How banks can build an end-to-end digital relationship with corporate and commercial clients.

By Finmechanics, December 2020

THE DAY AFTER IS NOW

In a world that will minimise travels and physical contacts for the foreseeable future, the appetite for digital services suddenly became gargantuan, across all segments of consumers, businesses, products or services. This includes banking and investment services to corporate treasurers and asset managers.

Finmechanics helps banks and provider of financial services to leap forward with an end-to-end chain of digitally delivered services for their clients in the capital markets and treasury space.

DIGITAL TO REIGN SUPREME

According to a McKinsey study published in 2018*, corporate banking activities represent 36% of the global financial intermediation system, which is slightly more than retail banking with 34%. While digital banking is fast generalising on the retail side, most corporate bank transactions still require face to face meetings and hard copy document processing.

Although payments, foreign exchange and cash management are mostly carried out online, most offers remain focused on a single asset class and unrelated to specific client activities. Yet corporate banking hinges on financing clients' production and sales cycles which are multi-faceted in nature and require synchronised treasury activities.

Banks risk losing insights if digital transactions just cut off the sales desks from their clients. The value chain of corporate banking services must therefore be stretched from product discovery and negotiation, to orders, executions and settlements in order to digitally replicate the end-to-end relationship. This require processing the transactions on a consolidated platform, whilst delivering through multiple channels such as the web and mobile.

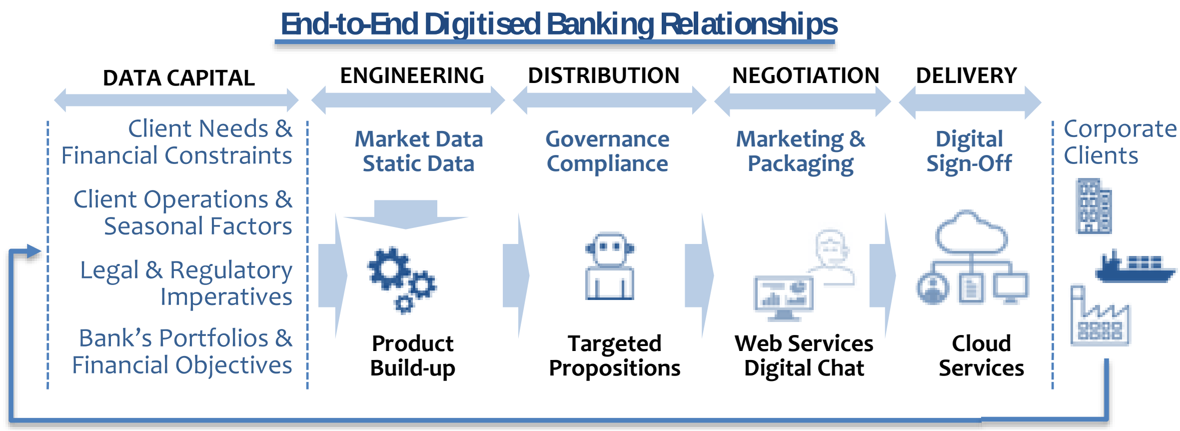
RICH DATA TRANSCEND BIG DATA

Digitising any form of transactional activity raises three types of issues: Standardisation, Jurisdiction, Scale. By definition, a pre-configured solution addresses a predetermined problem, occurring under a predictable alignment of parameters, within a given legal framework. To put it simply, you need to know your clients really well.

To carve smart products out of their Treasury, the bank's "assembly line" bundles financial components (underlying, terms, currency, optionality, convertibility) which seek to generate the expected cash-flows and sensitivities under sets of market scenarios. In a digital world, this needs to be a near- or real-time business.

The final building block is the distribution. It involves a client side, Web tools, UX, KYC filters, negotiation tools, document sign-off, and a bank-side to "shelf display" the offerings and immediately update the "warehouse", i.e. the treasury.

The diagram below exhibits the main aspects and development stages of an end-to-end digitised banking relationships for corporate clients.



To ensure 24/5 business activities and same-day settlements, a low-latency integration of treasury, risk management and client distribution is absolutely mandatory.

Compared with retail banking, corporate relationships are bespoke in nature and often require custom features, conditional terms or options. As their impact is less predictable, they command a focus on value rather than scale. It is therefore imperative to monitor the transactions' impact on the bank's treasury and risk exposure in real-time; margin, collateral and even T1 capital requirements should also be available on-demand.

THE FINMECHANICS DIGITAL VALUE CHAIN

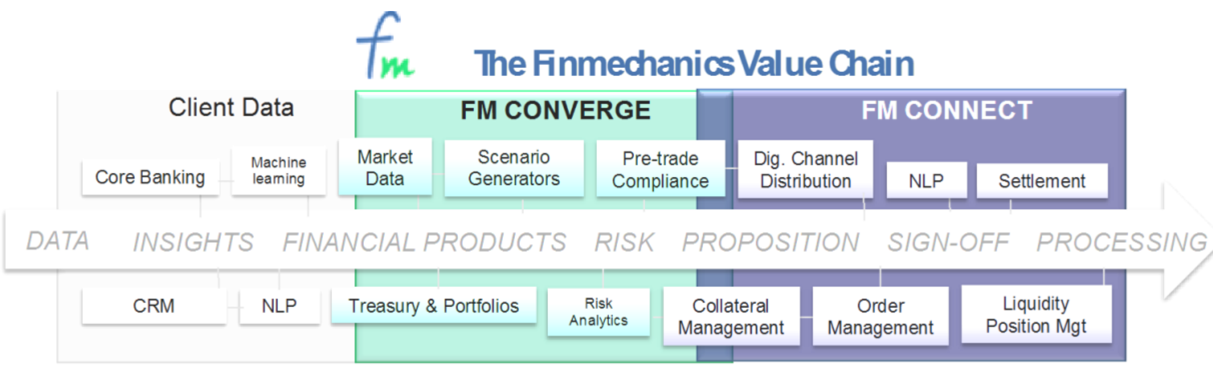
Two platforms from Finmechanics can handle a financial institution's entire range of product offerings to its clients' treasury and capital market needs - from inception to payments: A dealing platform to negotiate, execute, and settle transactions in a compliant fashion, coupled with a pricing and risk calculation platform to build offerings and monitor their value in real time.

FM Connect™ enables banks to engage clients via digital channels. It covers product presentation, negotiations, simulations, compliance checks, sign-off, and settlement across asset classes, in multiple jurisdictions and time zones. Through a tight integration to FM Converge, price and sensitivity changes can be instantly reflected in the client offerings.

FM Converge™ is a platform that can price and trade any financial instrument across asset classes, or design structured products and portfolios to match complex hedging needs. The system manages the bank's treasury, securities and collateral inventories and associated risks. It fuels what-if scenario engines with market data processed through financial libraries, curves, volatility and correlation analytics. The platform can also segregate activities by jurisdiction, based on regulatory imperatives or credit limits, and can calculate margin and capital requirements as well.

Tightly integrated together, both platforms provide a straight-through, real-time, self-service channel, capable of offering simple and structured financial instruments across geographies and time zones to the appropriate customer segments with regulatory compliance in-built.

The diagram below exhibits the transformation of data into insights, then into value propositions and trades, commercialised through the Finmechanics platforms. Their seamless integration is key to developing an agile, end-to-end digitised banking relationship with corporate clients.



For most banking organisations, the above data centric approach will amount to a massive simplification of their legacy architecture, typically built in layers. This transformation also allows them to re-approach their client locally, focus on bespoke services and provide a human touch to digital services – making the organisation overall more agile and resilient.

For more information about this report, contact@finmechanics.com

REFERENCES

*New Rules for an old game. Banks in the changing world of financial intermediation", McKinsey Global Annual Banking 2018, page 19, The Transformation of Financial Intermediation.