

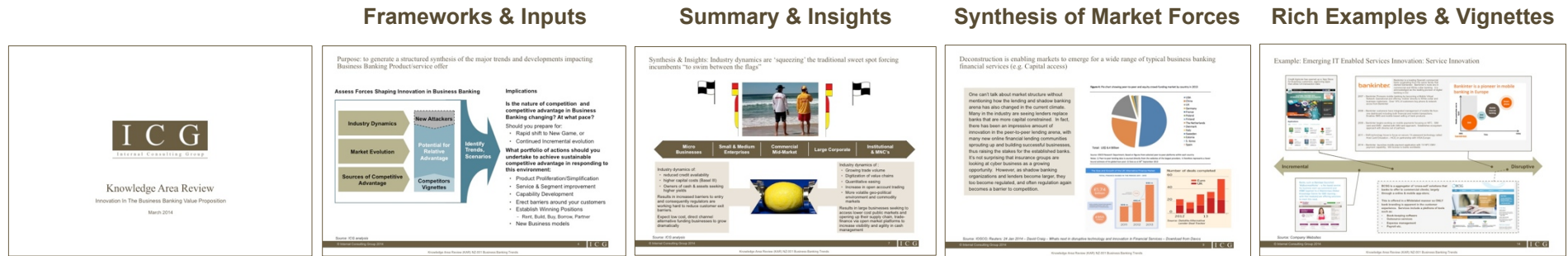


Knowledge Area Review

Innovation in the Business Banking Value Proposition – Product Sample

March 2014

Product Sample: Knowledge Area Review of ‘Innovation in the Business Banking Value Proposition’



PRODUCT SAMPLE: INNOVATION IN THE BUSINESS BANKING VALUE PROPOSITION (total of 170 pages)

Commercial research relevant to most companies in an industry sector

Immediate access and full-use license:

- \$AU 2,000 Team (PDF)
- \$AU 3,000 Team (PPT + sources)
- \$AU 5,000 Division
- \$AU 8,000 Enterprise

For an in-depth review of the content of this KAR with its authors, please contact your local ICG Affiliate

This Knowledge Area Review (KAR) addresses (and provides approaches to help answer) the questions on the mind of every financial services executive:

- Is business banking on the the cusp of a fundamental disruption in the model for delivering customer services?
- What is driving this change? How certain is it? And How quickly will it occur in my geography?
- What are others doing in response to the market environment?
- What approaches and actions could we take to position our business for success in the next 5 years?

This KAR synthesizes perspectives of leading consulting firms, global corporates, and boutique research houses. We identify forces driving the pace of change in Regulation, Technology & Markets, Economic flows & Customer Behavior.

It synthesizes these inputs into a compelling perspective for the future by drawing specific examples of disruptive and incremental innovation across the broad range of business banking value proposition (products, services, channels, and competitive offerings).

It provides decision makers with a simple framework to assess their environment and the potential range of portfolio actions they can take to respond to the evolving market dynamic.

Numerous case studies and examples are drawn from around the world, with several deep dive vignettes of some of the most innovative and compelling approaches.

Key messages are summarized for interpretation by the decision maker.

All references to original sources are listed with original documents available for review by purchasers of this KAR.

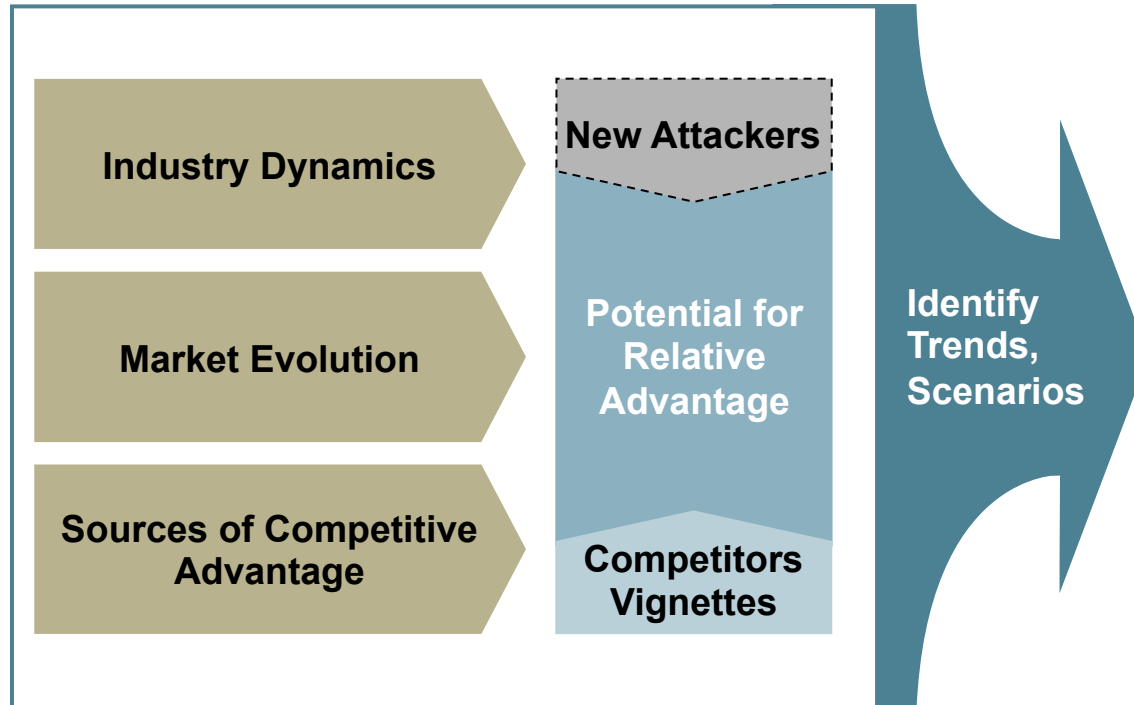
Lessons from this Knowledge Area Review are broadly applicable to other information rich industries.

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Purpose: to generate a structured synthesis of the major trends and developments impacting Business Banking Product/service offer

Assess Forces Shaping Innovation in Business Banking



Implications

Is the nature of competition and competitive advantage in Business Banking changing? At what pace?

Should you prepare for:

- Rapid shift to New Game, or
- Continued Incremental evolution

What portfolio of actions should you undertake to achieve sustainable competitive advantage in responding to this environment:

- Product Proliferation/Simplification
- Service & Segment improvement
- Capability Development
- Erect barriers around your customers
- Establish Winning Positions
 - Rent, Build, Buy, Borrow, Partner
- New Business models

Source: ICG analysis

Broad scope covered:

This document focuses on the relationship management model that is typically used by banks to cover their business customers (here defined as businesses above \$1m of lending requirements). It excludes micro-businesses and financial institutions

Segment	Micro businesses	Small business*	Mid-corporate / Middle Market	Large Corporate	Institutional	Financial Institutions
Turnover	<\$3m	\$3 - 50m	\$50m - \$500m		>\$500m	
Bus. Lending Behaviour	<\$1m scored single bank	> \$1M portfolio single bank			>300M multi-bank	
Main interface	Business owner	Business owner / Finance Director	CFO – Finance Function			
Typical coverage model	<ul style="list-style-type: none"> Branch staff Small business access via branch or digital channels 	RM based in Business Banking Centre + Remote Business banking service centre and HO-based Product Specialists		Centrally based RM + Product Specialists		Product specific teams
Typical Customer Banking Relationship	<ul style="list-style-type: none"> Multi-provider Single FSI for transactions 	<ul style="list-style-type: none"> Predominantly Single source lending & transaction banking 	<ul style="list-style-type: none"> Additional banks enter portfolio based on product value 	<ul style="list-style-type: none"> Multi-bank RFP driven relationships, consider public markets 	Only capital markets & interbank arrangements	

Scope of business banking utilised this KAR

* Some small businesses with complex needs may also be served by the coverage model typically associated with mid-corporates

Source: ICG analysis

Robust & easy to navigate Structure:

Industry Dynamics

Industry dynamics analysis examines the external environment impacting business banking together with the relevant future trends and their impact on the industry. Key forces of change we review include:

- *Regulatory impacts* – the influence of changes in regulation, its consistency x-geography and its relative impact for both traditional and emergent business banking firms
- Secular shifts in market economics, technology, and customer behaviour

Market Evolution

Examples of Incremental & Disruptive Innovation

Evolution of demand looks at the emerging trends in different business segments. Based on the availability of public information we reviewed primarily developed geographies (Australia, Canada, UK, US) and selective examples from other markets

Using a clear Product Service taxonomy we review examples of traditional and disruptive innovation evaluating shifts in:

- *Shifts in Feature/function, accessibility & service proposition for product classes*
- *Implications for channel mix* – Sales forces (RM, Specialist, Branch, Call Centre), Service proposition (Digital (on-line/mobile), Assisted, Face-to-face)

Sources of Competitive Advantage

In a KAR vignettes and examples are used to identify how competitors are pursuing the acquisition or enhancement of capabilities or positions that may enhance their **relative competitive position**. **This is to be used as input in** evaluating your own starting point and the potential feasibility of potential strategic actions. There are three general sources of competitive advantage:

- *User Value* – equates to qualitative and quantitative dimensions of the value proposition such as quality, features/range, Ease of Use, Convenience, Customer Service, Cost of Ownership, Brand
- *Relative Cost Position* – due to an ability or a position some segment of the relevant competitors have obtained an advantage through size, effectiveness, factor costs, IP, or cumulative experience
- *Pace/Agility* – (to deliver on User Value and/or Relative Cost Position) business ecosystem, Architecture (Business, Product, IT), ability to respond to signals, inputs (social, user generated content), predict responses (simulate) or people/talent

Synthesis & Insights: Industry dynamics are ‘squeezing’ the traditional sweet spot forcing incumbents “to swim between the flags”



Industry dynamics of:

- reduced credit availability
- higher capital costs (Basel III)
- Owners of cash & assets seeking higher yields

Results in increased barriers to entry and consequently regulators are working hard to reduce customer exit barriers.

Expect low cost, direct channel alternative funding businesses to grow dramatically



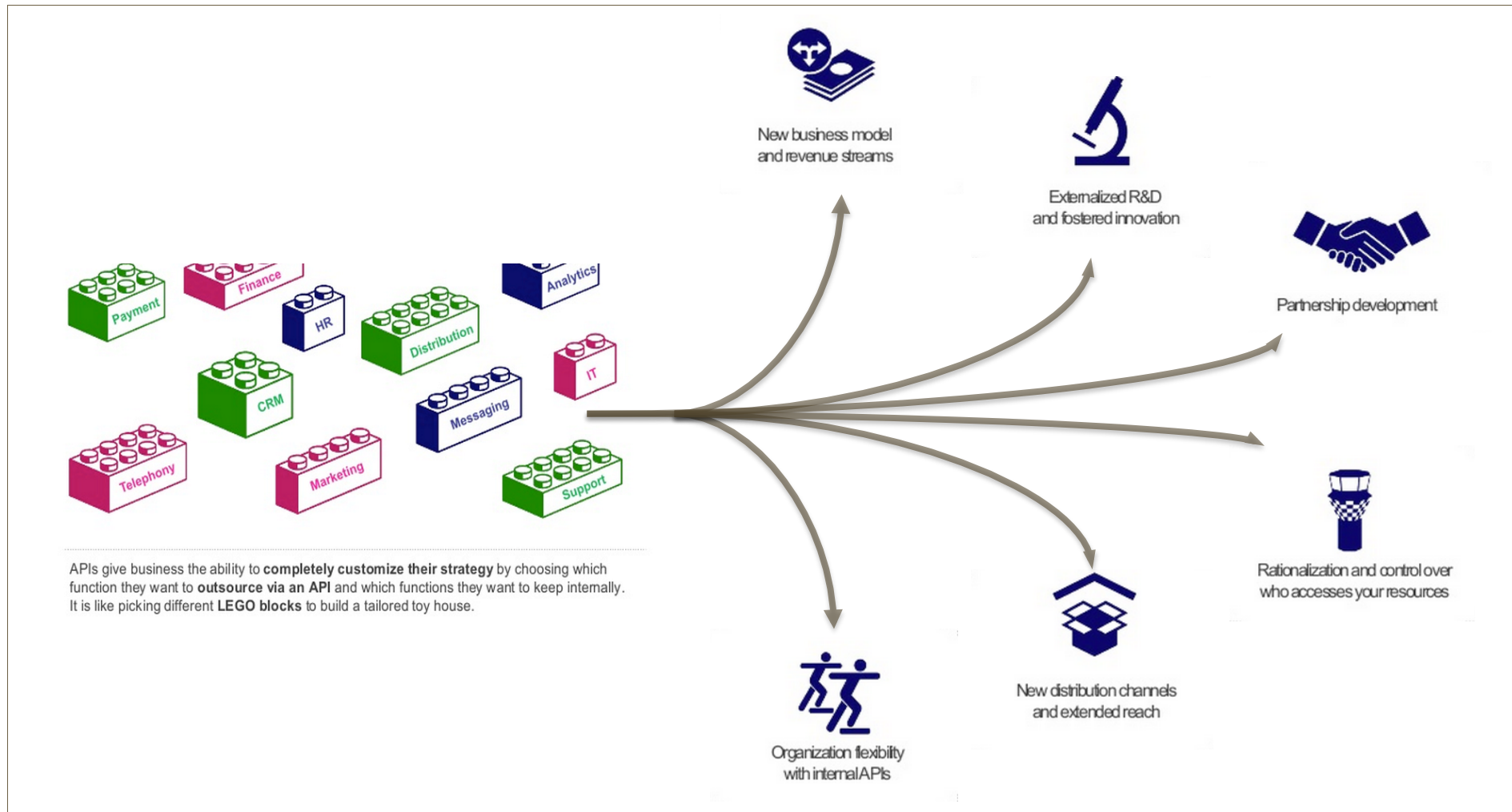
Industry dynamics of :

- Growing trade volume
- Digitization of value chains
- Quantitative easing
- Increase in open account trading
- More volatile geo-political environment and commodity markets

Results in large businesses seeking to access lower cost public markets and opening up their supply chain, trade-finance via open market platforms to increase visibility and agility in cash management

Source: ICG analysis

Technology is allow companies to unbundle value chains build plug n' play offers & rapidly access to new value pools

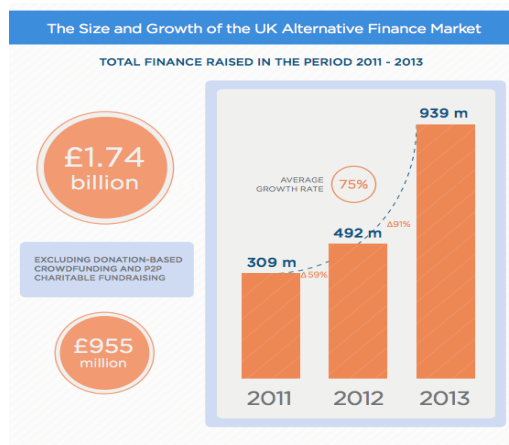
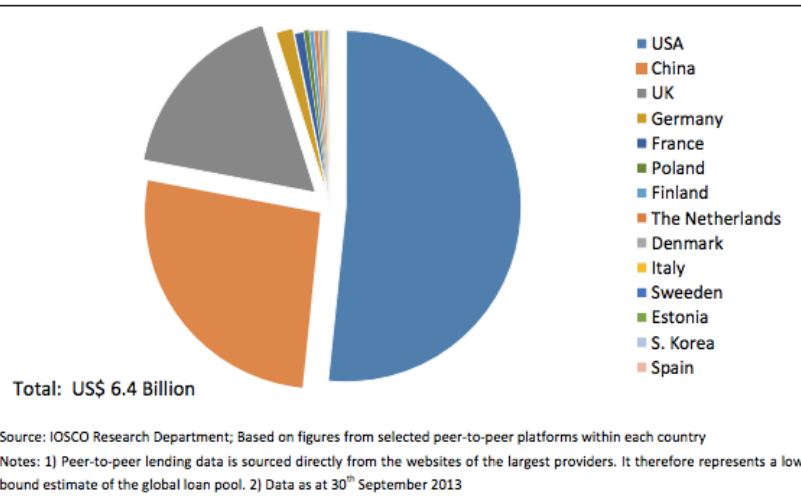


Source: FABERNOVEL, 6 Reasons Why API's will reshape your business, November 2012

Deconstruction is enabling markets to emerge for a wide range of typical business banking financial services (e.g. Capital access)

One can't talk about market structure without mentioning how the lending and shadow banking arena has also changed in the current climate. Many in the industry are seeing lenders replace banks that are more capital constrained. In fact, there has been an impressive amount of innovation in the peer-to-peer lending arena, with many new online financial lending communities sprouting up and building successful businesses, thus raising the stakes for the established banks. It's not surprising that insurance groups are looking at cyber business as a growing opportunity. However, as shadow banking organizations and lenders become larger, they too become regulated, and often regulation again becomes a barrier to competition.

Figure 4: Pie chart showing peer-to-peer and equity crowd-funding market by country in 2013

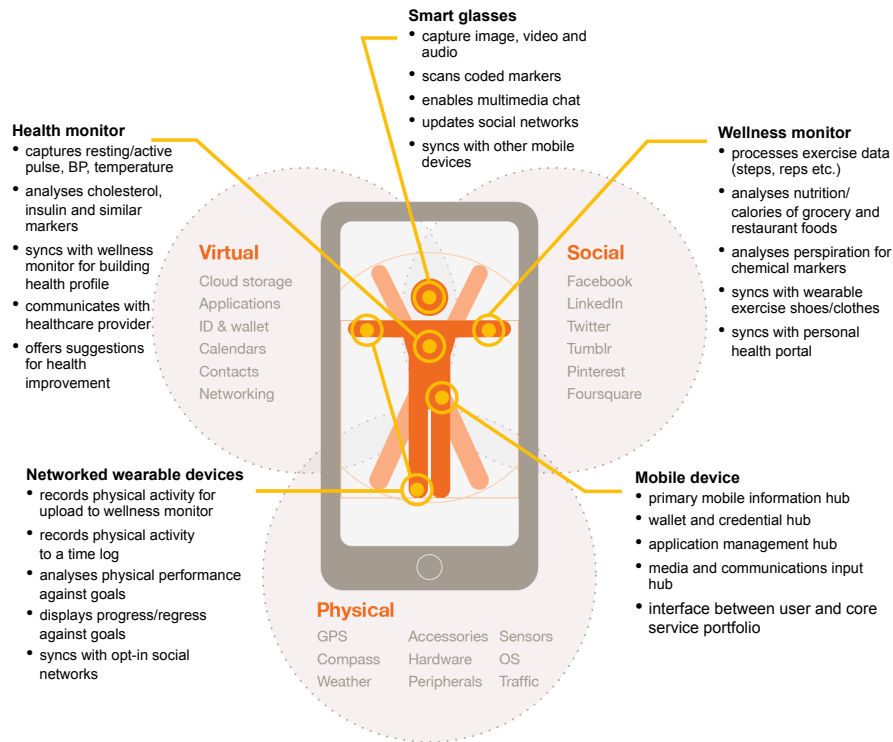


Source: IOSCO; Reuters: 24 Jan 2014 – David Craig – Whats next in disruptive technology and innovation in Financial Services – Download from Davos

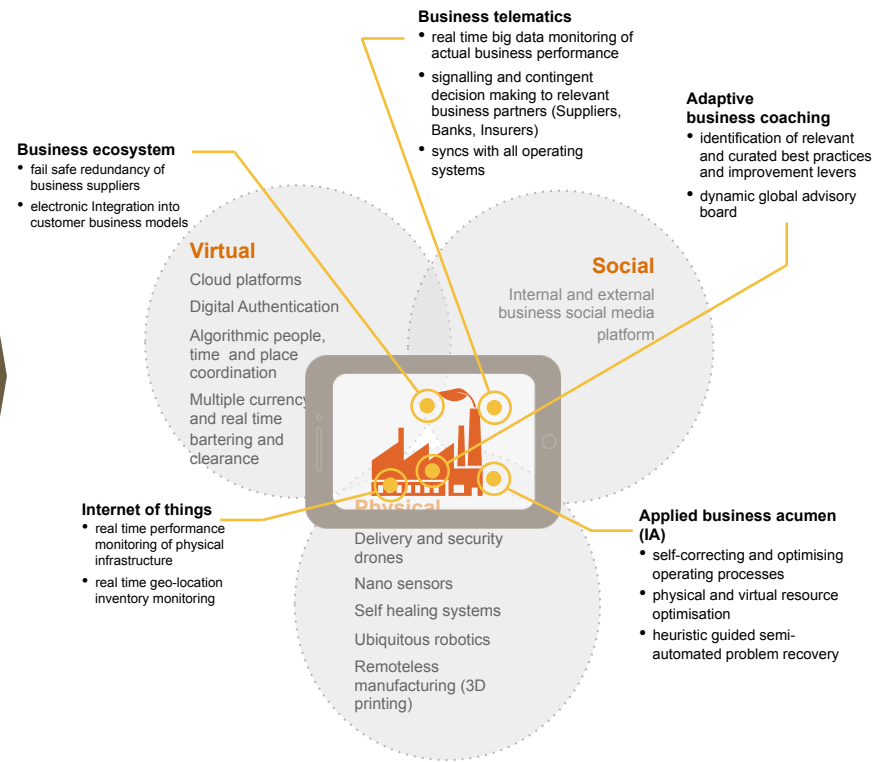
Customer behaviour and expectations is shifting rapidly as the adoption of consumer digital context accelerates

Today's Personal Digital Context

Consumers, are able to access a wide range of new digital services... assisting with completely new, fast-feedback decision cycles



Potential: Digital Business Context 2020



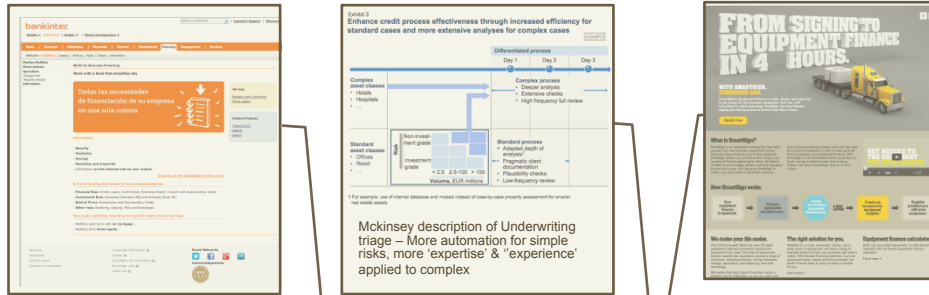
Source: Left hand Side = PWC, curated by ICG; Right hand side; ICG interpolation for Business Banking Customers

Insights & Vignettes organised by simple Product/Service Hierarchy Many examples for each Class

4A) Traditional Core Banking Products & Services					4B) Extended Shelf Financial Products			4C) Emerging IT enabled Adjacent Services
4.1 Capital Access	4.2 Transaction Banking	4.3 Payment	4.4 Trade	4.5 Service	4.6 Risk	4.7 Markets	4.8 Wealth	
Std. Loans <ul style="list-style-type: none"> Secured Unsecured <ul style="list-style-type: none"> Overdraft Line of Credit Revolving 	Account <ul style="list-style-type: none"> Transaction Savings (time & performance) Fx Accounts 	Cash <ul style="list-style-type: none"> In/Out Money Order Foreign currency xchange 	Traditional <ul style="list-style-type: none"> Letter of Credit Import/Export Confirmations 	Security & ID <ul style="list-style-type: none"> KYC ID / Sign-on Device (card) 	Derivatives <ul style="list-style-type: none"> Futures Swaps Other 	Foreign Exchange	Fixed term <ul style="list-style-type: none"> Term Deposit Bank paper, Commercial Paper 	Market Access <ul style="list-style-type: none"> Social Networking Collaboration & Service clubs Foreign market Introductions
Asset Finance <ul style="list-style-type: none"> Vehicles Specialised Equipment 	Physical Cash <ul style="list-style-type: none"> Business Deposits Lock Box 	Domestic Debit Pmt <ul style="list-style-type: none"> Bill Present Bill Pay Direct Debit 	Collections <ul style="list-style-type: none"> Invoice finance 	Signatures & Authorities <ul style="list-style-type: none"> PKI / signatures 	Guarantees <ul style="list-style-type: none"> Stand-by LoC Docu. Credit Surety (bonds) 	Commodities	Money Market funds	Education <ul style="list-style-type: none"> Closed MOOC
Invoice / Receivables finance <ul style="list-style-type: none"> Factoring / forfeiting 	Consolidation <ul style="list-style-type: none"> Sweeping Pooling Liquidity Mgmt Collection 	Credit Pmt <ul style="list-style-type: none"> Credit card Corp card 	Open Account <ul style="list-style-type: none"> Inventory Prepayment Collection 	Visibility <ul style="list-style-type: none"> Transactions, balances 	General Insurance	Exchange traded instruments	Structured <ul style="list-style-type: none"> Money market Trust funds ETF's 	Staff Services <ul style="list-style-type: none"> Onboarding Payroll
Specialised & Syndication <ul style="list-style-type: none"> Bridge finance 	Control & Advice <ul style="list-style-type: none"> Positive Pay Forecasting 	Cross-border <ul style="list-style-type: none"> Pre-paid Travel X-border payment 	Structured trade finance	Advice <ul style="list-style-type: none"> Capital Structuring 	Life Insurance	Interest Rates	Employee Super	Insight <ul style="list-style-type: none"> Benchmarking Analytics Consulting
Markets <ul style="list-style-type: none"> Equity issuance Debt issuance Alternative finance (PE, VC) Advisory 	e-Currency	Acquiring <ul style="list-style-type: none"> Terminal 		Digital services	Trade Credit Insurance	Specialised: <ul style="list-style-type: none"> Carbon, emmissions e-Currency 	Securities Trading	Software & Platform services <ul style="list-style-type: none"> Supply chain orchestration Trade & Customs documentation Market-places

Note: Features and functions, not displayed on this hierarchy; Including: Price/ fees, Rate type, fee type, Collateral assigned, Purpose & Policy, Payment Structure (F, amount), Statement (form, cycle), involved parties, Direct Debit, Payment exceptions (retry, Extra, Holiday), Portability, Top-up, Re-draw, Progressive draw, Renewal, SmartPay

Example: Traditional Core Products: Capital Access Trends



3 most visible 'product/service innovations occurring in Business Lending space are:

- Product Bundling
- Competing on Speed
- Customer centric underwriting limits using new sources of insight



Biz2Credit

Let us help you find the best financing available to your business.

Business Financing Options

See how we help you get your dream loan with help of more than 100 lender partners.

Biz2Credit is widely recognized as the #1 online credit resource for starting and growing businesses. One of credit, equipment loans, working capital and other funding options.

Biz2Credit is an aggregator that takes one application and submits it to up to 1000 potential credit suppliers and reports back to the business with the results

ezbob

A fresh approach to business loans

A one-click loan

Apply for, approve, for any purpose

Ezbob has secured investment from private investors and funds to take packaged loans & provide servicing

PayPal

Get Me Later®

Add a credit line and get what you want – with more time to pay

PayPal Working Capital is a different kind of business loan.

Application time:	PayPal Working Capital	Credit Card	Bank Loan
Real lending time:	5 minutes	1 week	1 week
Payments only after you have sales:	✓	✗	✗
Single, fixed fee:	✓	✗	✗
Periodic interest:	None	Yes	Yes
Credit check:	No	Yes	Yes
Personal Guarantee (PG):	No	Yes	Yes
Pre-payment penalty:	No	Yes	Yes

Supply chain finance shifts 'risk' of purchaser of supplier financial failure upstream to Buyer via REVERSE FACTORING. Borrowing a page from this innovation, AMAZON, GOOGLE, & PAYPAL offering financing to businesses, based on the transaction flows they manage through proprietary marketplace platforms

... Combination of factoring and receivables financing; This enables small and medium sized companies to liberate cash from their supply chain more quickly

Source: Company Websites

Example Vignette: Traditional Core Products: Payments Australia's Commonwealth has taken an innovative approach to build a new ecosystem

'Pi' is an open ecosystem enabling multiple development of applications to enable Payments Services

Pi is the open source software platform that powers a range of new portable, multi-functional merchant terminals. It will allow businesses to download, create and upload apps. Albert to be launched in mid-2013, businesses can use Pi development platform to turn their iPod touch and iPhone 4 into a payments platform by means of another device called 'Leo' (planned for Q4/12)

Albert' terminal: uses variety of 'industry' vertical and user focused Payments Services

Developed with Ideo

- Powered by Android v0.4
- Wireless; 5 MP camera for scanning; accepts EMV chips and pin transactions



Applications

- Inventory management app
- Loyalty and rewards programs
- Integrate with the customer's electronic cash register
- Customers can install their own or third party apps

Leo', based on iOS, functions like a mini-EFTPOS terminal

Cradle strapped to the back of i-pads and i-phone4s to allow them to accept all forms of card payment with PCI-PTS 3.x

- 'Cards with EMV chips
- Cards with a pin
- Magnetic stripe ('magstripe') cards
- Contactless cards

It includes functions like:

- Purchase/Refund
- Tipping
- Split bill
- Reporting



Source: Commonwealth Bank of Australia website, July 2012

Example: Emerging IT Enabled Services Innovation: Service Innovation

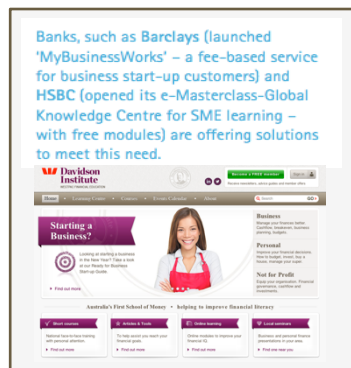
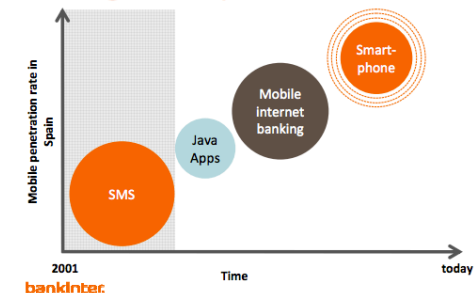


bankinter.

Bankinter is a leading Spanish commercial bank (originating from the same family that started Santander). Bankinter's roots are in commercial and White-collar banking. It is acknowledged as the leading pioneer of digital banking in EU

- 2007 – Bankinter pioneers mobile banking by becoming a Mobile Virtual Network Operational and offering 'mobile' directly to White-collar and business customers; Over 14% of customers buy phone & network access from Bankinter
- 2008 – Bankinter customers have integrated management of mobile life from one dashboard including both financial and mobile transactions. Enables SMS and mobile based selling of bank products
- 2009 – Bankinter begins working on mobile payments focusing on NFC, SIM card and EMV; started with SIM card approach; Establishes ecosystem approach with diverse set of partners
- 2011 – Shift technology focus to focus on secure 1X password technology called Host Card Emulation – HCE) in partnership with VISA Europe
- 2014 – Bankinter launches mobile payment application with 1X NFC EMV payment capability; Will license to banks worldwide

Bankinter is a pioneer in mobile banking in Europe



BCSG is an aggregator of 'cross-sell' solutions that banks to offer to commercial clients; largely through an online & mobile app-store;

This is offered in a Whitelabel manner so ONLY bank branding is apparent in the customer experience. Services include a plethora of tools such as:

- Book-keeping software
- Outsource services
- Expense management
- Payroll etc.



Source: Company Websites

Post-script from the Authors

Its clear that the world of business banking is changing much faster than one might assume given the nature of business banking relationships. As is always the case, there is much more going on below the surface of that still pond than first meets the eye.

This KAR has highlighted a massive set of changes in Technology, Global Macro-economic trends, Regulations, and wide range of potential Competitors. Our objective is not to advocate for rapid and cataclysmic change but to highlight that the needs of customers will correspondingly change, and the range of choices open to them will not be limited to geography.

To succeed in this new environment, bankers must wisely choose a path which ensures sufficient action before the water boils... but not so much that their investments precede the market need. This 'middle' way of building a path to the future will require Business Banks devote higher levels of investment in capital and management attention than has been deployed cumulatively on product development, alliances, channel reach and customer understanding over the past decade.

Choose wisely!