CORPORATE BANKING PREDICTIONS 2021

TRADE LEDGER

Contents

Introduction

In the world of business lending, 2020 was a year of major change, much of it catalyzed by the pandemic.

For example, many lenders accelerated their IT renovation projects in response to COVID-19, realizing that the pandemic had exposed the creaks in their infrastructure as well as accelerated the pace of digitization.

It was also the year when people became excited about the prospect of embedding lending into third-party channels, allowing non-finance companies to distribute lending services as well as allowing finance companies to reach a larger network of customers.

In 2020, people also started to realize that data is as important as software or, more specifically, that the key to providing customers with the right services, adapted to their needs, and delivered over the right channel, lies in data-driven lending.

The question is, will 2021 be similarly momentous?

To help us answer this, we asked 14 industry experts to offer us their predictions for the year ahead.

Looking into 2021 –
the greatest changes are yet to come

As Conrad Ford, Chief Product & Strategy Officer at Allica Bank, puts it *"2020 has been so breathless that we've forgotten that the greatest changes to business finance lie beyond the pandemic."*

What will be the nature of these changes? Well, our contributors broadly split these changes into three types: changing customer needs, the evolution of the lending proposition in response to these changing needs facilitated by new technologies, and changing lending business models.

"Liquidity is always there until it is needed most"

Most of the commentators echo these words from Josh Levy, CEO of Ultimate Finance, that as government support schemes are gradually removed, many SMEs may struggle to get the liquidity they need. This will affect SMEs on both sides of the K-shaped recovery, since struggling SMEs may not survive while those with those with the best prospects may not be able to get the funding to capitalize on this grow.

But, broader shifts are afoot beyond the pressures on liquidity of an economy that is "beginning to normalise as vaccines take effect". Business are becoming more digital, comprising fewer tangible assets against which to lend, but so are their owners. As Jonathan Andrew, Global CEO at Bibby Financial Services, says: *"The latest generation of business owners are digital natives; their expectations are shaped by the ecosystem economies and customer experience that they demand in their personal lives."*

Ultimately, it will be these secular shifts that shape lending propositions over the long run, although innovation will also help with the short term liquidity crisis.

Intelligent data insights

A recurring theme throughout the predictions is that lending services will have to become better tailored to individual clients' context and needs, and that better use of data will be essential to doing this.

Part of the improvement will be in removing friction from customer interactions, delivering what John Wilde, Head of Investec Capital Solutions, calls "slick, technology-driven solutions which genuinely enhance the customer experience".

Part will be about delivering lending services which are better suited to business circumstances, *"alternatives that provide smart access to funding and help businesses quickly release cash caught up in their sales cycle",* suggests Joana Negrao from HSBC UK, such as invoice or inventory finance.

And part will be about anticipating customers' needs and delivering the funding they need exactly as they need it. Jes McPhee from Vodeno says, *"Real time analytics and AI will allow new services to be offered to customers at the point that their need arises — proactive rather than reactive banking."*

"2021 will bust out a BaaS bonanza"

If, in 2020, there was more focus on ecosystem-based business models, then expect much more in 2021. As Danette Copestake, IT Director at Wyelands Bank, says, *"Working in a collaborative ecosystem that drives innovation and has a customer-centric focus is the only way for banks to win."*

We can also expect more talk of embedded lending and banking-as-a-service (BaaS), which according to Nigel Verdon, CEO of Railsbank, is more than just a game-changer: *"BaaS has not only changed the game, but changed the playing field, changed the teams and changed the rules."*

It's easy to see why there's so much excitement about BaaS. If AI is helping to proactively understand customer context and needs to serve up the right solution at the right time, then embedded lending is delivering these services over the right channel as well. But, in reality it is actually doing more, since the channel into which the lending is embedded also has valuable data which can be used to improve the service, either to further personalize the experience or to augment the risk calculation. As Simon Torrance of Rainmaking observes, *"Leveraging data that an organisation already has on customers or suppliers means that credit risks are reduced."*

Connecting the dots

If we bring this all together, then, it is clear that although the pandemic may gradually recede in 2021, the elastic is highly unlikely to snap back to the old ways of doing things. The pandemic accelerated change, but that change was on top of structural and enduring trends.

The choice facing banks and lenders seems starker than ever as a result. Either stand still and fall increasingly short of the expectations of increasingly digitally native and demanding clients. Or embrace the power of digital technologies to deliver better customer service at scale.

The prize for getting this right is massive. As Simon Torrance illustrates at the end of this report, the market for embedded lending will be worth over $2 Trillion in the next 10 years.

If you'd like to discuss how Trade Ledger can help your organization to capitalize on this opportunity, we'd love to help.

We hope this collection of short predictions will help inform and steer your thinking for the year ahead.

THANKS TO THE ORGANIZATIONS WHO CONTRIBUTED TO THIS REPORT

Alan McIntyre

Senior Managing Director & Global Banking Practice Lead at Accenture,
the global professional services company with leading capabilities in digital, cloud and security

The outlook for business banking in 2021

“2021 will always live in the shadow of 2020 and will be dominated to a large degree by credit management. Although material provisions were taken in 2020, whether they are enough will be determined by the longevity of public sector support and whether that bridge reaches to the other side of the crisis. But 2021 will also be the year in which we’ll start to truly understand the long-run changes wrought by COVID-19 on the ways we work, live, and interact with each other. The consequences for the corporate banking business could be profound, from the revaluing of CRE assets if workers don’t return to offices to huge overcapacity in the aircraft leasing industry if business travel doesn’t recover. 2021 will see lower bank profits but not solvency issues. But more importantly, it will determine whether the stress and strain of 2020 can be used as a slingshot to transform the banking business or whether the elastic snaps back to the old ways of doing things.

2021 will determine whether the stress and strain of 2020 can be used as a slingshot to transform the banking business or whether the elastic snaps back to the old ways of doing things.”

Barry McCarthy

CEO of Assure Hedge,
which provides FX Hedging-as-a-service

The outlook for FX markets in 2021

"In many ways, 2021 may well become more memorable than 2020. We are experiencing a period of both winners and losers, a byproduct of weakened economies supported by loose monetary conditions. This ultimately leads to a further rise in inequality and along with it geopolitical instabilities. With Central Banks hitting the laws of diminishing returns when it comes to interest rate policy, with inflation benign but ever present in asset pricing, the macro release valve more than ever will be global currency exchange rates. With Brexit mostly resolved, this will be more keenly felt in Cable and Eurodollar as the end of the Trump era heralds a move away from dollars as the safe haven currency of choice. Throw in the inevitable and somewhat necessary introduction of capital taxes, and now you also have capital flight risk and an increased search for yield through carry in emerging markets. That's a somewhat simplistic look at just some of the fires to contend with. 2021 will be about keeping nimble and on your toes, and being smart about what risks you choose to hedge."

Jonathan Andrew

Global CEO at Bibby Financial Services,
the leading independent financial services partner to over 9,000 businesses worldwide.

The evolution of commercial finance in 2021

"The events of 2020 meant SMEs around the world had to adapt and respond to new ways of working and doing business. These changes are affecting all markets, and financial services is no different. As we embark on 2021 we can expect to see high street banks, fintech lenders, challenger banks and aggregators continue to search for ways to capture market share. The development of these collaborative ecosystems is in response to changing consumer behaviour. The latest generation of business owners are digital natives; their expectations are shaped by the ecosystem economies and customer experience that they demand in their personal lives. This involves expecting faster transactions, on demand service, greater business intelligence and more flexible ways to access liquidity from within their businesses, 24 hours a day, through any device. The evolving needs of businesses and their customers, combined with the accelerated changes brought about by the pandemic, mean that as a sector we must continue to evolve so we are able to offer a truly personalised, digital experience to our SME clients in 2021 and beyond."

Conrad Ford

Chief Product & Strategy Officer at Allica Bank,
a new SME bank that combines human relationships and modern technology

“

Who will fund post-pandemic business growth?

“COVID-19 has caused a relentless pace of change in business lending. 2020 has been so breathless that we’ve forgotten that the greatest changes to business finance lie beyond the pandemic. Sadly, many firms will not survive once government emergency support measures wind down. However, those businesses that do survive will be awash with growth opportunities in the ensuing creative destruction.

The big question is who will fund this growth. Major banks — for once the heroes of a financial crisis — will be distracted for years administering millions of government-backed loans. Alternative lenders will desperately struggle to raise further lending capital without the crutch of generous government guarantees. At Allica, we see ourselves playing a crucial role in alleviating this coming finance gap for ambitious firms.

Technology will be a key enabler. With the disruption of COVID-19 rendering many traditional credit models useless, I think we’ll see a further acceleration of the trend towards live insight such as Open Banking and ERP data to drive better loan decisioning and monitoring.”

Josh Levy

CEO of Ultimate Finance,
a specialist asset-based lender to UK businesses

Access to cashflow will be vital for success

“A key theme for 2021 will be the continued importance of consistent access to liquidity. Cashflow is a challenge even in normal conditions. The various Government support schemes – loans, grants and tax deferrals – have helped businesses through the pandemic related impact of reduced income and pressured cashflows. But going into next year, SMEs face being unable to access ‘traditional’ sources of working capital funding, whether that’s loans or overdrafts. This is where specialist asset-based lenders can be such a great option.

The key is that liquidity is always there until it is needed most, and the value of liquidity cannot be understated. Liquidity enables businesses to trade through uncertainty and capitalise on opportunities for growth. Thus, access to capital and strong working capital management will be key ingredients for success in 2021 – it’s dangerous to assume that just because liquidity is there today that it will be there tomorrow.”

Joana Negrao
Customer Propositions,
Trade and Receivables Finance HSBC UK

Receivables finance - smart funding for uncertain times

"Through 2021 and beyond, Receivables Finance solutions will become even more relevant for businesses looking to unlock liquidity. Companies in the UK have experienced a year unlike any in recent memory and are likely to experience consequences on their performance as a result of the pandemic. Given the economic downturn and the challenge this brings to credit quality, extended debt turns and customer bad debt risk, businesses should be considering alternatives that provide smart access to funding and help them quickly release cash caught up in their sales cycle. With the advances seen in technology and the acceleration of consented data sharing models, supported by the Open Banking framework, the industry will respond with propositions that are better suited to customer needs and that reduce the complexity in accessing this type of financing."

John Wilde

Head of Investec Capital Solutions at Investec Bank

The invoice finance market in 2021

“As we turn into a new (and better) year, the IF industry is likely to see increased customer demand for liquidity. In recent months, this has largely been satisfied by Government-backed interventions which have combined with vastly reduced client turnover to significantly diminish funds employed across the sector. With an economy and trading conditions beginning to normalise as vaccines take effect, extra vigilance will be required to navigate the challenges of anticipated business failures, as repayments on lending schemes begin to bite against a backdrop of Brexit confusion. The benefit of empathetic, human relationships with funders who are positioned as long term partners may never have been more important to the entrepreneur community. But providers who can at the same time deliver slick, technology driven solutions that genuinely enhance the customer experience will become the real winners in an increasingly competitive landscape. Early signs of consolidation within the industry are already in evidence and this trend is set to continue.

Providers who can offer empathy at the same time as delivering slick, technology-driven solutions that genuinely enhance the customer experience will become the real winners in an increasingly competitive landscape.”

Lionel Taylor

Managing Director at Trade Advisory Network Ltd,
which provides strategic and implementation support to the supply chain finance industry

2021 – data-driven lending comes of age

“2021 will see continued progress being made in relation to the acceptance of digital trade related documentation in various legal jurisdictions, including revisions to English Law where it is hoped that the Law Commission will as early as April publish its proposals and draft legislation. This legal certainty will stimulate the development and adoption of new digitisation solutions that are not necessarily dependent on contract-based closed user groups.

To date, the approach to digitisation has mainly been driven by those who seek to achieve efficiency gains and better customer delivery of existing trade and supply chain finance solutions. The growing realisation that digitisation, and initiatives such as Open Banking, will enable access to and the mining of transactional data with real-time monitoring capability, will bring a shift of interest by banks who see the prospect of providing the end-to-end financing of supply chains through a seamless delivery, with businesses receiving finance and risk mitigation at the point of need, more achievable today than it has ever been.”

Danette Copestake
IT Director, Wyelands Bank,
a UK bank focused on financing small and medium businesses

The big tech trends for the year ahead

“Banks will open up their APIs and migrate to open-source banking as a service (BaaS) solutions to allow emerging startups and third parties to develop new and innovative services, often putting data directly in the hands of consumers. Working in a collaborative ecosystem that drives innovation and has a customer-centric focus is the only way for banks to win.

Open-source already powers data and analytics. The difference in 2021 is that open-source technologies will not only be leading the charge, but will also dominate the sector. Banks will deliver value through intelligent data insights to support personalised financial wellbeing. Through AI-powered apps, consumers can make better-informed decisions. Predictive analytics and real-time decision making will become more of a reality leading big data into a most ‘open’ future.

Fog computing will usher in a new era for the cloud - one that is trusted, decentralised and distributed. By connecting edge computing, cloud and IoT in logical locations, banks will be able to enhance performance and use real-time data to inform trading decisions or check for fraud. Fog computing will be powered by open-source solutions like OpenStack, Docker and Kubernetes.

Tech-savvy, legacy banks can join the fintech competition by sharing their data and infrastructure, moving into open banking and embracing the rise of BaaS.“

Davinia Simon

Head of Channel and Alliances, ANZ at Amazon Web Services (AWS), the world's most comprehensive and broadly adopted cloud platform

The growth of ready-to-use services

"As Australian consumers have grown accustomed to real-time access to information from any device, any location, at any time through their personal experiences, they demand the same capabilities from financial services institutions and expect them to customise communications and offers to fit their needs. However, many organisations don't have the mechanisms in place to enable those experiences and provide the level of data protection and privacy required by industry regulators.

In 2021, we expect to continue to see growth in ready-to-use services, such as chatbots, contact centres, voice, machine learning, and IoT that make it easy for financial services institutions to enhance the experience of their application while generating a 360-degree view of their customers. For example, Amazon Textract which uses machine learning (ML) to automatically classify documents or Amazon SageMaker to build ML models for credit decisioning.

COVID-19 continues to change the way that people around the world live and work, presenting us with a "new normal" in so many facets of life. Times of change offer opportunities to experiment and innovate, and we're seeing Australian financial services organisations rise to this challenge, leveraging the cloud to automate existing manual processes and provide a richer customer experience."

Jes McPhee

Sales Engineering Director at Vodeno,
a leading cloud-based 'digital bank in a box' platform

Banking customer experience will be powered by agile components

"Banking technology is already evolving incredibly rapidly — new entrants like Vodeno have cloud-native, API-first, componentised (via microservices and event streaming) platforms running banks today. Even legacy providers are trying to re-architect to catch up. In reality though, this is to meet the needs of the evolving banking value chain as it splits into delivery channels, product distribution and manufacturing — a change catalysed by PSD2. What is even more interesting is what comes next. The current leading-edge platforms are effectively a brief plateau before the next transformational push which will be completely driven by Customer Experience. Modern banking will be fluid, frictionless and largely invisible. AI-enabled digital assistants will provide fantastic customer experience without people even realising they are "doing" banking. Real time analytics and AI will allow new services to be offered to customers at the point that their need arises - proactive rather than reactive banking.

In the future, banking architectures will mirror this fluid, CX — first view by being an equally fluid, composable architecture of services leveraging many Fintech services in a true ecosystem manner."

Malcolm Vernon

Director New Business Models & Strategy at BBVA

Why 2021 will be a BaaS bonanza and why this matters

“The promise of banking-as-a-service is that, without going through the tiresome effort of becoming a regulated institution, any company can integrate complete banking services into their own products. Issue cards and accounts to customers, offer real time consumer credit? Yup, straight out the box through an API. BaaS serves an entirely different purpose to Open Banking, where non banks merely use the bank’s data for their products. I expect this distinction will dawn on many companies in 2021. When they realise how fast services can be deployed in this model, and how wide is the range of services that can be pulled from a simple API call, this year will bust out a BaaS bonanza. Big players like Solarisbank and Mambu have just completed significant funding rounds, and a swathe of new competitors are on the horizon. Combined with significant moves from Silicon Valley into the consumer and merchant front end of financial services, 2021 is going to see as much fundamental reorganisation as 2020 did.

When people realise how fast services can be deployed in this model, and how wide is the range of services that can be pulled from a simple API call, this year will bust out a BaaS bonanza.”

Nigel Verdon

CEO, Railsbank,
a pioneer and innovator in the global Banking as a Service (BaaS) sector

Why 2021 is only the Middle of the Journey for Banking-as-a-Service

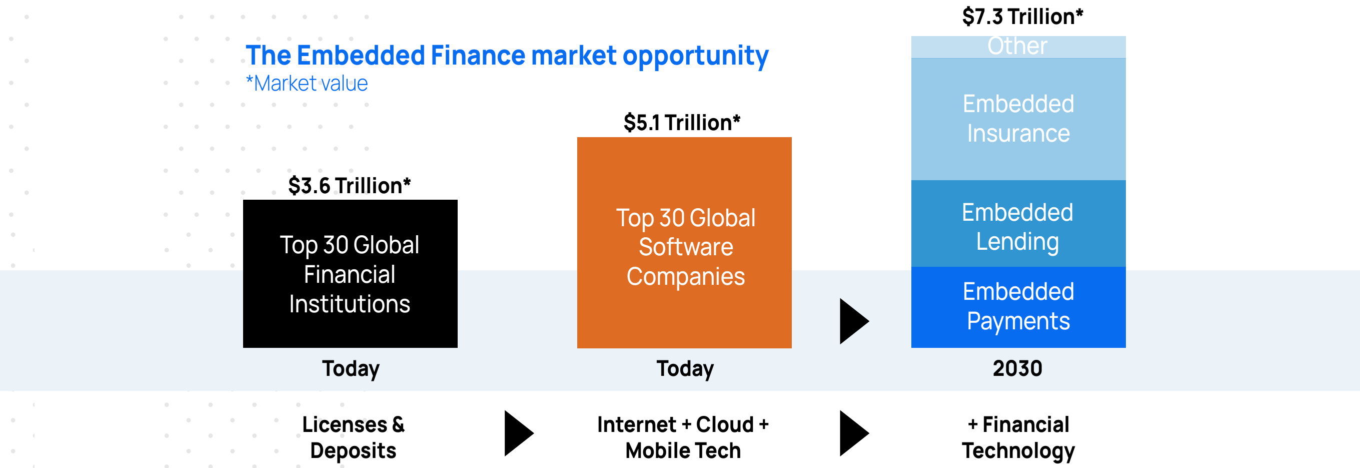
“Last year saw the rise of Banking-as-a-Service, but it is important to understand that we are just in the middle of the journey. First came Open Banking, then came BaaS and this is the catalyst for the real goal, Embedded Finance. For all of us at Railsbank, the ability to embed finance into apps and customer journeys is the ultimate game changer, and we now literally stand on the edge of a new and exciting era of financial services. And we hope to be at the forefront of the revolution, with our new Houston no-code platform and OpenRailz API, which makes embedding finance as simple as point and click. The impact that BaaS is having, and will have over the coming decades, cannot be stressed too highly. BaaS has not only changed the game, but changed the playing field, changed the teams and changed the rules. BaaS has not only changed the game, but changed the playing field, changed the teams and changed the rules.”

Simon Torrance
Senior Advisor, Rainmaking

The Embedded Lending Opportunity

“Embedded lending will be a major part of the overall ‘embedded finance’ phenomenon over the next five to ten years. It’s about enabling any organisation to offer personalised and contextually relevant credit to their customers or suppliers when and where it is most needed. For these organisations, it can either create completely new revenue streams or make it easier for their customers to buy their products or for their suppliers to supply them. It can be an ‘add-on’ proposition to a core business or it can be an invisible native component of an existing or new service or experience. Leveraging data that an organisation already has on customers or suppliers means that credit risks are reduced. We’ve already seen this take off in the consumer space with startups like Klarna and Affirm, and we’ll see it entering every market space where it’s attractive to make it easy for companies to make credit part of their proposition, rather than customers or suppliers having to go to a separate bank or lending organisation.

I’ve estimated the potential value – for those who can enable it – at over $2 Trillion in 10 years’ time (see diagram).



Embedded lending about enabling any organisation to offer personalised and contextually relevant credit to their customers or suppliers when and where it is most needed.”

TRADE LEDGER UNLOCKS THE £7 TRILLION BUSINESS CASHFLOW CREDIT MARKET

Lending to small and medium enterprises (SMEs) has been difficult and expensive. As a result, 200 million businesses globally are unable to get the credit they need – that's a £1.2 trillion un-served segment in a £7 trillion under-served market.

Trade Ledger's lendtech gives lenders a simpler way of working, across origination, decisioning, fulfillment and management. It brings together all the data they need throughout the customer lifecycle, provides analysis, automates processes, and shows at a glance the information they need to take good decisions.

Lenders have one place to interact with clients and colleagues: a single orchestrated system. They can make high-quality decisions rapidly and grow their loan book through immediate transaction completion. They can expand their offerings from invoice and asset finance to include new cashflow services, and secure against future revenues, goods in transit and work in progress – all within their risk profile.

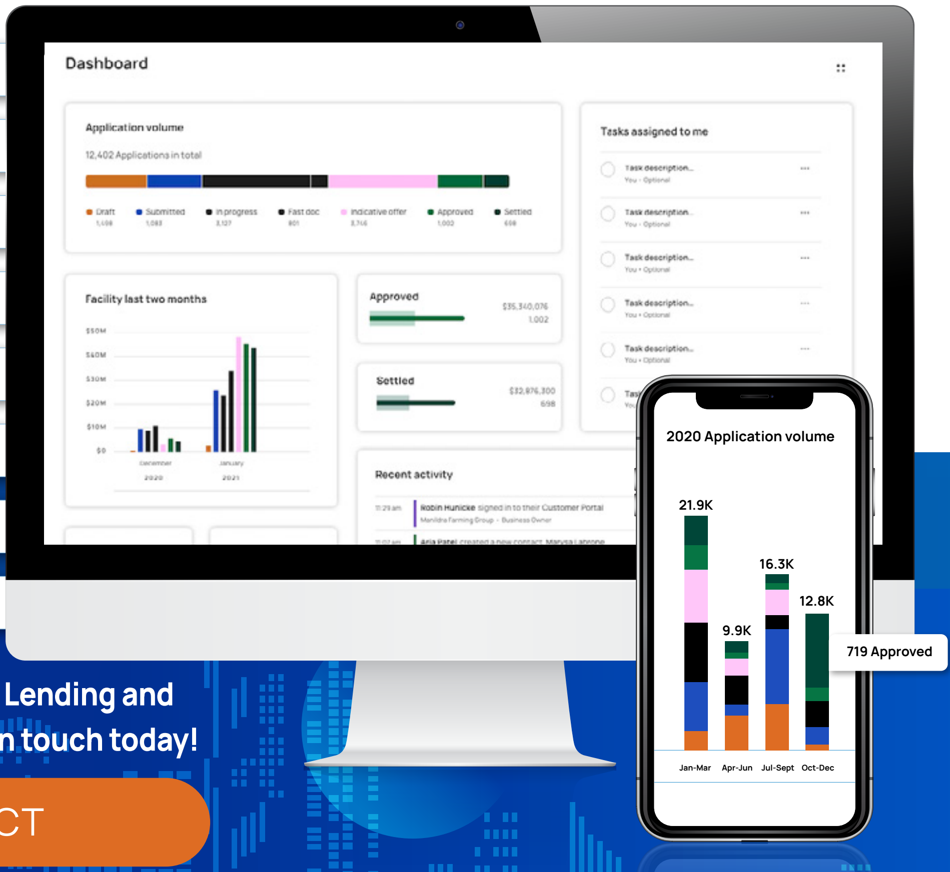
Clearly designed dashboards provide great visibility, with broad indicators such as profitability, as well as full details of individual borrowers and loans. All departments have access to the same source of information – a single version of the truth – with a single way of working. Automated alerts reduce delays and bottlenecks.

DATA DRIVEN LENDING

Trade Ledger brings in data from lenders; borrowers' own accounting packages; third-party credit bureau data services; and supply chain and logistics systems. The data is real-time, so is always up to date, and is stored using AWS for enterprise-level security and reliability. Analysis and insight is presented via a standard web browser. There's no software to install, maintain, optimise or upgrade.

Borrowers apply for credit on the lender's own website. They can receive lending decisions, and even cash, the same day – enabling them to respond to their own market conditions.

- Grow profits
- Increase conversion
- Reduce dropout
- Reduce the cost of service
- Manage risk more effectively
- Process applications 6x faster
- Make decisions in 4 minutes
- Succeed with 70% of applications



To learn more about Data-Driven Lending and the Trade Ledger platform - Get in touch today!

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