OLIVER WYMAN

CORPORATE BANKING INSIGHTS

TIME TO START AGAIN

HOW GREENFIELD CAN TRANSFORM CORPORATE BANKING

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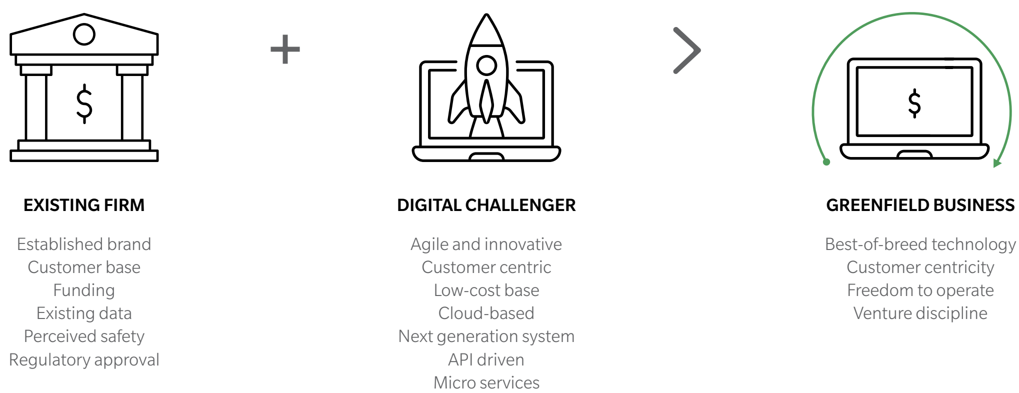
Greenfield business builds are proliferating in retail and small business banking, as banks look for faster ways to get new propositions into the market and build modern technology infrastructure. This approach is now emerging in corporate and transaction banking, too. Early movers are looking to break free of legacy systems and deliver radically improved offerings for corporates, faster and cheaper innovation cycles, a lower cost operating model, and a new way of working. For incumbent corporate and transaction banks, greenfield is becoming an important approach to reposition the business and defend against disruption.

A NEW APPROACH

Transforming the business and technology of a corporate bank is slow, costly and complex. Greenfield is an attempt to break free from the constraints of existing systems, business models and talent models. It is a lower cost, faster way to get new propositions into the market. Corporate banking providers – both new entrants, and incumbents looking to reinvent their businesses – are now experimenting with greenfield approaches. The motivations for doing so – and the scale of ambition – are varied, ranging from those who are looking to build new products or features, to those who are looking to build an entirely new bank and switch off the legacy.

Exhibit 1: Greenfield combines the advantage of an existing firm with the agility and cost base of a challenger



For greenfield to be adopted at scale in corporate banking two questions need to be answered. First, is it possible to build a corporate banking platform from scratch in a cost-effective way. And second, is the business case – and urgency to act – sufficiently compelling compared to traditional transformation approaches. While it is still early days, we contend that the answer to both questions is yes.

Our annual State of the Financial Services Industry report – Time to Start Again – made the case for *"financial services firms freeing themselves from the shackles of their legacy infrastructure and embarking on their future journeys unencumbered."* In this paper, we explore the potential for greenfield to transform the corporate banking business. But first we hear from some of the early adopters.

FEEDBACK FROM EARLY ADOPTERS

VIVEK RAMACHANDRAN, CEO SERAI

What is the scope of your greenfield business or offering?

Our vision is to "simplify trade to release business potential". We're starting with two things... which is one more than most startups! The first is a fully digital lending product that enables onboarding in minutes; automated credit decisioning based on machine learning; and instant drawdown of funds. The second is a platform to help companies showcase their capabilities, find new connections and build new relationships. Over time, there will be other services on the platform, such as insurance, freight forwarding or procurement.

Why did you embark on greenfield? What was the motivation?

Firstly, we realised that to simplify global trade you have to look beyond banking. That was the first reason for setting it up outside the banking entity. We wanted a construct that would allow us bring in other partners, be it service providers, investors or distributers.

Secondly, it's about talent. We have managed to attract a very different pool of talent, and for them it's important to be working in a startup environment where there is more freedom to experiment, to build, and the risk of failure is high, and the upside is even higher.

Finally, as a platform business it makes no sense to build this on legacy infrastructure. Our architecture is purpose-built for our needs, including encryption and data permissioning which are at the heart of our solution.

How have you engaged with customers to build your business?

We're looking to address the real pain points of buyer and suppliers. They told us their key challenges are finding reliable suppliers, certainty of funding and flexibility of funding. So we set to solve those problems. Being clear on the pain-points that we are trying to solve was key. If we had tried to design screens on day one it would have been a mistake.

When I talk to customers I say, I either want you to hate it or love it. Indifference is the worst thing to me. We want feedback to act on and improve the product.

What approach to technology have you taken? How have you partnered with third parties?

The architecture is a completely greenfield and built for purpose. We have built our technology for scale. The marginal cost of a transaction is zero. With today's tech you can do this at relatively low cost. We have partnered with a range of technology vendors for components, but we bring it all together.

How have you built the team required to build and run the new business?

We view ourselves as a tech company, so our people are focused on end-to-end product design, tech and data. Everyone in our tech team can code. We have sourced talent from the external market, as well as some people transferring over from HSBC. When people transfer over they resign from HSBC and join Serai. If this doesn't work we are all looking for jobs – it focuses the mind. What we offer is a unique combination of working in a start-up environment, going after a big problem, but with the backing of a big organisation.

How have you partnered with the legacy business to deliver the venture?

We have sponsorship at the highest levels of HSBC. We are a fully independent entity but benefit from the HSBC link. The Group CEO of HSBC is our Chairman. It's a real privilege to have that support. Our independence is also critical. We don't use any HSBC technology or have any access to bank data. It would complicate our business model and make us less viable as a standalone entity.

What are the success factors? Did you have any guiding principles you kept true throughout the journey?

Putting the customer need at the heart of everything we do. Everything we do needs to pass the test of does it make life simpler for our customers to navigate global trade?

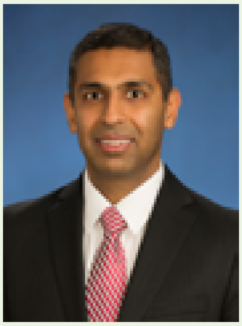
Secondly, staying true to our values: empathy, simplicity, transparency, boldness and partnership. These are equally true for our employees as our customers. You can't expect your employees to deal with inefficiency internally and deliver beautiful solutions.

What have been the biggest challenges?

The first is building our team and culture. We want to bring some of the discipline and robustness of a large company, but without any of the bureaucracy. The second is prioritisation: being clear on what the minimum viable product is, getting the product out to test with customers early, and avoiding the temptation to tweak. Finally, holding your nerve. It's okay when people don't like your solution. If you aren't dividing opinion you are not trying hard enough. Some failure is good.

What would you like this venture to look like in 10 years' time?

In ten years, we'd like to see Serai as the global B2B platform that facilitates trade across industries and sectors. Our vision is that Serai will be the platform of choice for businesses when they are looking for trusted and credible partners to do business with. Ultimately, we want to deliver innovative trade solutions that further the good of domestic and cross-border trade.



HARI MOORTHY, GLOBAL HEAD OF TRANSACTION BANKING, GOLDMAN SACHS

What is the scope of your greenfield business or offering?

We are building a transaction banking business, entirely from a clean sheet of paper. We are building every aspect of the business: payments, liquidity, excess cash, and other services. Fundamentally, we are looking to offer something to our clients to make their lives easy. The key tenets of what we are doing are: no legacy, completely digital, and putting our clients at the centre of everything we do. I don't think it has been done at this scale anywhere in the industry.

Why did you embark on greenfield? What was the motivation?

The only option we had was to start from a clean sheet of paper. We have no legacy in this business, and we view that as a competitive advantage. Greenfield is the only approach that addresses our clients' needs. We are not encumbered by what we have done in the past. It truly allows us to redefine how we solve our clients' needs.

What we are doing is new, but it is anchored in Goldman Sachs heritage. We know how to build technology. We have a track record of launching new businesses fast, Marcus is an example. Even with the precedence, what we're building is fast and at a very high quality.

How have you engaged with customers to build your business?

We simply ask them what they want. Our clients are very receptive to what we are doing. They have given us very clear steer on what their strategic, global, and day-to-day problems are, and many of them have volunteered solutions. The problems are not new; we are looking at better ways of solving these problems. We aim to solve what other banks are not able to. We are starting with Goldman Sachs as our first client, and building from there.

What we aspire to do is build disparate services and package them as a solution for each of our clients. There is not a single solution that works for all clients as they're all different. We are client-centric in our approach, giving them what they need - whether it's cost savings, automation, security, or data transparency.

What approach to technology have you taken? How have you partnered with third parties?

We are 100 per cent cloud native, so our costs are fully variable - that is built into our technology from day one. We have a disciplined approach to partnering. Anything that is a differentiator, we build. Anything that is highly commoditised, we buy, as long as it meets our requirements: cloud-based, API-based, end-to-end encryption, etc.

We heavily automate testing: we won't allow a piece of code if it won't meet our high standards in automation testing. Finally, data is central to everything we do. We have gone beyond big data, to big data in real-time. The value of the data is giving insight to our clients. They want to know where a payment is, they want to apply rules to repeated transactions, and proactive alerts on liquidity management. None of that is unthinkable - we just make it easy for them.

How have you built the team required to build and run the new business?

We have built the team from a combination of internal transfers, hires from technology companies, and hires from existing transaction banks. But we avoid hiring too many people from the same institution. We are not looking to replicate what the other banks have; we are looking to build something new and benefit from varied perspectives and experiences.

Our ways of working are critical to our success. We work at pace, in two week sprints, and release a major feature every three months. We delivered payments capability for Goldman Sachs in six months. We are very strict about prioritization. And our team works exceptionally well together. The entire business team is together on this floor, all under one management: product, technology, operations, sales and service. No other bank has that. It is really a fintech culture within a big bank.

How have you partnered with the legacy business to deliver the venture?

While we are incubating ourselves as independent organization, we benefit from the broader expertise and relationships around Goldman Sachs. We are serving existing Goldman Sachs clients. We adopt all the risk frameworks. We have brought talent over. Simply put, this wouldn't be possible without Goldman Sachs.

Equally we are contributing back to the rest of Goldman Sachs. We are enabling the bank to self-clear, saving costs. We are contributing back with innovations and technology. And we can partner closely with other parts of Goldman Sachs to unlock opportunities.

What are the success factors? Did you have any guiding principles you kept true throughout the journey?

First and foremost, our people and culture. We have built the best team in the industry that is fully motivated by delivering our mission.

Additionally, our clients are at the centre of what we do. We build and configure services to meet specific client needs; we don't build products. Having focused prioritization matters to the client, and how we can deliver in a seamless way is fundamental to our success.

What have been the biggest challenges?

The biggest challenge is entering into a new business and doing something in a two-year period when our peers have taken decades to do this. It's also the most rewarding part. Client adoption is a good challenge. We need to work harder to attract clients, so we have to build something that is truly differentiated: better meets their needs, is more efficient, and is transparent.

What would you like this venture to look like in 10 years' time?

We are aiming to fundamentally change the game in the transaction banking industry. In the future, if clients have embraced this and we are able to solve our clients' problems at scale, then we have been successful. We will have led the way and been pioneers in defining the art of the possible.

BUILDING NEW IN CORPORATE BANKING

New technologies, vendors and development approaches now make greenfield a viable strategy to transform the business model in corporate banking. There are four key success factors for greenfield builds.

Exhibit 2: There are four key success factors for greenfield build

STARTING FROM THE CUSTOMER NEED

- Are customer needs the basis for developing value propositions?
- Is there a mandate to experiment, test, and learn with real customers?
- Is the flywheel effect activated?

DATA AND ANALYTICS AT THE CORE

- Does the data model enable customer insight, facilitate process automation, and drive value for the business?
- Are cutting edge analytics used to support a differentiated proposition?

DISTINCT CULTURE AND GOVERNANCE

- Does the new organization promote a challenger culture, where experimentation is supported?
- Can decisions be made quickly?
- Is investment funding released based on the maturity of different initiatives and the extent to which demand is proven?

MODERN TECHNOLOGY

- Is the solution free from legacy system constraints?
- Is it being built so that it can be flexibly scaled up by using modular micro-services and APIs?

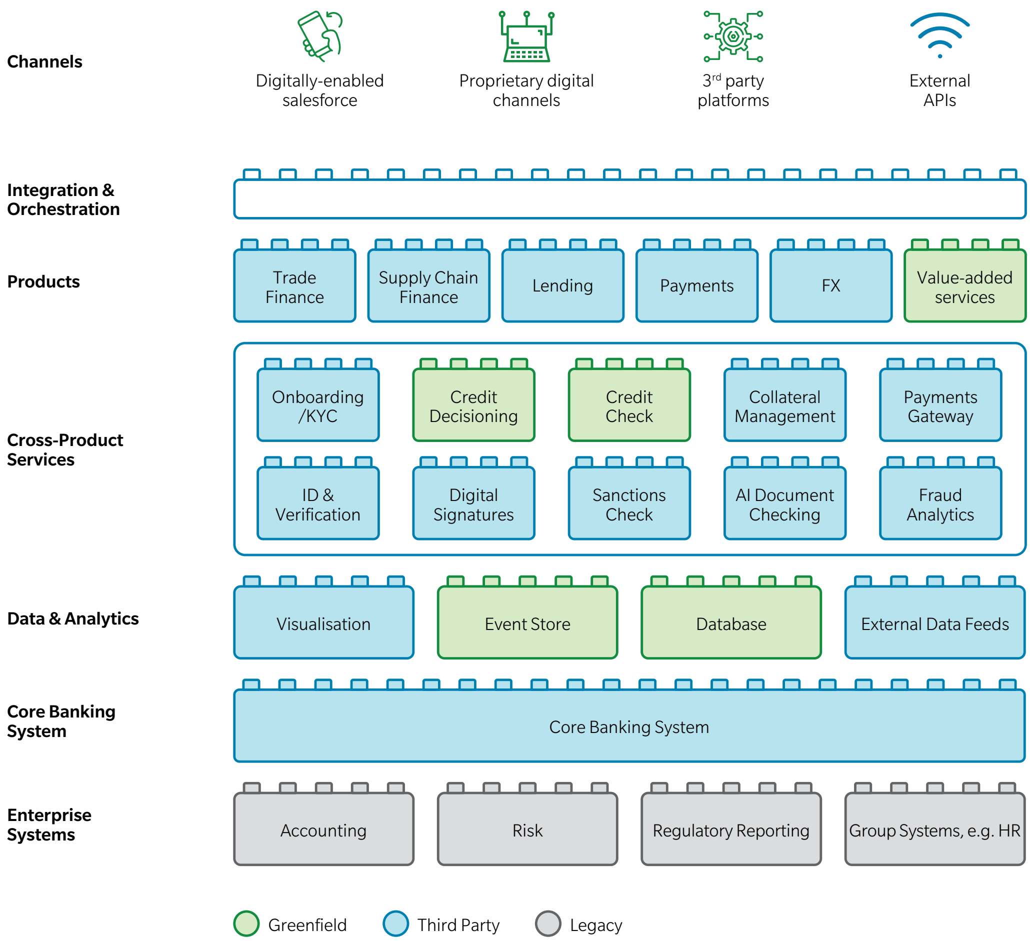
First, it needs to start with a specific customer need, in an area that is already strategically important, or to kick-start expansion. It needs to develop compelling customer solutions and evolve them quickly. For example, when we worked with Serai, we ran focus groups with Asian manufacturers to better understand how they manage the 'source-to-pay' value chain and the pain points they encounter. We found that there were challenges in identifying reliable suppliers, many manual steps in the procurement process, and that many of the smaller suppliers were not able to access the funding they required to grow their businesses. These findings were fed back into the design of the minimum viable product to ensure that the solution added real value to the customer. But early movers will need to contend with widely varying digital sophistication of corporates; just like banks, corporates face many challenges in driving digital innovation. For leading banks this will require them to partner with the most digitally savy corporates to pilot initiatives, as well as to broaden their coverage beyond the treasurer to understand the agenda of procurement, technology and business heads.

Second, data and analytics need to be at the centre, both in terms of understanding customer needs, and in delivering rich and differentiated propositions. The technology architecture is built around data: all data captured digitally at source; internal data enriched with external sources, delivered via API; stored in cloud-based data lake; and manipulated using advanced analytics software. This can enable better identification of customer needs, seamless customer experience or value-added analytics to help customers grow their businesses. For example, DBS developed their Treasury Prism tool to enable corporate clients to simulate different liquidity structures across markets and currencies, and test the impact of these scenarios. DBS built the tool through close engagement with their customers who highlighted challenges such as: managing complexity of new cash management structures, understanding regulatory requirements across jurisdictions, and assessing optimal cash management structures to meet their treasury objectives. The platform is bank agnostic and thus not limited to DBS clients. Treasury Prism allows participants to upload multi-bank datasets to run a portfolio of treasury optimization analytics. The tool has received positive feedback from clients and received a number of industry awards.

Third, they require a different way of working and skillset. Small, multi-disciplinary teams, combining product, design and technology, working to agile methodologies. Work is structured in short sprints, ensuring priority features are delivered quickly, tested in the market and refined. It relies on a new set of skills including design, human insights, data science and modern development skills – some of which may be seconded from the legacy bank, others of which may need to be sourced externally. Finally, management teams need freedom to operate and make decisions quickly, often outside of the legacy organisation. For some, this has led to a decision to seed the new business outside of the existing organisation, often with a new legal entity, board and even brand. The foundations set in the greenfield venture can support broader cultural and workforce change in the legacy organisation.

Finally, greenfield builds are underpinned by modern technology. Greenfield should deliver a technology platform that is scalable, has a variable cost base, enables fully digital experiences, provides flexibility to swap components out, and can be iterated to meet the needs of both customers and the business users. The technology is built by bringing together modular microservices (rather than a single vendor platform). The microservice systems are cloud-based, scalable, and generally offered as software-as-a-service, and are provided from a combination of best-of-breed vendors, fintechs and selected in-house development (where that provides competitive edge). The services are coordinated by an API orchestration layer that connects all the services together and allows the new platform to interact with legacy systems (e.g. bank-wide ledgers) without being tightly coupled. This approach is highly desirable for all modern architectures to enable future decommissioning of legacy systems and replacement of microservices when improved offerings become available. See exhibit 3 for an illustrative corporate banking modular architecture. Together, this approach allows for a low cost, agile infrastructure that can enable differentiated customer propositions and product innovation in a way that legacy infrastructure cannot.

Exhibit 3: Illustrative greenfield corporate banking architecture



The viability of this modular approach relies on there being a dynamic and innovative ecosystem of vendors and fintechs to provide these micro-services and ‘plug-in’ to bank systems. There is a rich ecosystem of fintechs and vendors who can provide corporate banking services ranging from digital onboarding, to AI-driven trade document verification, and cloud-based core banking systems. However, many early adopters of greenfield in corporate banking have struggled to find appropriate vendors for core product engines, for example in trade finance, lending or wholesale payments. The vendor landscape is still dominated by monolithic ‘platform’ vendors seeking to provide a cross-product suite of services. As such, early adopters have been forced to build many components in house, or patiently work with vendors to decompose their offerings into API-able micro-services.

While it is early days for greenfield approaches in corporate banking, early adopters have demonstrated that it is viable. New cloud-based and API-able technologies do exist at scale; there is an emerging ecosystem of fintechs and forward-looking vendors who are willing to provide micro-services; and agile is a proven approach for rapid, lower risk and customer-focused product development that can work in corporate banking.

However, early adopters have had to be pragmatic, for example in choosing to build some micro-services in-house where external providers are not yet established, or in combining true greenfield architecture with some reliance on legacy infrastructure. We expect the viability to improve in the coming years as the approach becomes more widespread and creates demand, and as innovation on the supply-side from vendors and fintechs creates a rich ecosystem of providers.

THE BUSINESS CASE FOR GREENFIELD

The case for using greenfield is rooted in the challenged outlook of the corporate banking business.

- Revenues are under pressure due to cyclical headwinds (e.g. interest rates), and secular shifts (e.g. fee margin erosion)
- Costs remain sticky, whilst the investment required to transform the business – and its underlying infrastructure – has been prohibitively high for many
- New entrants are disrupting the business model and creating new offerings and ways of doing business, often at lower margin and with superior customer experience

While greenfield is not, in itself, the answer to any of these challenges, it is a method for corporate banks to respond and transform their businesses quickly, cheaply and at lower risk than traditional transformation approaches.

Motivations for embarking on a greenfield build in corporate banking are varied, as is the scale of ambition. We can see four broad objectives – these use cases are not mutually exclusive, and indeed, one may lead to another.

Developing new customer propositions to solve customer problems and defend against market structure change. There is a range of use cases for specific sectors or client needs. The key is that the solution is anchored on a real client need or pain-point, and that it goes beyond traditional banking products to meet those needs, including development of new platform business models. For example, HSBC lauched Serai as a standalone business focused on digitising the import/export value chain, from sourcing of goods to payment and shipment. This saw the bank moving beyond their traditional domain of providing trade finance to corporates, to operating a platform business across the entire value chain.

Legacy systems are often a constraint on these initiatives – release cycles are too slow or data is too messy – therefore banks are adopting greenfield approaches to building the client proposition and underlying technology.

Entering new markets or segments as a challenger. A number of players are looking to adopt greenfield approaches to grow their businesses in non-traditional areas. This might be entering an entirely new market (e.g. Goldman Sachs entering cash management) or expanding into a new geography or customer segment where the bank has no footprint. The motivations for doing this range from accessing new revenue pools, through to developing a test-bed for digital businesses without cannibalising the home market business. There are some notable differences to legacy businesses developing greenfield which present challenges. Firstly, customer acquisition: the bank needs to identify a target (ideally underserved) segment, develop a compelling proposition to attract those customers, and build a viable commercial model to fund customer acquisition. Secondly, the bank will lack data insights on these customers – whether credit history or transactional behaviours – and will therefore need to rely on external data sources and innovative analytical approaches to build insight on the customer.

Transforming technology to reduce the cost and time to deliver innovation and product enhancements to market. For many banks, legacy infrastructure and processes have become a real burden on the cost-base, and on the pace of innovation. Approximately two thirds of technology spend at global transaction banks is consumed by maintaining legacy infrastructure, as opposed to building new systems or solutions. The cost of adapting to market structure change – such as enabling real-time payments or SWIFT gpi – is often prohibitively high due to complex legacy integrations, legacy systems relying on batch updates, or fragmented systems across markets. Moving – at least in part – to a modular, micro-services architecture requires banks to break apart monolithic legacy systems, decompose systems into services, and integrate services via a common orchestration layer. This enables banks to deliver critical (and mandatory) enhancements to their product offering at lower cost and faster pace. John Laurens, Head of Transaction Banking at DBS, argues, "historically the fundamentals of transaction banking have been driven by scale given the fixed cost infrastructure, but technology innovation is re-writing these rules. At DBS, our tech stack is cloud based architecture, enabling us to publish APIs quickly in a much more agile manner when rolling out new propositions."

Building entirely new digitally-led business with the ambition to demise the legacy infrastructure and operating model, and migrate clients over. For some banks, the end game of greenfield may be to decouple from legacy infrastructure and build a new modern, infrastructure that can meet the long-term needs of the business. While many banks have taken an incremental approach to replacing components of their architecture, greenfield advocates have concluded this will be too complex, too costly and take too long. They favour a bolder approach: to build a new bank and migrate customers and data over, and then decommission the legacy infrastructure. The benefits include a faster time-to-market (12-18 months), a lower-cost infrastructure, and the clean slate technology enabling a host of new functionality. It is not without risk, however, and given the early stage of development of this approach in the market, few have attempted large-scale customer migration. It is not even clear that corporates will be willing to undertake potentially costly upgrades to their own systems to enable the migration. However, for the early adopters, the prize of a truly greenfield business – in terms of cost take-out and enablement of new customer propositions – is worth the disruption of this approach.

CONCLUSION

A Faster Route To The Same Destination?

It's early days for greenfield in corporate banking. The vendor landscape is not mature and the barriers to change within the organisation can be considerable.

But the benefits could be potentially transformational for corporate banking businesses at a time of revenue stagnation and market disruption. As our case studies show, early adopters can make a step change in customer experience, access new business models, deliver cost efficiency and transform their cultures by adopting a greenfield approach.

As we argued in our *State of Financial Services report: Time to Start Again*, the imperative is to "go build!".

ABOUT OLIVER WYMAN CORPORATE BANKING INSIGHTS

Oliver Wyman Corporate Banking Insights is a series of perspectives on hot topics in corporate banking. It is targeted at corporate banking leaders across the globe, and aims to distil our latest thinking into a concise article with practical steps for banks to adopt. Our corporate banking experts would be happy to discuss any of the topics in this series in more detail.

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