

Mapping out the future



While global banks have become more focused on developing their own trade and supply chain finance solutions, third party platform providers have found favour among mid-market banks. *Liz Salecka* reports.

The technology roadmap followed by banks offering trade and supply chain finance (SCF) solutions has varied from proprietary development and purchasing to partnerships with specialist providers of licensed, white-labelled or Software as a Service (SaaS)-delivered solutions. While many global banks today are committed to building and enhancing their own platforms to maintain control and independence, mid-market banks are favouring partnerships with third party providers to reduce costs and achieve speed to market.

However, there remains some middle ground as all banks continue to search for innovative and cost-effective solutions and services, which can help them to achieve a competitive edge and add value to their overall trade and SCF offerings quickly. "Ultimately, a bank can achieve a proprietary state while using a third party provider's support and custom development," explains Cort Jacobsen, JP Morgan global trade head of product delivery. "Third party software providers that remain innovative, invest in new technologies, anticipate market trends and demonstrate fast time-to-market are the most attractive to banks."

He explains that banks' approach to solutions development depends largely on their size, whether their footprint is global

or regional, and the front or back-end functionality and features they are seeking. "It also depends on the type of support needed – third party providers can offer a gamut of services ranging from consultants and developers to total data centre support," he adds.

Meanwhile, Mike McDonough, managing director, Bank of New York Mellon (BNYM) treasury services, global product management, believes that the extent of a bank's own in-house capabilities will determine the technology roadmap it pursues. "At the end of the day, the cost of building or buying a solution may very well be largely equivalent, so the next big question is how quickly an organisation wants to do this. Speed is the important 'something' that using a third party provider can often provide."

A case for proprietary development

For many global banks, proprietary development dominates today. One of the biggest drivers is the need to build a solution, which caters to their exact needs and offers them the flexibility to make future enhancements as and when they choose to do so.

Proprietary development also enables ease of integration with their other bank systems

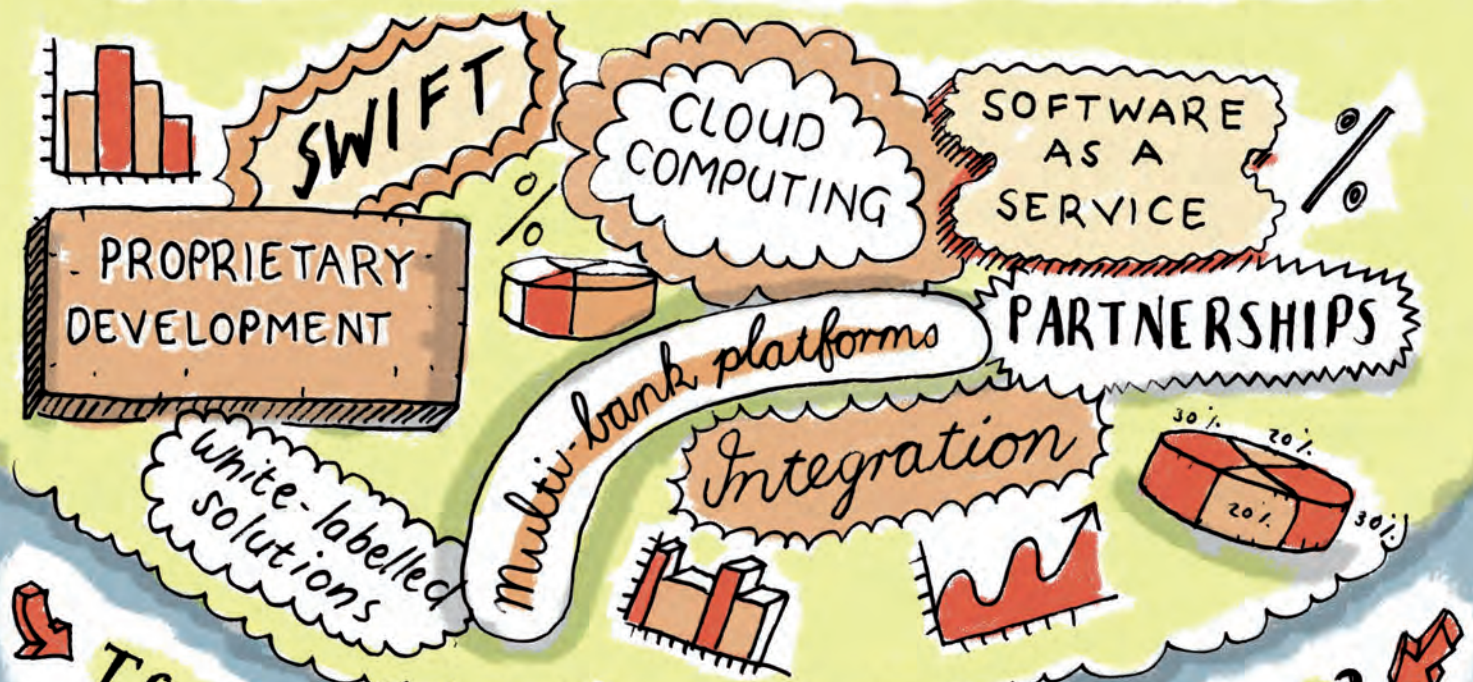
and can ensure levels of security and risk management, which are aligned with their organisation-wide policies.

"In the case of global banks, for which trade finance and supply chain finance are integral to their offering, there is a strong focus on having their own capabilities," says Jon Richman, global product head, trade and financial supply chain, global transaction banking, Deutsche Bank, which launched its financial supply chain management platform at Sibos two years ago. "For our core trade and SCF activities, we have determined that it is very important for us to manage the end-to-end process."

Ashutosh Kumar, global head of corporate cash and trade product management, Standard Chartered, believes that proprietary development can provide global banks with differentiation and leadership.

"Four to five years ago when trade and SCF were becoming major new areas of business, banks did use solutions offered by technology companies, but these were common products that could be used by multiple banks. We decided that we would lead from the front by developing our own in-house solution. Nobody in this space could provide us with what we were looking for," he says. "If you have a trade/SCF platform, you need to own it completely so that you can make changes to it as and when you want to," he continues. "Making these changes is not

TECHNOLOGY & PROCESSING SYSTEMS NEEDED BY BANKS



TO OUTSOURCE OR NOT TO OUTSOURCE?

BANKS

**3RD PARTY
TECH COMPANIES**

If we develop the technology we:

- * Offer an integrated solution
- * Get total ownership of the solution
- * Are not using the same technology as our competitors.

If we develop the technology we:

- * Offer a superior product - it is our core business
- * Can do it fast
- * Can offer quick software updates





“One of the biggest challenges is the cost factor involved in onboarding suppliers across all market.”

Chris Bozek, Bank of America Merrill Lynch

so easy when you are using a technology provider’s solution, where you don’t have control.”

However, global banks are not totally averse from using third party solutions – particularly when operating in overseas markets. Demica’s Citadel outsourced solution, for example, is used by one major US bank outside its home territory.

“Large global banks have their own IT departments, and if they are selling in their own country, they do prefer to develop their own solutions from scratch. However, global banks, such as top US banks, which are not as big in Europe or Asia, for example, may come to a third party solutions provider like ourselves to deliver solutions in these regions,” says Phillip Kerle, CEO, Demica.

Integrating third party components

There is, nevertheless, a general consensus that global banks are more likely to select and deploy individual technology components and services offered by third parties, while continuing to invest in their own proprietary development.

“We do use the services of external vendors and providers where there are opportunities to add value, but our preference – for the sake of our clients – is to take full responsibility for the solutions that we offer,” says Deutsche’s Richman.

“We do take the lead in the development of our proprietary solution, but if there is a solution made available by a third party provider, which offers us an advantage, and can be customised and cost-effectively implemented into our platform then we will look at it too,” adds Chris Bozek, managing director, head of global trade and SCF products, Bank of America Merrill Lynch. Due to the pace of change and innovation

taking place, Bozek explains that the bank looks to develop both proprietary and third party systems.

“Third parties might provide a potential alternative to quickly expand our offering, and meet our clients’ needs,” he adds. Similarly, Frank Tezzi, director of trade and supply chain solutions, CGI agrees that if global banks use a third party technology company, it is most likely to be for a specific module.

He explains that CGI’s Trade360 solution is available in components for front-end portal functionality, back-office processing and receivables management. Banks have the option to pick the elements they want to implement.

The services offered by third party solutions providers have also caught the imagination of many global banks.

“Services are a very important component, and even banks that have proprietary solutions in place, based on the latest technologies, can work with technology providers here. Global banks have the resources to build or buy – but services are a different dynamic,” says Bob Kramer, PrimeRevenue’s vice-president, working capital solutions, who identifies the training and on-boarding of local suppliers as key services sought by larger banks from PrimeRevenue.

This is confirmed by Bozek: “In global procure-to-pay and SCF, one of the biggest challenges is the cost factor involved in onboarding suppliers across all markets. A third party may be able to drive down costs and increase adoption rates,” he says.

Other opportunities

Many global banks are also taking advantage of third party solutions which offer multi-bank capabilities.

“There is an increasing need for corporates to work with banks in a multi-bank environment, and in this instance one bank can play the lead role – or a syndicate may be formed. The important question is whether there is a need for a third party technology provider,” says Richman.

“Swift’s Trade Services Utility has brought new functionality, which we have integrated into our offering. It brings in unique value by allowing users to operate in a multi-bank environment, and it makes sense for us to provide this capability to both our bank and corporate clients.”

Standard Chartered’s Kumar also points out that technology solution providers can play a role in the front-end solutions offered by banks as well as in multi-bank solutions. “Some technology companies are now developing middleware products, which create a multi-bank interface. This is something which corporate clients are looking for so that they can avoid multiple log-on to different banks’ systems.”

He adds that Standard Chartered’s Straight2Bank platform is fully supportive of Swift for corporates, which standardises messaging with multiple banks.

A case for SaaS-delivered solutions

Despite more limited opportunities to service the needs of global banks, most third party providers of SaaS-delivered solutions have found a strong following among mid-market banks.

“There is a lot of interest in third party platforms from mid-market banks, which often don’t have the technological expertise and may be new to the business. In this way, they can leverage on an entire solution which includes a technology platform and services,” says PrimeRevenue’s Kramer.

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Jon Richman, Deutsche Bank



Mid-market banks have also turned to third party providers to benefit from cutting-edge enhancements to the solutions they rent – at no great cost to themselves.

"In this space you cannot build for the price at which you can rent, and by using a third party provider, a bank also benefits from the expertise required for ongoing technical development," says Tezzi, pointing out that, in this way, mid-market banks have been able to reduce total cost of ownership. "We also take on the technology risk involved."

Aside from established mid-market banks, certain third party providers have attracted interest from emerging market banks.

CGI is in discussions with banks in emerging markets in Asia and Latin America, where there is a growing focus on trade finance.

"There are two big drivers for these banks: the need to get up and running with solutions quickly, and the fact that SaaS is becoming more acceptable," says Tezzi.

Similarly, Demica is looking to white-label its Citadel platform to banks in the Middle East, which are now starting to offer trade and SCF solutions to their corporate clients and want to reduce the costs, risks and timescales involved in proprietary development.

The corporate market

The corporate market also continues to provide opportunities for third party solution providers, many of which believe that companies' growing preference for multi-bank SCF platforms, weighs heavily in their favour.

As corporates seek to roll-out ever larger SCF programmes, both in terms of the sums involved and their geographic scope, they are favouring bank-neutral solutions, which multiple banks – including global banks – can join as funding partners.

"Corporates came out of the financial crisis wanting multi-bank platforms, and this need is also being driven by the fact that SCF programmes are now larger in scale and geographic scope," says Kramer. "They are trying to meet their clients' needs and would sooner be the lead provider in a programme than not have the business at all."

"What we are seeing increasingly is that corporates are looking for independent platforms, which they can roll out in different regions," confirms Demica's Kerle. "Global banks are not necessarily always totally global, and may not have the branch networks in place to support their activities in countries such as China, for example."

A third alternative

While many banks prefer to develop their own proprietary platforms for trade and SCF, they also have the option to license established solutions from technology companies – or white-label them.

Premium Technology's Finshare financial supply chain products have been licensed by both Citibank and UniCredit in long-term agreements that include installation, maintenance and ongoing development. Citibank, which licensed the company's receivables financing and payables management/financing products, is now rolling out supplier finance solutions to its own corporate clients, while also white-labelling the solution to other banks. UniCredit has licensed Premium Technology's receivables financing, supplier financing and purchase order to pay (solutions ranging from pre-export finance to inventory and in-transit finance) with plans to roll them out across its banking operations in 17 CEE countries, as well as Western Europe and other parts of the globe.

Peter Chin, executive vice-president, Premium Technology, explains that in its long-term licensing agreements with global banks, his firm takes responsibility for ongoing development, regular enhancements and customisation, working jointly with the banks concerned. It also provides a range of support services such as supplier on-boarding.

"We have the intellectual capital, resources and development capabilities to help both financial institutions and corporates get to market quickly. Our plug and play solutions can be up and running in six months," he says.

Premium Technology also offers Finshare on a white-label, and has attracted users among mid-market banks such as Fifth Third Bank, a major regional US bank. BNYM is a major player in the white-labelling space with trade workstation, a web-based solution, which integrates all the components required for open account and letter of credit transactions, as well as a range of other solutions.

"If a bank decides to build or buy a platform, this can be a multi-year project and clients may very well be looking for near-immediate solutions," says BNYM's McDonough, pointing out that white-labelling enables banks to take advantage of a solution, which is already built, tested and in use.

"There are many technologies available in the marketplace and it is vital that banks do not make the wrong decision and find that they need to make another investment because a new market standard emerges," he says.

"By utilising a white-labelled solution, a bank can significantly reduce or even eliminate this technology risk because it does not involve making a big up-front investment in a technology." **GTR**