

# Digitalization in Corporate Banking: Where is it headed and how can we prepare for the future?

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Digital transformation could actually become the most significant driver influencing a bank's changing business model. Fintechs as well as the tech giants (Google, Amazon, and Apple...) are using their expertise, from various business sectors, to develop relevant features for financial services. The importance of these new providers is evident given the attention the regulators are giving to digital technologies. The implementation of the payment services directive, PSD 2, represents a milestone in regulatory development.



## What does the introduction of PSD 2 mean for banks?

The EU-payment services directive, PSD 2, will take effect in January 2018. For the first time, banks will be obliged to establish interfaces (APIs), which will enable TPPs (Third Party Providers), including fintechs, to make payments and gather account information on behalf of clients. In this way, new players can provide an interface to the banks, offering clients their own (digital) services. PSD 2 will function as a change agent in regards to established business models. It will force banks to open their books to TPPs, possibly disrupting the traditional relationship of the bank to its clients, the banks' most important asset.

Fintechs and global technology companies are ready to begin the implementation of PSD 2. They are often more agile than banks, especially the fintechs, because they focus on a very few, or in fact just one, particular product or service. Fintechs also have a very different organizational structure which supports flexibility and agility. They focus on getting to market with e.g. prototypes rather than mature solutions in order to solve customer issues and opportunities quickly. If banks want to avoid becoming strictly back-office providers, they will need to act, offering comprehensive, value-added services to their customers. This is how banks will continue to remain relevant for their clients.



## What can banks do?

They can turn their attention to promptly meeting new customer needs. As in retail banking, convenience – the quick and easy handling of financial transactions – is becoming a key factor in winning and maintaining client relationships in corporate banking. Decision makers in treasury and finance need quick access to important and relevant information. With solutions such as the ING Wholesale Banking platform "Inside Business," information on payments and liquidity as well as lending activities are available at the touch of a key. It is also easy to make payments or pull reports when needed. "Inside Business" can be accessed through any mobile device 24/7. This provides customers with real added value.

In the future, banks can develop such products themselves or through partnerships. The starting position of banks is a good one. In contrast to many fintechs, banks have the know-how and information gained through long-standing customer relationships i.e. they know their customers' needs and requirements. There is also the trust factor. Whether or not customers from the corporate sector are ready or willing to accept products and services from relatively unknown providers is questionable. However, when the same service is offered by a trusted provider the acceptance is higher.

## ING Wholesale Banking welcomes the introduction of PSD 2

The implementation of PSD 2 makes fintechs very interesting as solution providers for banks and their corporate clients. By partnering, banks can offer products and services which they do not provide today. PSD 2 is fostering innovation which is both welcomed and supported by ING Wholesale Banking. We would like to see the open issues resolved as quickly as possible in order to properly implement the directive.

It is still unclear exactly how the registration process of TPPs will be handled and how often they can access client data. The interfaces for API's have not yet been defined. In a worst case scenario, third party providers would need to create different interfaces for different banks making the process unnecessarily complicated. If there are too many open points or uncertainty this could lead to the goals of PSD 2 not being met e.g. the stimulation of innovation etc. Even if PSD 2 represents a change in how banks and clients interact, this is no reason for banks to drag their feet. On the contrary, banks are well-advised to embrace the opportunities for change that this regulation provides.

The banks are being forced to open their books to TPP's, however this will foster innovation in both corporate and retail banking. Fintechs and tech giants are becoming part of the traditional banking arena. As a result of growing pressure from their entrance, banks will need to become more client focused and better at offering value-added products and services. Fintechs are a natural partner for banks to achieve these goals. With a strong emphasis on innovation, a new insistence on agility, and a continued client centric approach, banks are well positioned to remain relevant for their clients.



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