

How will banks transform to build the next generation of businesses?

Together, we can see new opportunities to better serve corporate, commercial and small and medium-sized enterprises

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The better the question.
The better the answer.
The better the world works.


Building a better
working world

A message from our leaders

We believe corporate, commercial and small and medium-sized enterprise (CCSB) banking is on the cusp of fundamental shifts that will dramatically reorder the industry in the coming decade. As banks assess their future strategies, they need to define their purpose and set a course not just for modernization, but for true transformation.

The hypotheses described on the following pages represent our vision of the future for this critical banking segment. They also highlight how banks must self-disrupt if they are to win and sustain market leadership with their business clients. The hypotheses were developed through dialogue among EY senior strategists, thought leaders, industry and functional professionals, and technologists, as well as outside experts and academics. Since we started our exercise, the world has been disrupted by a global pandemic, which is likely to accelerate and expand the scope of change.

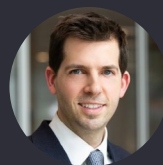
We are optimistic and excited about the future for CCSB banking. That's why we continue to ask better questions, challenge the industry's conventional wisdom, and continually test our own thinking. That's how we engage and collaborate with banks and other industry stakeholders to build a better working world.



Andrew Gilder
EY Asia-Pacific Banking
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About EY NextWave

The EY NextWave vision represents our perspective on the most powerful trends and forces shaping the industry's future. In collaborative ideation workshops, our teams engage clients to envision a brighter future and map out the road ahead.

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Executive summary

During the last decade, banks serving the CCSB segment have enjoyed growth in conjunction with a strong global economy and the ongoing recovery from the financial crisis. Pre-COVID-19, the industry was growing at an average of 2.2% year-over-year, according to IBISWorld, as consistently improving business confidence and a high level of economic activity drove financing.

Over the past five years, banks have made incremental transformation investments that only partially addressed shifts in client expectations for more digital and improved service offerings from their banks. Other efforts addressed specific operational challenges and helped streamline compliance activities. Banks have adopted emerging technology, but typically in a siloed fashion, with a small number of fit-for-purpose use cases across wholesale credit, treasury and cash management, and trade finance.

Today, the industry has been stressed by the global economic slowdown, ongoing low interest rates and lower asset quality. Growth opportunities are harder to come by. Most large banks have resorted to cost optimization measures as they navigate the uncertain climate. Looking ahead to recovery,

it's clear that more extensive and advanced digital capabilities (which the pandemic has necessitated) and stronger fee-based income streams will be critical to long-term success.

The case for fundamental transformation of the industry is stronger now than ever before. Preference for and use of digital channels are at all-time highs. The consumerization of expectations and experiences means the traditional principles by which banks have served CCSB clients have been forever altered. Traditional products and services, and conventional delivery channels are being questioned aggressively by clients and banks alike. Client demands for more value-adding services and richer experiences require that banks not only provide financing, but time, resources, and knowledge to help their clients grow. Banks must also articulate their value proposition more clearly and persuasively than in the past.

Incremental improvements to legacy technology, minor changes to operating models, a singular focus on cost-efficiency, and ad hoc or standalone digital experiences will not be enough for future market leadership. The many disruptions already

“

Banking is necessary ... banks are not.

Bill Gates

under way signal what's to come and confirm that tomorrow's leaders will need to define and execute on a bold vision.

Some of the steps banks will have to take to satisfy CCSB clients include:

- ▶ Defining a purpose and develop offerings that resonate with the next generation of business owners and entrepreneurs.
- ▶ Becoming relentlessly client-centric as traditional segments collapse
- ▶ Harnessing the power of data to identify what clients need and when they need it, enabling the delivery of products and services based on the business lifecycle stage
- ▶ Providing easy digital access to, and purchasing of, a broad range of products and services
- ▶ Identifying and engaging strong complementary

partners and third-party service providers via ecosystems within a seamless client experience

- ▶ Building trust without compromising on speed to market

The hypotheses that form the core of this report demonstrate the importance of taking such actions. Indeed, they speak to the most important issues to be addressed, and the most compelling opportunities to be seized, by tomorrow's market leaders. As such, they reflect not just strategic and competitive shifts, but technological and operational transformation, as well as societal trends and challenges. Our hypotheses highlight the pace and scope of necessary change that's coming to the CCSB banking market in the dynamic decade ahead.



Current trends shaping the market

It's no secret that the speed of technology advances and the ability of banks to harness them has accelerated over the past five years. Emerging technologies - such as blockchain, artificial intelligence (AI), machine learning and intelligent automation - have rapidly moved from pilots and proof-of-concept implementations to adoptions for real-life use cases within key banking functions. Most banks can convert raw data to actionable information and high-value insights more easily and frequently. Innovation has gone from being an aspirational buzzword to a commonplace capability within most banks. But, much of the adoption is still small-scale or siloed. The transformational work has only just begun.

In parallel, while it may seem that globalization has been slowed by trade tensions and rising nationalism within major economies, organizations continue to become more global. Multiple micro-sized supply chains exist across geographies. Electronic marketplaces are facilitating more international activity among SMEs. Businesses grow bigger faster than they could before; dynamic

markets, disruptive technologies, and easy access to capital have combined to radically shorten the evolutionary path by which small and medium-sized firms become substantial commercial accounts and, ultimately, huge corporate banking clients. The COVID-19 pandemic has only accelerated rising expectations about digital products and insight-driven services.

Forward-looking banks have responded by building new capabilities and exploring partnerships with FinTechs to improve their offerings and evolve their operating models to better serve clients. The sheer volume of changes required to satisfy all types of clients will lead to critical strategic choices for banks. Some firms will elect to invest and build integrated ecosystems to own client relationships and serve all their needs. Others will seek profitable niches, excelling in a particular product or service and engaging in multiple ecosystems. Banks that stick to the current status quo or underinvest in transformation risk irrelevance and gradual revenue erosion.



Corporate, commercial and SME banking, circa 2030: Seven hypotheses

The following hypotheses reflect our vision of how current trends reshaping the market today will play out in the coming decade. A range of forces – from technology advancements, to demographic shifts, to unforeseen events – will drive the creation of new business models. Some of tomorrow's banking leaders may seem unrecognizable as banks from today's perspectives. Some may not even be banks.

Innovations unimaginable today may become industry standards by 2030.

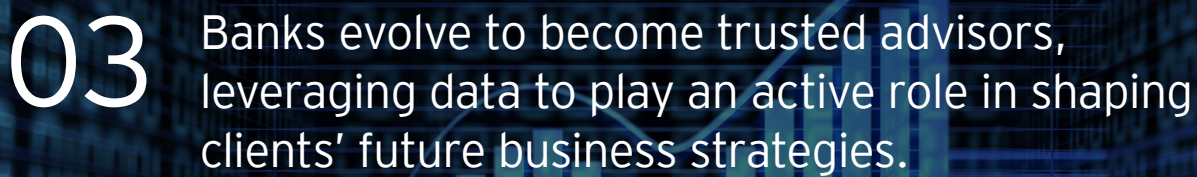
From widespread self-financing, to popular subscription models and ecosystems, to sustainability leadership, these seven hypotheses describe how CCSB banks can move from the challenges of 2020 to growth in 2030.



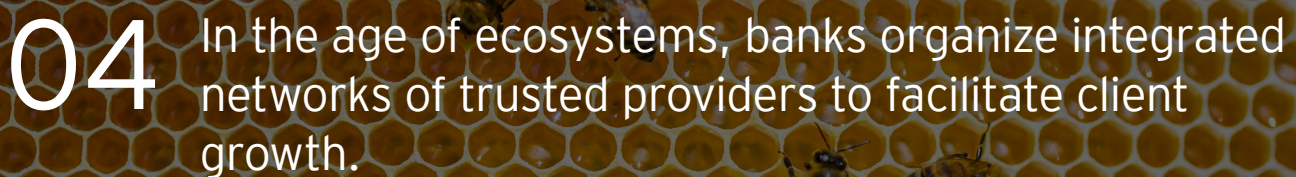
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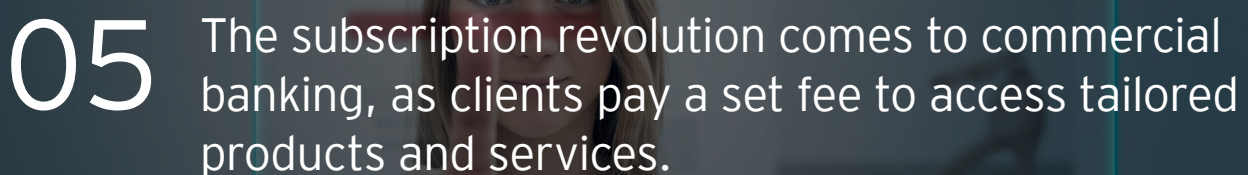
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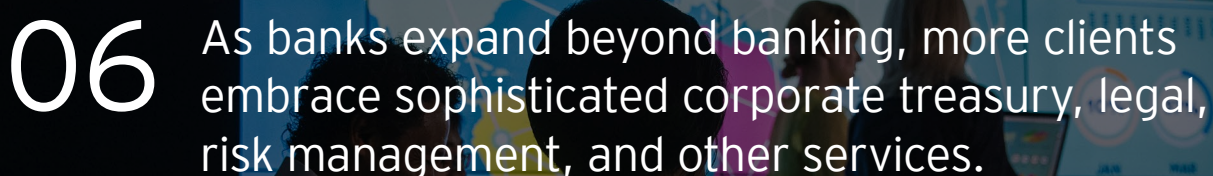
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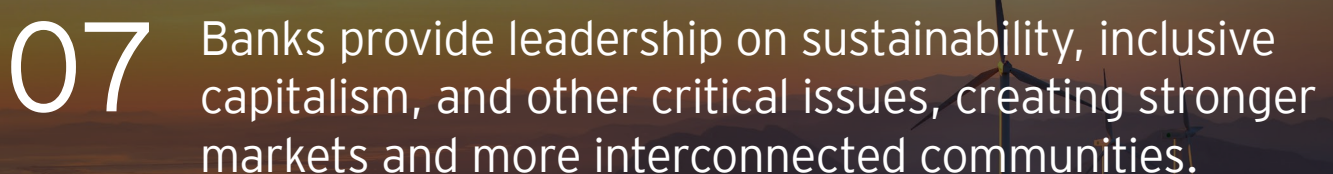
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07 Banks provide leadership on sustainability, inclusive capitalism, and other critical issues, creating stronger markets and more interconnected communities.



01

As more large companies self-finance operations and offer credit to suppliers, tech giants and large platforms expand their banking services.

Leaders develop diversified offerings for all types and sizes of business and are deeply integrated into their clients' supply chains.

As large companies and tech players offer more banking services, traditional revenue streams and client relationships will be threatened as surplus liquidity and credit proliferate. Leading banks nimbly integrate into their clients' ecosystems to take advantage of direct data flows, neutralizing the competitive edge of large corporates that can lend to their supply chain partners with control and insight. By analyzing business performance, inventory and operational data, banks can proactively offer products and services tailored to clients' unique needs and situations.

Clients expect their banks to do more than just provide credit when they ask for it; rather, the best banks will know precisely when and exactly how much credit their clients need, based on clear understanding of current performance and growth

Laggards lose market share to large corporates; access to cheaper deposits is the only thing keeping them in the game.

opportunities. Such visibility comes through integration with enterprise resource planning and corporate systems. In exchange for access to this vital information, banks must add value with timely recommendations and actionable insights that go beyond credit and actually drive growth.

Lagging banks will predominantly lend to larger corporates and act as a cash window with a cheaper source of deposits. Their inability to access business performance data will place them at a competitive disadvantage, as large corporates can predict more accurately and act faster. Large corporates and tech giants are able to efficiently underwrite and manage credit through extensive automation, while lagging banks struggle with traditional underwriting methods and a high degree of human intervention.



Impact and value for clients:

- ▶ Faster access to appropriate credit through providers focused on their needs
- ▶ Access to financing opportunities by different credit providers linked directly to their supply chains
- ▶ Increased integration with banking providers and more support for growth strategies
- ▶ Tangible value from the data they share with their banking provider

Implications and possibilities for banks:

- ▶ Shrinking market share across all CCSB banking segments
- ▶ Ability to self-disrupt with deep integration into clients' supply chains
- ▶ Increased ability to monetize data
- ▶ Opportunity to operate and innovate like a platform

Key questions for banks to answer today:

- ▶ Are we ready to invest in capabilities for proactive and tailored financing?
- ▶ How can we succeed as a niche financier for larger players?
- ▶ Which products can drive deeper integration with clients' supply chains?
- ▶ Do clients understand the value of increased integration and data sharing?

The disruption has already begun:

Tech giants and global banking leaders have formed alliances to provide credit to small businesses. The dominant players in the logistics business have also embraced marketplace lending, showing the advantages of direct access to supply chain data. Marketplace lenders have the unique ability to assess risk and unlock capital for SMEs that need credit by using basic purchase order data and combining it with macro trends across shipping and logistics. The COVID-19 pandemic may briefly slow these trends, but it will not stop them. Banks can take advantage of the pause by planning for bold action in the next year or two.

Up to US\$1m

Revolving credit lines offered by Goldman Sachs' Marcus brand to small businesses selling through Amazon's online marketplace; with fixed rates of 6.99% to 20.99%, the service works like a regular credit card.

(Source: CNBC)

US\$5b

Amount of free cash flow generated by Procter & Gamble through its supply chain financing program from 2013 to 2018; the program offers up-front discounted cash payments to suppliers, which absorb the interest costs.

(Source: EuroFinance)



02 Banks redefine client-centricity in a segment-less world.

Leaders move beyond traditional segmentation, with lifecycle-driven and needs-based solutions and agile delivery for all clients.

Leading banks adapt their organizational structures and operating models (e.g., coverage teams, go-to-market approach, etc.) to provide clients with the products and services they choose, regardless of where they fit within traditional segments. Leaders solve the age-old SME conundrum with a set of solutions tailored to their lifecycle (e.g., startup funding, rapid growth, survival, etc.), and rich, seamless experiences for all clients.

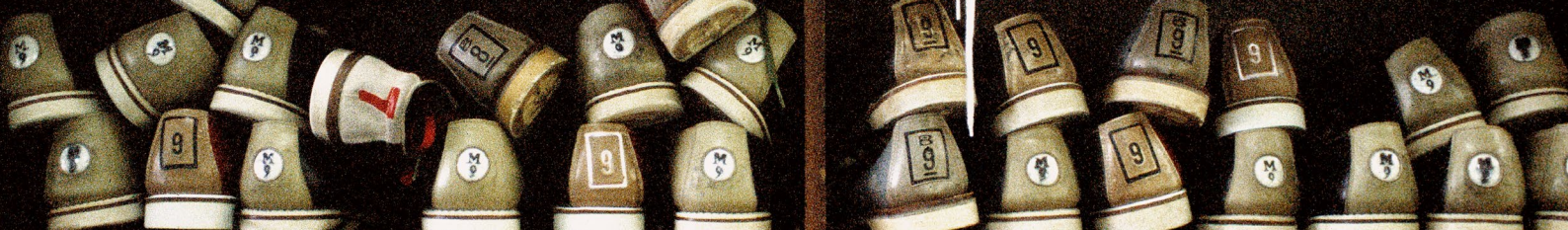
In comparison, lagging banks stick with rigid segments based on revenue and employee counts, limiting their ability to react quickly to changing client needs. Their inability to streamline client movement between segments undercuts relationships with SME businesses that rapidly grow and develop more sophisticated needs. Banks that stick with traditional segmentation continue to offer enhanced retail or watered-down commercial solutions to SME clients, while

Laggards struggle with the increased movement between segments, and continue to offer standard products and services that are not always relevant to client needs.

losing ground to competitors with richer and more customized client experiences.

The concept of profitability is applied and tracked down to the level of individual clients. Leaders measure current, and model future, profitability by leveraging data-driven lifecycle maps for their clients. Banks that still segment by size and revenue struggle to measure client profitability and make the right decisions to grow their bottom lines.

Clients expect a baseline experience that is driven by digital interactions and quick turnaround times. They also expect the option to pay more for faster or differentiated service. This makes it harder for lagging banks to differentiate between traditional segment-based service-level agreements and cycle times. Laggards struggle with this basic change in economics and face even more revenue erosion over time.



Impact and value for clients:

- ▶ Availability of a broader set of products and services, including those not traditionally offered to their segment
- ▶ Frictionless client experience as they add new services
- ▶ Lifecycle-based solutions tailored to their needs

Implications and possibilities for banks:

- ▶ Need to digitize processes for efficiency across all solutions and for all clients
- ▶ Redefine the economic model on revenue generation
- ▶ Adapt organizational and operating models to remove barriers between traditional segments
- ▶ Differentiate by lifecycle need, and drive revenue by value-adding solutions

Key questions for banks to answer today:

- ▶ Are current organizational and operating models ready to support more and faster movement between traditional segments?
- ▶ How differentiated are solutions by type of client? What's the best way to efficiently deliver a baseline experience for all segments?
- ▶ Can we accurately measure profitability?

The disruption has already begun:

Products once reserved for large corporate clients are increasingly available to SMEs. Consider a survey of 1,200 SMEs in the six largest ASEAN countries that highlighted how even small businesses are looking for cash management, foreign exchange, and risk management services.

81%

SMEs that ranked cash management as their top transaction banking service need.

75%

SMEs that cited forex exposure and risk management services as a banking need.

(Source: EY, United Overseas Bank, Dun & Bradstreet)



03

Banks evolve to become trusted advisors, leveraging data to play an active role in shaping clients' future business strategies.

Leaders develop and launch a range of services that help clients achieve their objectives and define future opportunities.

At leading banks, relationship managers behave more like consultants, advising clients by providing insights and helping them solve problems. Leaders are able to monitor and track the progress of their clients over their lifecycle. For instance, as startups grow and mature, banks can identify upcoming events and milestones and offer relevant products and services through an advisory capability. The relationship is not only about sales.

Over time, clients expect their banking provider to understand what they need to advance their business strategies and connect them to growth opportunities. Leaders respond to that expectation by serving as matchmakers, connecting like-minded and complementary clients, as well as a curated network of third-party service providers (e.g., attorneys, accountants and real estate professionals).

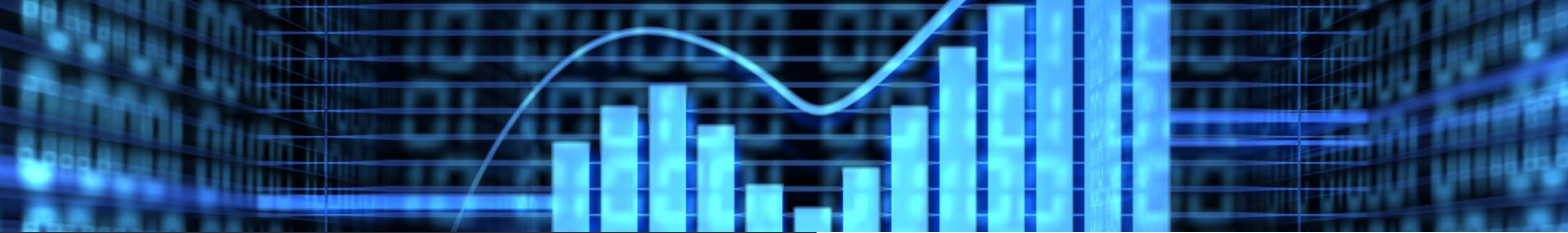
The boldest banks connect clients across borders. Consider how banks could introduce an auto parts supplier with inventory at hand to a large automaker in another country which needs to ship out a large order, while providing seamless trade financing services. In effect, leaders are able to tell their clients, "Here is what you need to grow your business."

Laggards stay in their traditional lanes and lose ground due to choppy client experiences and generic offerings.

In order to deliver a trusted advisor experience to clients, leaders use technology to provide relationship managers with insights and advice. This is informed by the banks' wealth of client, transactional and economic data, to help deliver a rich client experience efficiently.

Lagging players struggle to predict which products and services their clients might need now or in the future. Thus, they can only react to incoming client requests and remain stuck in their traditional banking lane. In effect, they tell their clients, "We are here if you need anything." Laggards can't compete with leaders, especially relative to investments in client data acquisition, lifecycle modeling and predictive analytics. The client experience and market share loss are first seen in SME businesses.

Clients expect banks to play an active role in shaping business strategies and unlocking growth opportunities. Banks that get it right can make the transition from being a relationship manager to serving as a trusted business advisor.



Impact and value for clients:

- ▶ Banking providers invested in their growth and proactively supporting them, including through benchmarking and perspectives
- ▶ Access to more opportunities
- ▶ Products and services linked to lifecycle
- ▶ Forward-looking banking relationships vs. transactional interactions
- ▶ Experience of having their banks assist in proactive risk management

Implications and possibilities for banks:

- ▶ Increased ability to track clients across lifecycles
- ▶ Shift from reactive to proactive value propositions
- ▶ Need to develop capabilities in lifecycle modeling, predictive analytics and digital data acquisition
- ▶ Ability to move up the value chain and enhance fee-based revenue
- ▶ Better understanding of clients leading to better risk decisions

Key questions for banks to answer today:

- ▶ Are we collecting the right data from clients today? How much of it is digital and structured?
- ▶ Do we know where clients are in their lifecycle today and where they will be tomorrow?
- ▶ What capabilities are necessary to predict the right products and services for clients based on their lifecycle and likely events?

The disruption has already begun:

Even the smallest businesses can benefit from Big Data and advanced analytics to find growth opportunities and generate insights about their clients' needs, market shifts, emerging risks, and competitive activity. The key for banks is to understand what all their business clients need and give them useful tools. As one garment retailer told EY's Voice of the SME researchers, "I want a bank that understands the industry and the unpredictability of our retail cash flow."

1.2 billion

Monthly transaction records available to SMEs through the Big Data analytics platform developed by Commonwealth Bank of Australia (CBA). Through the platform, small business owners can track clients' spending and demographics, as well as monitor their competitors.

(Source: ZDNet)

257 million

Estimated number of deliveries expected to be managed on the logistics platform developed by CBA in partnership with an SaaS provider to support its retail merchant clients.

(Source: ZDNet)



04

In the age of ecosystems, banks organize integrated networks of trusted providers to facilitate client growth.

Leaders win by creating and operating their own platforms or by “going niche” with a differentiated offering integrated with and delivered through multiple platforms.

Many businesses currently maintain relationships with multiple banking providers, because no one bank offers an integrated platform or a comprehensive range of services. In the future, the convenience of a unified experience or single interface for all banking needs will become a baseline, even though multiple providers drive the ecosystem that clients will access. In that sense, tomorrow’s top-performing banks will be integrated, open and secure at the same time.

Leading banks still own client relationships, but also build and oversee their own ecosystems via advanced and integrated platforms that bring together products and services for their clients. For instance, they may fulfill credit and deposit products themselves, but engage a third party to offer lockbox and payment processing services to their clients. They gain an edge by excelling at their chosen core competencies, attracting the preferred third-party partners and innovating through open banking technologies, application programming interfaces (APIs), or specialized software that clients can build on top of. These advantages will allow leaders to develop both micro and macro ecosystems to suit major geographical markets and client demand.

Laggards focus on a narrow set of transactions and a shrinking number of client relationships.

For laggards, the evolution toward ecosystems and specialization leads to loss of market share and revenue erosion. They lack the right digital capabilities to build their own ecosystems or the differentiated niche offerings to be considered attractive partners for others’ platforms.

To succeed in the ecosystem era, banks need to fully commit to transformation, honestly assess their strengths and weaknesses, and embrace agile working strategies and design thinking. They must also plan to make large investments in cyber security, vendor management and trust-building strategies across their ecosystems.

Some players may even capitalize on their scale, technology capability, risk management expertise, and experience with complex payments services to provide critical ecosystem connectivity and “plumbing.” Some of these services are not associated with banks today, but they will be crucial in enabling new and more sophisticated ecosystems. Another path to market leadership is through profitable niche services that banks provide to multiple ecosystems. Those services could include real-time payments and instant lending to SMEs. Other leaders might specialize in offerings for specific industries (e.g., oil and gas, aviation or hospitality).



Impact and value for clients:

- ▶ A single point of access to an expanded menu of banking products and ancillary services
- ▶ Transparent, yet intuitive, client experience in navigating ecosystems
- ▶ Confidence in security and data privacy, and clear value in exchange for sharing data

Implications and possibilities for banks:

- ▶ Need for significant and sustained investments in digital capabilities and new operating models
- ▶ Commitment to open banking, cyber security, and trust
- ▶ Need to evaluate potential partners and operationalize the right relationships
- ▶ Imperative to develop a collaborative culture and agile mindset in procurement and other functions

Key questions for banks to answer today:

- ▶ What will be our core capabilities 10 years from now? What non-core functions are best handled by others?
- ▶ What partnerships are necessary to develop and scale an integrated ecosystem for clients?
- ▶ Are we strategically and holistically examining transformation priorities, scope and investments?

The disruption has already begun:

Open banking regulation is opening the door to the development of many new models for serving clients, including ecosystems. The large volume of collaborations between banks, FinTechs and other third parties has shown that integrated partnerships are the way forward. The success stories and lessons learned from early adopters will accelerate the development of ecosystems by larger players.

86%

Global banks using APIs to enable open banking in the next 12 months.

(Source: Finastra)

US\$32b

Goldman Sachs released software that targets the US\$32b transaction banking industry, enabling businesses to embed corporate banking services into their own products.

(Source: CNBC)

>1,000

Suppliers connected to a blockchain-enabled ecosystem developed by the Development Bank of Singapore, in partnership with a leading logistics player; the platform offers SMEs faster access to trade financing.

(Source: finews.asia)



05

The subscription revolution comes to commercial banking, as clients pay a set fee to access tailored products and services.

Leaders provide a core set of offerings with additional services and features, based on specific needs, strategic changes, and growth milestones.

Just as consumers have grown comfortable with subscription models that make it easy and efficient to add or delete features as necessary, so too corporate and commercial banking clients want the ability to add or remove products and services quickly. Mass customization will soon be a baseline, as consumerization reaches critical mass in corporate and commercial banking.

Leading banks provide customized solutions, comprised of interchangeable products driven by business flows and forecasts, for a set fee based on cost-effective and operationally efficient delivery. Subscription offerings align to clients' baseline needs (e.g., corporate loans, lines of credit, deposit accounts and money movement), and promote add-ons and enhancements (e.g., payroll or multi-currency pooling), which are available a la carte for an additional charge.

This represents an important shift in client relationships from primarily transaction-based to value-oriented. Thus, banks are better positioned to promote event-based services (e.g., financing and advisory services around mergers and acquisitions, initial public offerings (IPOs) and expansion) in an agile manner. The more client-centric approach


Laggards lack the infrastructure for truly “plug-and-play” offerings, and can't move beyond basic product bundles.

means clients can access exactly what they need exactly when and for how long they need it.

Subscription models also make available to smaller businesses the services that were once reserved for the largest corporations or highest-net-worth individuals. In this sense, the traditional segmentation based on client size will be obsolete, as access to products and services becomes universal and needs-based.

Leading banks have an advantage over other players, since they are able to price subscriptions more effectively and thus generate fees, as well as more margin-based revenue. Such a balanced approach helps protect bottom lines against difficult economic times. A clearly defined value proposition and transparency around fees drives client adoption of subscription models.

Lagging banks can't move beyond product bundles, which are less customizable, cumbersome to price and even harder to deliver cost-efficiently. They remain predominantly dependent on margin-based revenue, and do not have a product set that allows them to generate fee-based income easily.



Impact and value for clients:

- ▶ Easy “plug-and-play” experience and a la carte menus to adjust services as needed
- ▶ Price transparency and pro-rated applications
- ▶ Value-driven and need-based relationships with banks

Implications and possibilities for banks:

- ▶ Ability to increase fee-based income and deepen client relationships
- ▶ Insight into the cost to serve by product and client
- ▶ Improved pricing power
- ▶ Need to invest in required infrastructure and digital channels for subscription models
- ▶ Need to invest in robust product and asset management capabilities

Key questions for banks to answer today:

- ▶ What is the cost to serve by client segment and product?
- ▶ Which are the most likely products and services clients would buy via subscriptions?
- ▶ How quickly can product management teams design and test subscription models with clients?

The disruption has already begun:

The experience of consumer banking tells us that subscriptions will take hold along a continuum - initially charging clients by transaction, then offering volume-based pricing, followed by small but growing pockets of fee-based products. While pricing and delivering corporate and commercial banking subscriptions will require significant investments, early adopters are already showcasing what's possible.

Starling Bank's Business Toolkit subscription model provides accounting and foreign exchange services via a single app and credit card. Founded in 2014, the UK-based challenger has attracted considerable investment.

1.5+ million

Number of Starling Bank's clients, including 200,000 small businesses.

£5

Monthly fee for Starling's Business Toolkit app, which provides core finance services and allows clients to receive payments in multiple currencies.

(Source: Starling Bank)



06

As banks expand beyond banking, more clients embrace sophisticated corporate treasury, legal, risk management, and other services.

Leaders offer a range of integrated, high-value and real-time services to all types of business via a seamless client experience.

Success for companies of all sizes increasingly demands relentless focus on core activities. Thus, clients increasingly look for help with non-core activities, especially relative to key growth milestones. It's all about enabling clients - particularly SMEs - to focus on the business. That means leaders can strengthen their relationships by bringing legal, advisory, risk management, and other financial management capabilities to clients in a coherent and accessible manner. Such an approach will offer clear and understandable value to clients.

Leading banks harness the power of ecosystems to develop and launch integrated services - such as "chief financial officer (CFO) in a box," "your corporate treasurer," "your financial risk manager," and "on-demand legal advisor." These services are particularly useful for firms planning geographic expansion, mergers or acquisitions, IPOs or funding rounds, or even bankruptcy.

Leading banks also carve out niches in specific areas, such as infrastructure project finance,

Laggards can't enhance their offerings quickly enough and struggle to retain small and medium-sized clients.

healthcare, travel and hospitality, providing not only banking services, but also the entire financial operating system to manage the business. For instance, healthcare providers engage banks to manage billing and payments, insurance and liquidity, in addition to traditional financing services.

Large corporations, with established provider relationships for certain services, expect integrated experience and seamless collaboration among banks and other vendors and suppliers. Deep integration into clients' operations and supply chains is a must to survive.

Lagging banks face an unsustainable situation at both ends of the market. They are forced to satisfy larger corporate clients' ever-rising expectations, even as they try to catch up on supply chain integration. In some cases, their clients have more sophisticated financial management capabilities. At the same time, they lose market share with SME segments because of the challenges inherent in providing enhanced services cost-efficiently.



Impact and value for clients:

- ▶ Ability to focus on the core business while banks manage important but non-core activities
- ▶ Tangible and measurable value for fees paid
- ▶ Ready access to tailored services via well-designed experiences

Implications and possibilities for banks:

- ▶ Investments and action plans for integration with clients' distribution points and supply chains
- ▶ Strategic assessments of future capabilities and solutions to offer
- ▶ Plan to upgrade infrastructure to support future delivery
- ▶ Ability to grow fee-based revenue

Key questions for banks to answer today:

- ▶ Is today's operating model designed to scale for partnerships and ancillary services?
- ▶ Which niche services can be monetized as solutions to clients?
- ▶ Are we making the right technology investments and right operating model changes to enable future market leadership?

The disruption has already begun:

Banks are uniquely positioned to deliver more than banking. They are packaging business management services to small business clients, setting the stage for long-term partnerships. They are also getting involved in large-scale transformative projects, such as helping to build smart cities. One Dubai bank is deploying blockchain, AI, machine learning, and Internet of Things-based sensors to expand connectivity and drive smarter government, transportation and retail experiences.

US\$2.3b

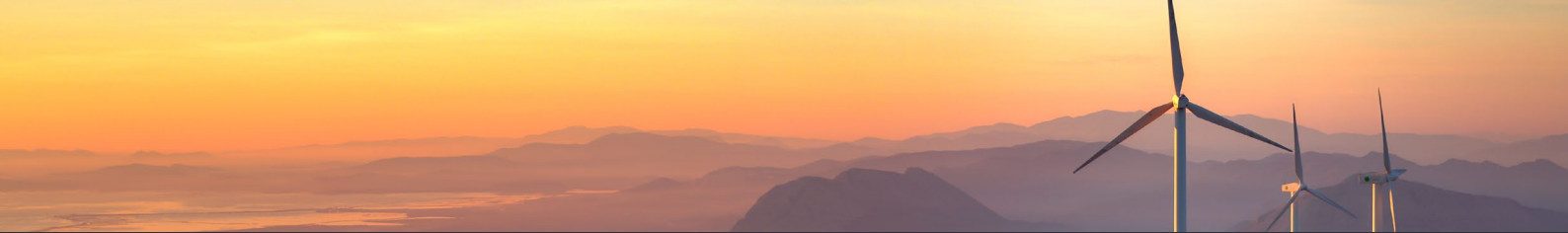
Estimated spend on smart cities in the Middle East and Africa in 2021.

(Source: IDC)

Nine

Number of services - including billing and invoicing, inventory management, payment and collections, payroll, customer relationship management - now accessible via UOB's BizSmart platform, a cloud-based platform launched in 2017.

(Source: UOB)



07

Banks provide leadership on sustainability, inclusive capitalism, and other critical issues, creating stronger markets and more interconnected communities.

Leaders demonstrate their social purpose and strengthen trust with the next generation of entrepreneurs and clients.

Recognizing reduced trust in financial services as a serious threat, leaders make a credible and high-profile commitment to helping businesses and communities address their biggest risks and challenges. Articulating a clear social purpose is the first step. Living up to it is the next step - and an ongoing process. Leaders realize that their performance is tied to sustainability achievements and broader measures of value than traditional financial metrics. Similarly, they see that their actions can play a crucial role in shifting credit to sustainable businesses and re-engineering supply chains for reduced environmental impact.

These efforts extend beyond the expansion of environmental, social and governance (ESG) investments and enable the development and growth of profitable operations that benefit stakeholders beyond the banks' bottom lines. Relative to climate change, leading banks take clear and innovative actions toward building a more sustainable economy, including:

- ▶ Prioritizing investments in, and extending credit to, sustainable companies so those companies can scale
- ▶ Providing direct incentives for clients that commit to and meet sustainability targets
- ▶ Offering robust and intuitive solutions for businesses to track and report on carbon consumption and other metrics

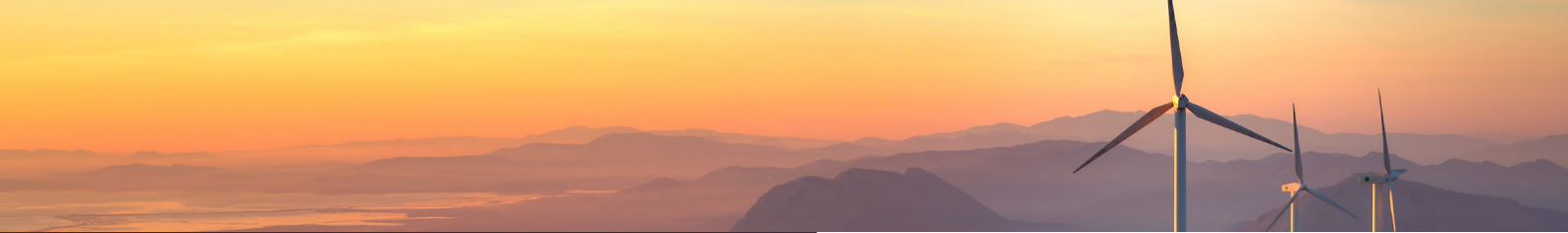
Laggards offer little beyond "banking responsibly."

- ▶ Developing digital exchanges and blockchain-enabled marketplaces for the trading of carbon credits
- ▶ Engaging with elected officials, regulatory bodies and industry groups to help establish clear and consistent standards for different industries

Sustainability will not be a public relations or branding exercise, but rather a cultural mindset and "way of life," which necessitates bold change.

Leading banks also help devise solutions for other societal challenges, including the restoration of global economic growth in the aftermath of COVID-19. Leaders are essential in the development of inclusive, or stakeholder, capitalism. Banks that can articulate a clear social purpose, and then live up to that purpose, create clear market differentiation. Consider that ample research shows that the rising generation of entrepreneurs and small business owners prefer to do business with companies that share their values. Leading banks that can exert clear leadership on climate change and other societal issues will instill loyalty with such clients.

Beyond deeper relationships with clients and stronger brand reputations, these efforts also drive bottom-line improvements for leaders by limiting downside exposure to companies that will



not succeed in a sustainable world. In this sense, leaders “do well by doing good.”

Laggards view ESG and inclusive capitalism through the lines of public relations exercises and struggle to think beyond outdated modes of “corporate social responsibility.” Thus, they miss out on the opportunity to burnish their brands and increase trust with key consumers.

Impact and value for clients:

- ▶ Doing business with banks that share their values and goals
- ▶ Natural cultural fit across the ecosystem
- ▶ Coordinated management of finance for sustainability programs
- ▶ Incentives for actions promoting sustainability

Implications and possibilities for banks:

- ▶ A clearly defined social purpose and vision of how banks contribute to society
- ▶ A roadmap for sustainability offerings that support the vision
- ▶ Increased loyalty and stronger brands through increased trust, especially with the next generation of entrepreneurs and business owners

Key questions for banks to answer today:

- ▶ What is our vision and purpose for sustainability?
- ▶ How can we help on sustainability and other ESG-related issues? What products and services do clients need in these areas?
- ▶ Are we investing in a roadmap to operationalize the vision?

The disruption has already begun:

Leading commercial banks have already begun laying out multi-year roadmaps of investments in sustainable banking - and with good reason. Mark Carney, former head of the Bank of England and now a UN Special Envoy, has suggested, “The transition to net zero is creating the greatest commercial opportunity of our age.” An Asian banking leader, for example, is helping clients become more sustainable by providing enhanced financing for sustainable businesses, providing guidance to help sustainable businesses grow, and supporting clients in tracking and reporting on ESG principles. Banks are also partnering with firms from other sectors, including leaders in retail, consumer packaged goods, and academia to develop more sustainable supply chains. Post-pandemic economic recovery and racial equality are other topics where banks can - and should - engage and lead.

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Annual global investments to build the infrastructure for a green economy.

(Source: International Energy Agency)

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Number of major European financial institutions - including BNP Paribas, Barclays, Rabobank and Standard Chartered - involved in TRADO, a project to fund fairer, more transparent supply chains using technological innovations to meet the UN Sustainable Development Goals.

(Source: Provenance.org)



Recommended actions

While every bank will undertake a unique transformation journey, the way forward starts with a strong purpose and vision, a clear and client-focused strategy, a strong and flexible operating model, and sophisticated technology.

These steps represent a significant amount of change for banks. In many cases, it requires uprooting processes and structures which are built around a model that has been largely unchanged for 100 years. Strategic planning and business case development are necessary but should not delay action. Indeed, tomorrow's leaders in CCSB banking will be those that take bold action in the near term, while simultaneously shaping the right strategies for the long term.

Gear the business strategy for what's next

Defining a clear strategy and value proposition is critical to future market leadership. Managing change and transformation is not a new imperative for banks. But, they must address difficult questions and ensure long-term strategies are supported with sustained execution. The top priorities include:

- ▶ Defining the top strategic priorities (e.g., building platforms and ecosystems, owning relationships or developing niche products and services)
- ▶ Directing investments toward a long-term vision with an eye toward incremental improvements (e.g., moving beyond the annual funding cycle)

- ▶ Clarifying the value proposition and articulating it clearly to the market

Define client-centricity in a segment-less world

Traditional client segments will no longer apply. All types and sizes of business will expect to access all services and products across their lifecycle; targeting and engagement will be based on understanding client needs, contextual insights, and the ability to make the right offer at the right time - in some cases before clients recognize what they need. Delivering apt client experiences in the future will depend on banks' ability to:

- ▶ Define a framework and deploy the analytics to understand where clients are in their lifecycle
- ▶ Develop solutions aligned to key points and milestones on clients' journeys
- ▶ Enhance client onboarding, and product and service delivery
- ▶ Develop digital capabilities and automated processes for clients to request, onboard and manage their own products
- ▶ Identify and address the barriers for offering and delivering new products and solutions to clients that have not had them before (e.g., treasury services for small businesses)
- ▶ Strengthen product management capabilities to incorporate a continuous focus on client needs, and enable ongoing innovation

Future-proof the operating model

Most banks' digital transformation investments have sought to solve current inefficiencies and pain points across the operating model. Looking ahead, a bolder and more focused approach will allow banks to:

- ▶ Define core capabilities now and for the future
- ▶ Break down product silos to offer more fluid and flexible solutions for clients
- ▶ Foster innovation through increased collaboration across teams and functions
- ▶ Build ecosystems in line with client expectations, then define and launch new features to exceed those expectations
- ▶ Define the role of partnerships, alliances and service agreements with FinTechs and niche providers to address non-core capabilities
- ▶ Build trust across the ecosystem without compromising speed to market

Invest in data and technology to accelerate transformation and deliver quick wins

There is no doubt that banks need continued investment in data and infrastructure to underpin their long-term transformation strategies, whether the focus is on developing and monetizing APIs or modernizing infrastructure. However, they should aim to produce tangible near-term value to build momentum. These actions will help banks hit both objectives:

- ▶ Design ecosystems for extensive data sharing and in support of open banking principles
- ▶ Identify the right partners and make plans to engage them
- ▶ Define a plan for broad and accelerated adoption of ecosystems and new offerings
- ▶ Develop a plan to monetize data and analytics
- ▶ Ensure transformation and infrastructure modernization programs align to a clearly defined future-state vision



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We help banks reframe their future by defining their transformation agenda, navigating uncertainty and executing their plans to deliver sustained, long-term growth. The EY organization builds a better working world, helping the banks of tomorrow by creating customer experiences that are unimaginable today.

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