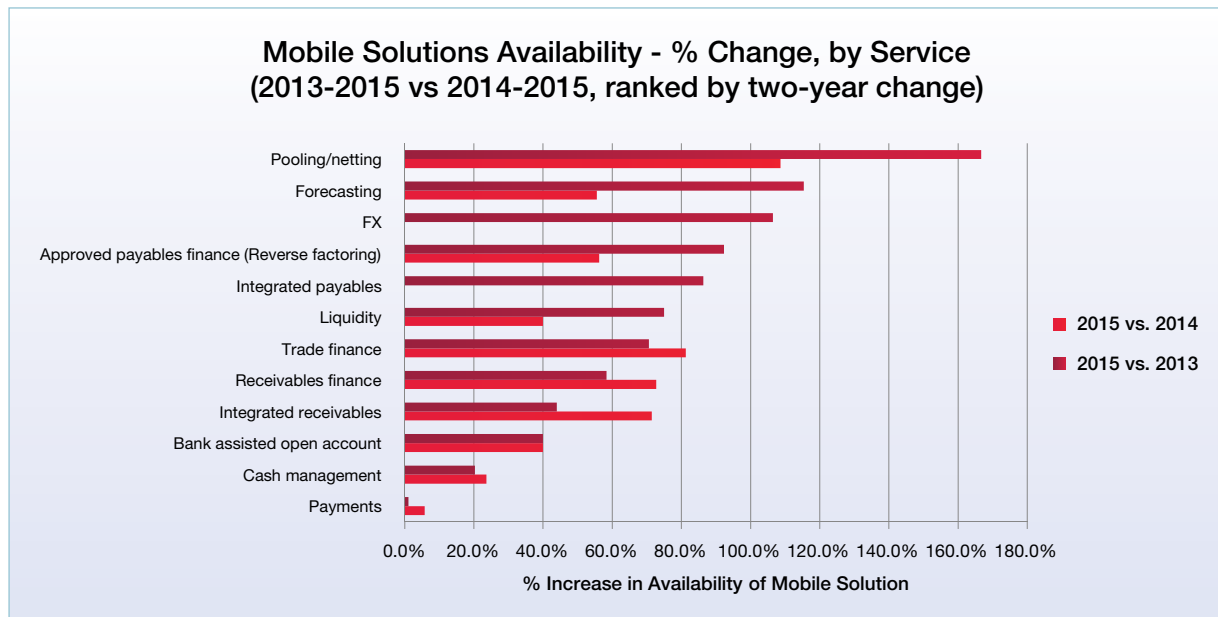
Leading banks are determining their strategic focus. Do they want to be a utility or an innovator? Then, they are setting their strategy accordingly and developing the right infrastructure to meet their future requirements.

For the innovators, a new enterprise framework is required to build the transaction bank for the future based on an enterprise architecture, such as that defined by BIAN. Then, a roadmap to achieve this should be agreed on between business and IT, as well as budgeted and delivered.

3.0 Mobile solutions

The proportion of banks offering mobile solutions in 2015 showed significant year-over-year growth across all service categories (with most in the range of +24% to +81%), in contrast to the declines witnessed in 2014. Of note, mobile **cash management** solutions have achieved two-year growth of 20% (2013 to 2015), which (at 89%) puts them on par with the availability of mobile **payment** solutions (at 92%) in 2015. Cash management and payment solutions ranked second and first in mobile solution availability, respectively.

While smaller firms (<\$1B revenue) saw significant decreases in mobile solutions in 2014, except for a minor 1.1% increase for **payments**, 2015 represents an exact inverse, having all areas seeing growth, with the exception of mobile **payment** solutions (at -2.2% growth).



*Note: 2014 data not applicable for **FX** and **integrated** payables



3.1 Analysis

In 2015, 59% of corporates cited the availability of online and mobile service and product offerings as important criteria in bank selection (up 7% from the previous two years). With the availability of mobile solutions across all services categories starting to catch up to those for **payments** and **cash management**, it appears that banks are keenly aware of corporates' interests in this regard and are well on their way to becoming digital.

That said, remaining services are offered by a sometimes low but broad proportion of banks (25%-64%), so significant investment is still needed to move them into the digital world. Given the ubiquity and near saturation of **payment** solutions availability (ranked first for three years running), a marginal growth trajectory is expected in that category until new payment instruments start to emerge, such as immediate payments.

The fact that both **payment** and **cash management** services ranked highest (first and second, respectively) in terms of overall satisfaction in 2015 seems to corroborate the notion that digitalization and mobility are indeed a significant determiner of corporate satisfaction levels. In fact, the entire top 5 services with mobile solutions have the highest satisfaction levels. While this correlation does not necessarily imply causation, banks are advised to take heed.

Service	Overall Corporate Satisfaction Level (Rank – 2015)	Availability of Mobile Solutions (Rank – 2015)
Payments	1	1
Cash management	2	2
FX	3	3
Trade finance	4	4
Liquidity	5	5

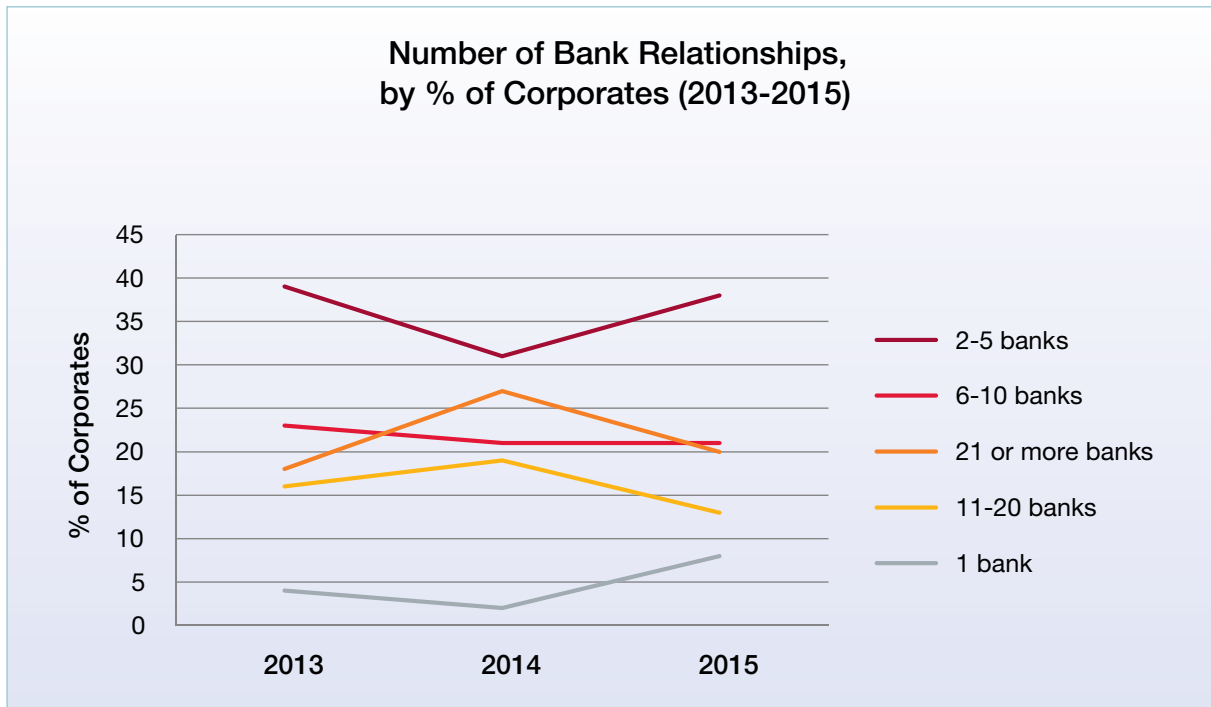
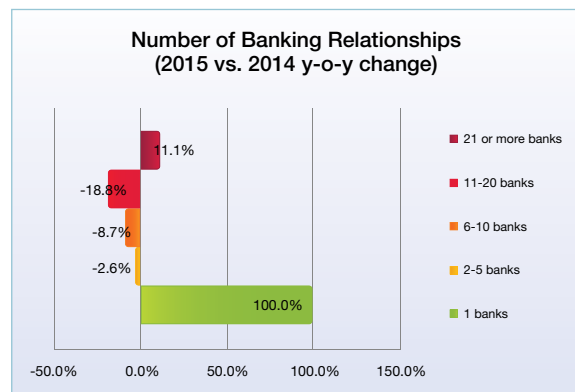
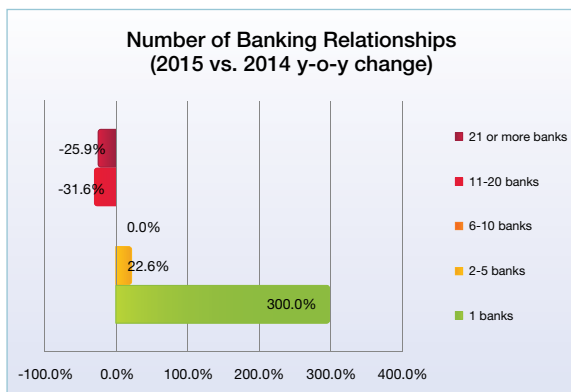


4.0 Banking activity

4.1 Number of banking partners

In 2014, we saw a large increase in the number of banking relationships (+19% for 11-20 banks, and +50% for 21+ banks). 2015 brings a sharp decrease (-32% for 11-20 banks, and 26% for 21+ banks). That said, the proportion of firms working with 21 or more banks is still marginally higher in 2015 (20%) than in 2013 (18%).

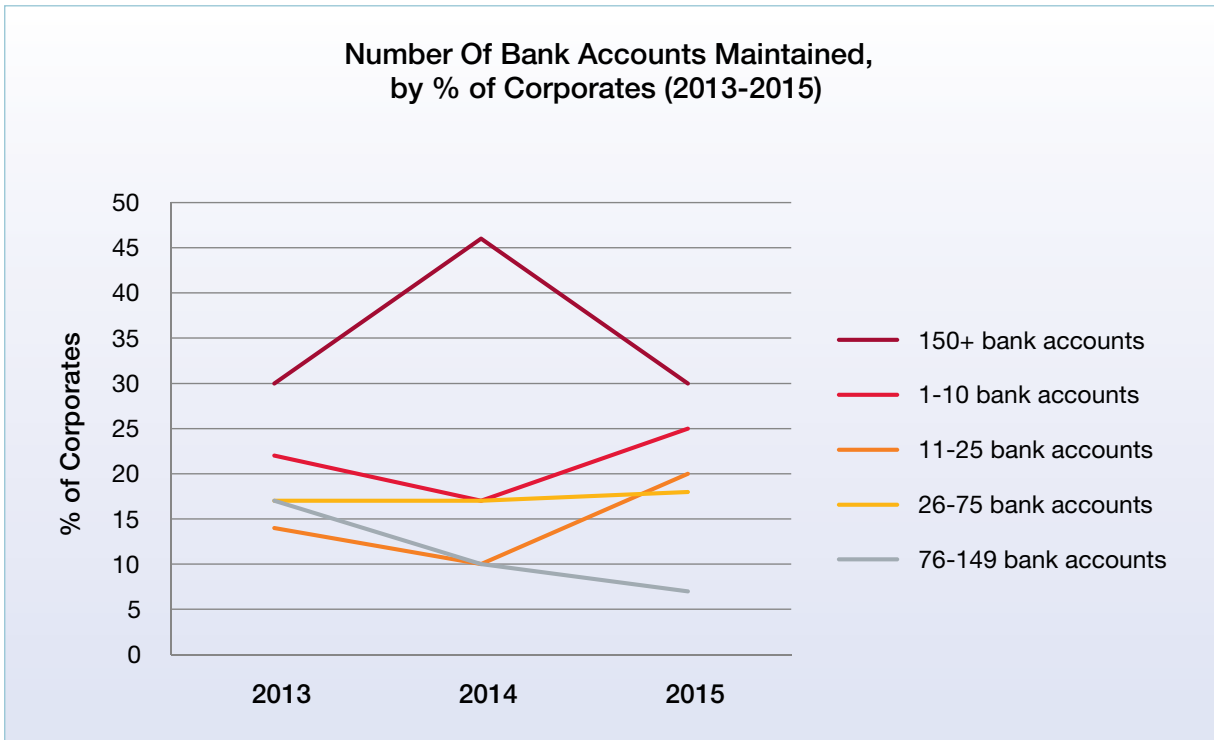
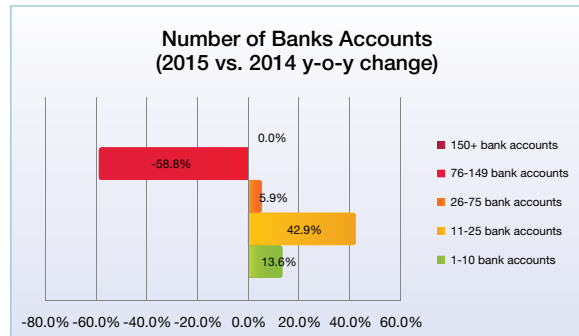
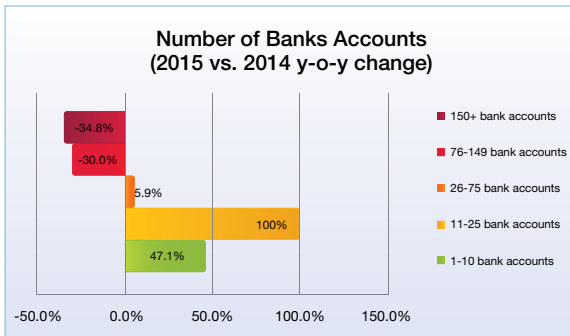
The proportion of single bank relationships, meanwhile, grew by 300% (from 2% to 8%) while the proportion of relationships with 2-5 banks rose by 23% (from 31% to 38% year over year). Since 2013, however, the top and bottom of the scale have experienced the greatest growth (+11% for 21 or more banks, and 100% for single bank relationships).



4.2 Number of bank accounts used or maintained

While the number of bank accounts maintained at the very high end (150+) grew dramatically in 2014 (+53%) and then decreased in 2015 (-35%), the proportion of corporates using this many accounts has returned to 2013 levels. However, the next tier down (76-149 bank accounts) continues its downward trajectory in 2015 (-30%), with an overall proportional drop since 2013 from 17% to 7%.

Though showing regression in 2014, the low end of the spectrum is now showing year-over-year growth. The proportion of corporates maintaining 1-10 and 11-25 bank accounts grew 100% to 25% and 47% to 20%, respectively. Both tiers also now represent a higher proportion than the 2013 levels for each. Growth at the 11-25 accounts tier in 2015 was particularly driven by North American, publicly traded, and Asia Pacific corporate segments (+129%, +143% and +186%, respectively).



4.2.1 Analysis

With the exception of very large corporates, the global trend is to reduce the number of bank accounts and banking partners. We are therefore seeing an acceleration of consolidation by corporates. In Europe, we forecasted this in earlier reports as a likely result of the introduction of SEPA, which saw the introduction of standardized debit and credit instruments across the region.

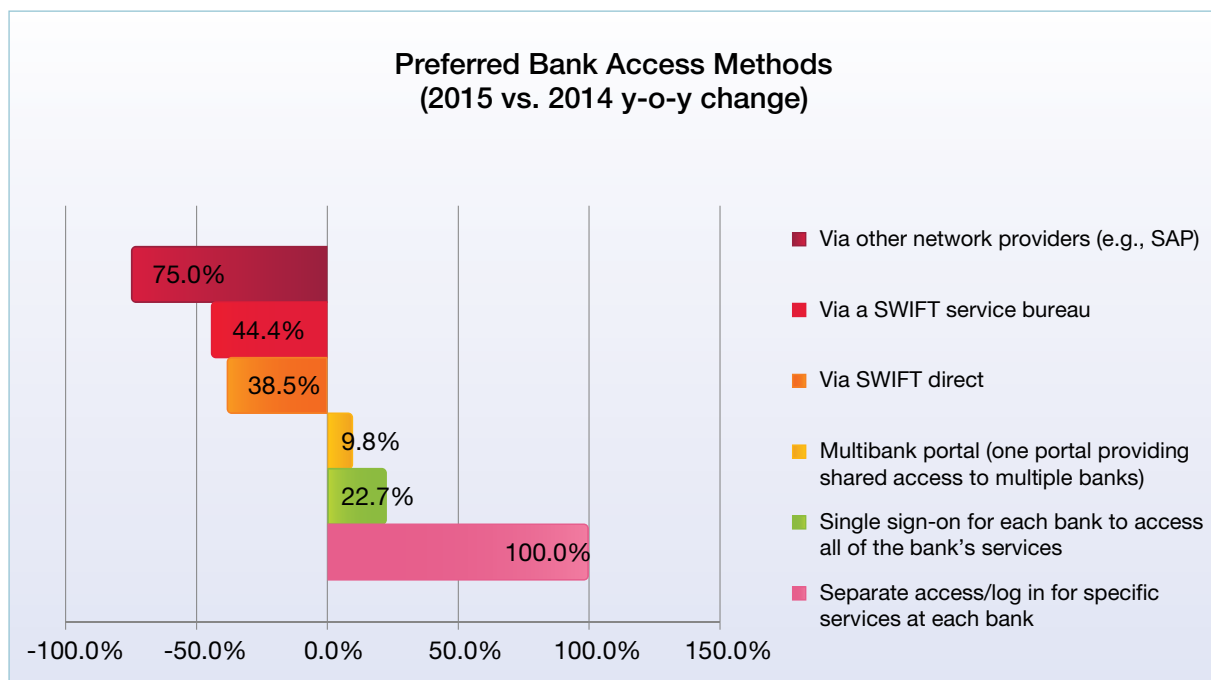
In other regions, there are a number of factors driving the consolidation. We believe the key reason is the need for group treasurers and CFOs to have greater visibility of accurate, real-time information across their operations. Given the technological issues we have already highlighted, corporates have started to take action by simplifying their banking relationships, reducing costs and increasing visibility.

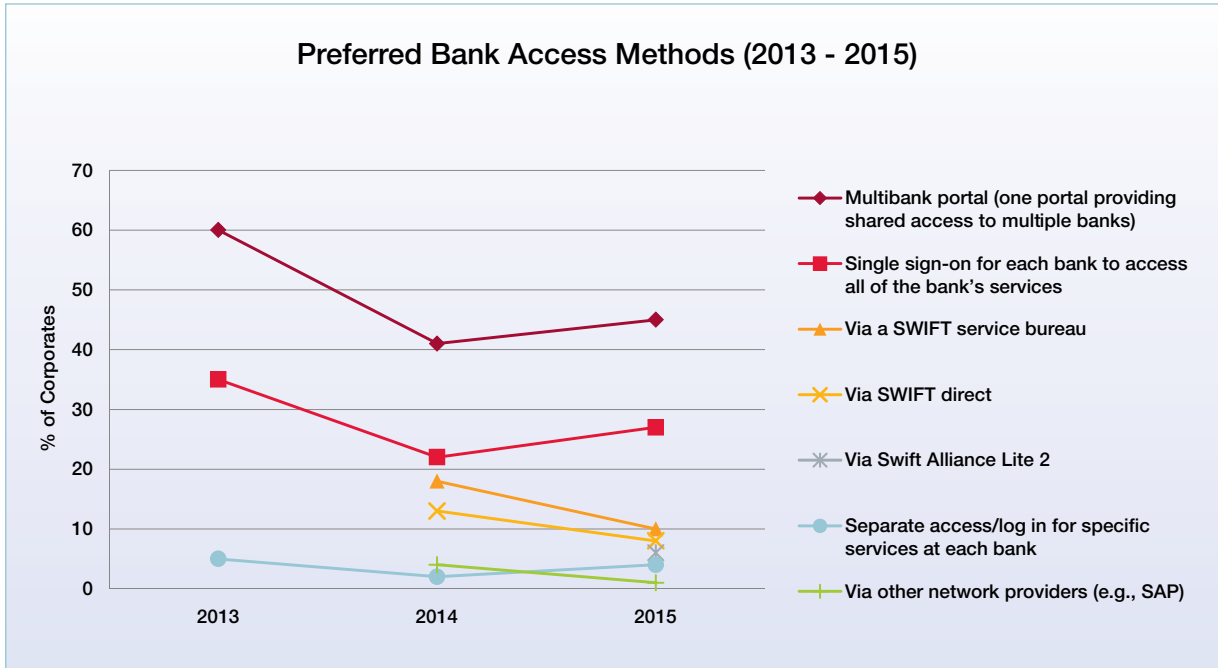
Only very large corporates continue to maintain large numbers of bank accounts and banking partners. This is probably due to the size of their finance and treasury departments, the spread of their operations across the globe and the sophistication of their internal IT infrastructure, i.e., they have little choice but to continue to have large numbers of accounts and banking partners.

4.3 Preferred bank access

It is no surprise that **separate access/log in for specific services at each bank** continues to be among the least preferred bank access method, with only 4% of corporates preferring the channel.

Single sign-on and multi-bank portals, meanwhile, remain the most preferred methods (ranked second and first, respectively), with the latter growing 10% year over year to being preferred by 45% of corporates, with the increase strongly driven by privately owned firms (+24% increase in preference).

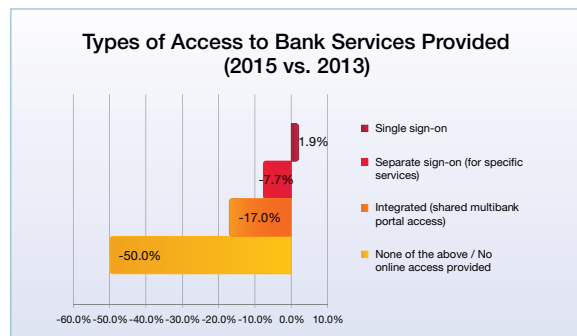
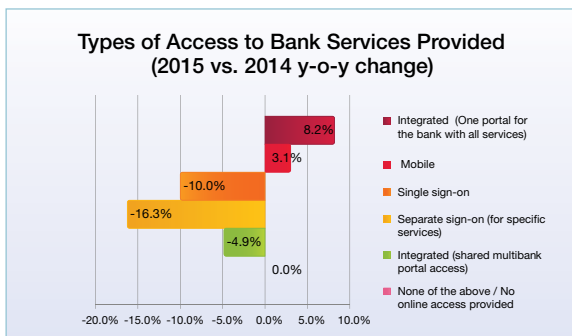


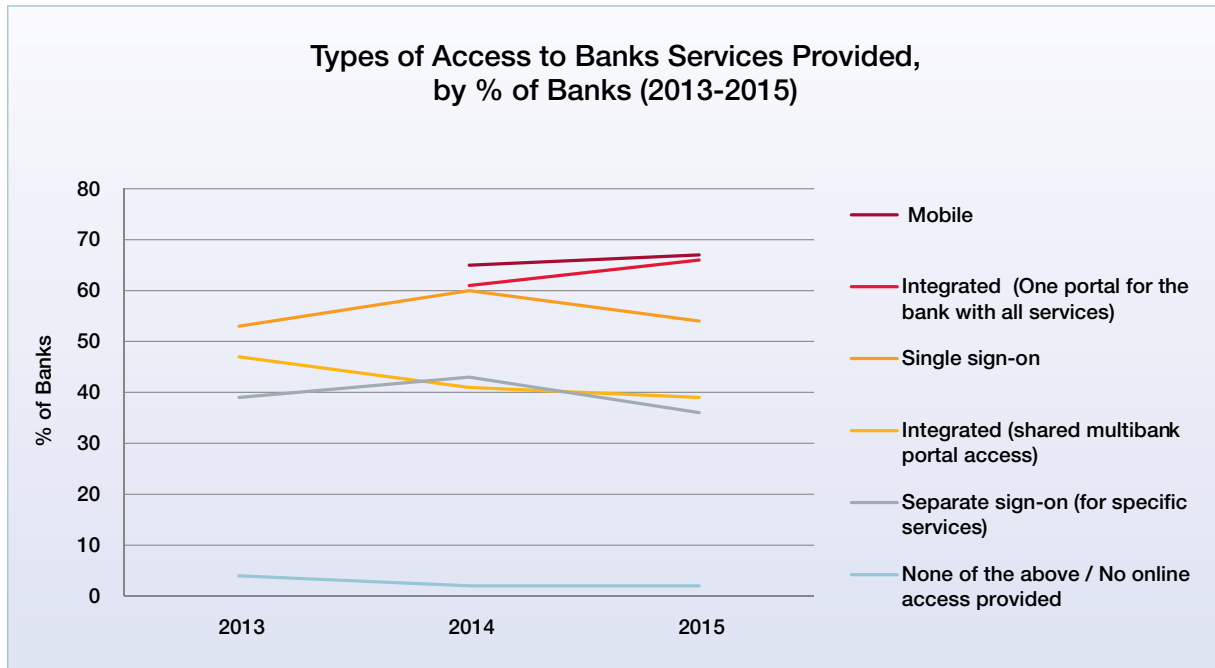


4.4 Types of bank channel access provided

Despite the noted corporate preferences, the proportion of banks providing single sign-on access actually dropped by 10% between 2013 and 2015 (from 60% to 54%), while integrated multi-bank access fell by 5% (from 41% to 39%). That said, large and Asia-Pacific firms experienced growth in multi-bank access (+15% and +9%, respectively). Nevertheless, multi-bank access experienced the largest overall drop (-17%), again driving corporates towards simplification of their banking relationships.

Meanwhile, mobile and integrated single-bank portal access methods grew the most year over year, at +3% to 67%, and +8% to 66%, respectively, with large firms seeing the greatest growth (+7.5%) in mobile access. These two methods also remained ranked first and second in 2015, as they were in 2014.





4.4.1 Analysis

The industry's decreasing focus on multi-bank portals creates space for new competitors to come into the market and usurp bank positions. Conversely, recognizing and reacting to corporates' growing preference for this service creates an opportunity for banks to address the gap to better maintain client relationships.

In terms of accessing services and products, there is a clear desire by corporates to be able to access information across omni-channels, with a seamless experience as they move from one product or service to another. It is clear that many banks are not supporting a multi-bank access environment, but are still working on the development of their omni-channel strategies.

When taken in conjunction with the reduced number of banking partners and accounts by the vast majority of corporates, banks should consider taking action on the whole issue of access to services to avoid losing ground as corporates consolidate their positions.



5.0 Summary

Overall, here are key takeaways from our analysis of survey data over the past three years:

- Corporates are continuing to reduce and consolidate their banking relationships, where possible
- Banks are still experiencing challenges in delivering innovation and a truly seamless customer experience due to their continued reliance on legacy infrastructures, as well as operational and cultural silos
- Requested areas for improvement include better harmonization of standards and the provision of real-time information, both of which demonstrate the frustration corporates are experiencing in trying to work across a bank's product-based applications and services
- Forecasting, while showing signs of improvement, is still far from providing true integrated forecasting as a value-add service
- There is a clear link between the provision of digital services and client satisfaction
- Innovation is picking up speed with such developments as real-time/immediate payment infrastructures
- New disrupting technologies such as block chain will revolutionize many product-based applications and services such as trade finance



6.0 Conclusion

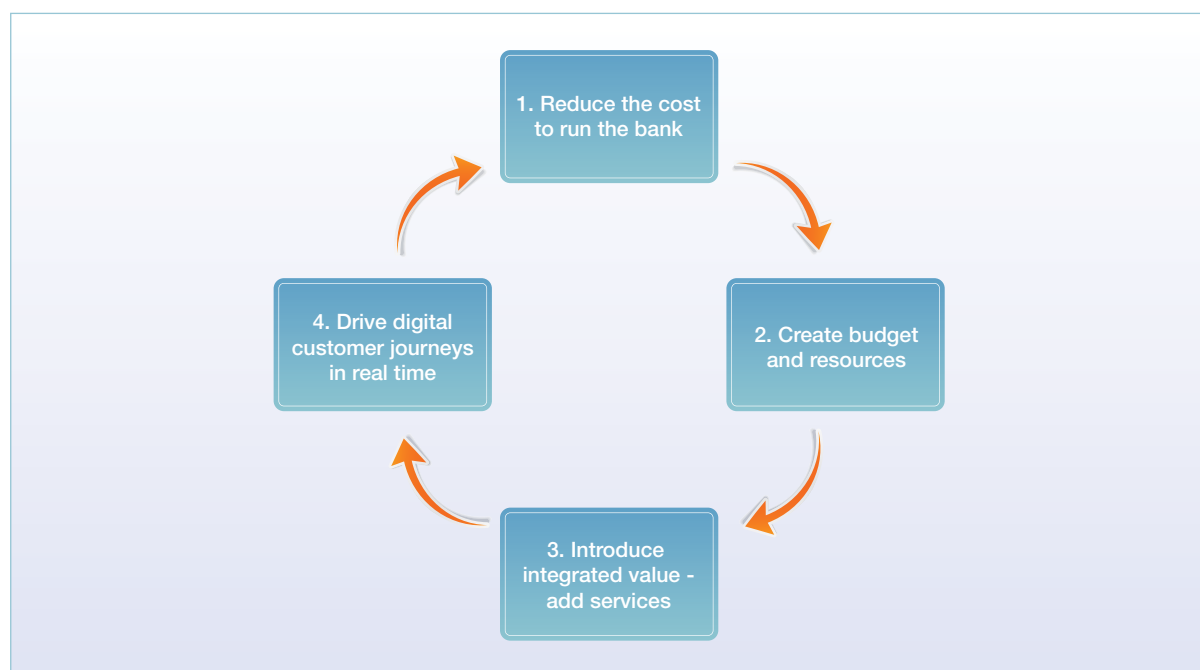
Corporates are actively seeking to improve profit margins, and close scrutiny is being given to the cost of doing business. The spotlight has turned to service friction costs caused by the use of non-standard banking applications, processes and standards. With limited levels of integration (e.g., between trade flows and payments), corporates are effectively bearing the cost of errors caused by the inefficiency of their banking providers, lack of standardization, and limited real-time processing/straight through processing. In the era of simple one-click digital order and fulfilment, a lack of progress in banking service levels is starting to result in a perception of poor customer experience, as well as lower satisfaction levels.

It is now clearer than ever that banks wanting to effectively compete in the corporate banking market should consider the question of who they want to be. Do they want to be an innovator and full service/multi-product provider, or do they want to move towards becoming a utility service provider?

Those that want to remain full service providers should consider radically re-thinking their technology infrastructure. For some banks, this will mean a total removal of all legacy applications and the move to standardized software as a service. For others, it may mean employing outsourcing strategies and financial engineering to structurally reduce costs. Only then can the budget be liberated to invest in the right customer experience via a platform that is flexible and yet maintainable at a fraction of today's cost. Banks also should consider embracing new technologies such as block chain for core applications like trade.

Historically, market leaders used bespoke developments to deliver differentiation. Today, differentiation is delivered through the use of innovative parameter-based components, integrated so that the customer has a seamless experience moving from one application to another, irrespective of channel, location, device or service. Banks that improve poor service by addressing unreliable and difficult to maintain legacy applications will lead in the market.

For innovators, a recommended strategy is to reduce the cost of running the bank to create budget and resources for enabling the introduction of true value-add integrated services designed to accommodate the digital customer journey desired by corporates.



For more information on the findings in this report and how CGI can help transform your corporate banking services, please contact banking.solutions@cgi.com.



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