Warning: evolution needed

FINTECH, APPLE, REGULATION – THE THREATS LINED UP AGAINST THE MAINSTREAM BANKING SECTOR ARE PERVASIVE AND FORMIDABLE. TIME FOR A NEW APPROACH TO CUSTOMERS, SAYS MICHAEL BARRINGTON-HIBBERT

As banking consumers, we shop around for the best deal. We may have a current account with one provider; an ISA and mortgage with another; and savings, loans and investments with different providers again. We know that it is prudent to review our financial management regularly. So, why are corporate banking trends behind the curve?

The democratisation of the financial services sector – mainly due to the accessibility of information online – has introduced the notion of a 'shared economy'. Customers put their trust in independent and niche companies more than ever before; we know how to do our own research and due diligence.

These consumer banking trends have had a knock-on impact on the corporate banking and investment market, but many banks have been slow in responding to market needs. The result is that some former market leaders are finding themselves under threat from challenger brands coming into this sector.

Loyalty for one single provider is diminished due to the ever-growing choices we are offered as individuals, and the same is true for businesses and corporations, irrespective of long-standing relationships with banks. Many of the corporate and investment banks that have continued to stick to traditional product offerings and service experience are now finding themselves under pressure due to changes in client appetite.

With continued and sustained low interest rates, de-risking and the threat of challenger brands eroding their market share, many of the corporate banks are now looking to define their own unique and differentiated strategy in order for them to remain relevant. Recent research suggests that, by 2020, players in alternative banking will be worth €7bn, offering customers a suite of products and services tailored to their specific needs. Corporate clients will be able to cherry-pick services from

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multiple suppliers, just as we do as consumers.

In addition to new products and services, banks also need a new style of leadership to drive new and evolving business models, identifying new markets and delivering new services: the ideal candidates are hybrid bankers, who possess not only leadership qualities, but a high level of experience in risk management and a broad understanding of the multitude of credit products, derivatives and enhancements that sophisticated corporate clients want and expect. Importantly, candidates must also be willing to embrace change. This type of talent comes at a premium, which is evident in the aggressive recruitment strategies we've seen in 2015 and highlighted in our *Corporate Banking Review Study for 2015*.

Each year, we interview more than 400 corporate bankers who work for the top 10 ranked UK corporate banking franchises in London. The 2015 study shows that there is a direct correlation between a bank's products and services, and how it compensates its coverage bankers. The study also shows that managing directors of the top five banks are being offered, on average, a 38% increase on salary packages to join a challenger bank. That's a hugely more competitive landscape on talent acquisition, and we predict that the war on talent in 2016 is only set to intensify.

The rise in executive pay is set against a starker backdrop of banks' compliance demands. Banks are not only having to pursue robust systems and processes to grow profitability, but also to demonstrate greater accountability as a result of tighter compliance regulation. Too much attention has been placed on 'running the bank' and maintaining the status quo rather than on innovation and 'growing the bank' and its products and services.

Corporate banks are ready for increased debt-market pressure throughout 2016. It is therefore critical that the hiring strategies of UK corporate banks remain robust to mitigate against increased stresses that this environment will bring.

Corporate clients and banks are also finding that they can no longer wholly depend on long-standing institutional relationships.

The UK government's current focus on financial inclusion for all represents an additional set of competitive pressures; especially targeting lower-income citizens. Financial inclusion not only helps individuals and their families, but it can also be a powerful driver of economic growth. The banking changes we are seeing year-on-year, particularly around digital access and mobile banking, have the potential to usher in a new era of financial inclusion and enable mobile money, branchless banking and unimaginable innovation. These agile new providers are flooding into the market to respond to an as-yet unmet demand. Nonetheless, it is still the case that two billion consumers worldwide currently do not have a bank account. Instead, they use on average 14 different financial services, and a staggering 91% save via informal systems. Are the corporate banks ready to serve these new, divergent breeds of financial customer?

As banks continue to retrench from regions or sectors where they are unable to meet specific demand and revaluate their operational strategies, they will need to be able to rely on their personnel more and more to deliver evolving products and services.

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STAYING RELEVANT – A CORPORATE VIEW

It is clear that the digital revolution has caused significant disruption in the retail banking space, particularly consumer payments and lending. A plethora of new entrants have seized the opportunity to transform the customer experience. Challenger banks will hope to evolve to the corporate space; however, they are unlikely to be of significant relevance. Hefty capital requirements will also hamper their ability to effectively compete with traditional lenders.

The real threat to banks comes from the non-bank players. In the payments space, Amazon, Apple, Google, Microsoft, et al, bring serious and sustained competition with a loyal and digital-savvy customer base.

The banks have always invested in technology; however, the regulatory burden and the cost of maintaining legacy systems results in an inability to match the pace of change of the more nimble fintech companies. They have to change and be able to continually innovate or risk becoming marginalised to simply providing the pipes for others to use, resulting in falling profits and a real lack of opportunities to generate additional revenue.

The banks need a digital strategy to remain relevant – and how effectively they utilise new technology either via acquiring or partnering with fintech will determine who remains standing as we see further consolidation in the banking sector. British American Tobacco already partners with fintech companies to support treasury operations and e-commerce while currently assessing providers in the trade finance space. Over the coming years, we hope to see the banks make the necessary investment to support the domestic payment modernisation currently under way across the world. While we want real-time payments, they can't just be fast, they have to address concerns around reliability, risk, security, compliance and enhanced automation. We also expect significant improvements in cross-border payments, with fintech again leading the way. Distributed ledger technology is a game changer and it is reassuring to see the banks now starting to make the necessary investment and reassessing their approach to payments. Those that can commercialise their strategy and invest in digital infrastructure will be the clear winners in the long term.

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