



# Innovation, Co-operation and Client-Focus



## Developing a Winning Tech Solution

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**D**igitalisation is thrusting all areas of the transaction banking industry into uncharted territory and to make the most of the arising opportunities, banks must strike a delicate balance between competition and collaboration.

As businesses adapt to an increasingly digital landscape, their needs are changing too – and banks must adapt their products and services accordingly. Evolving technology is paving the way for advanced technological solutions, while changing regulations – such as PSD2 – are shaping their applications.

Banks and fintechs are hard at work to develop the next market-leading solution in their field. As they do so, they must bear in mind that creating the best digital product is only half the battle. Crucially, the product must be widely available and interoperable with the systems of other banks. It should come as little surprise, therefore, that multiple banks are coming

together and developing solutions in tandem in order to hasten the digital revolution in transaction banking.

Of course, amid the understandable hype surrounding inter-bank collaboration, banks are still competing for the same business and will need to find a way to differentiate themselves and their offerings. Fintechs could have an important role to play in this respect – with banks enlisting their support to build the best digital channel for using services developed by the industry as a whole. A solution developed with the expertise of multiple banks, focused on the specific needs of clients and channelled through the technological expertise of a fintech, will be well positioned

to succeed in today's marketplace of competition and co-operation.

### Faster payments setting the pace

The benefits of inter-bank cooperation are already being seen in the instant payments space. SWIFT gpi and the European Payment Council's SEPA Instant Credit Transfer (SCT Inst) scheme are facilitating unprecedented payment speed for clients, catalysing faster business and new opportunities to optimise working capital. When the SCT Inst scheme, which facilitates instant payments across the Single Euro Payments Area (SEPA), was launched in 2017, client uptake significantly exceeded expectations in terms of the total number of transactions and the proportion accounted for by corporate payments. Evidently, there is corporate appetite for this technology, and – perhaps owing to the EUR 15,000 upper payment limit – SMEs and mid-caps were particularly keen early adopters.

This limit no doubt restricted uptake from corporates, but there are plans to raise it in due course. In the meantime, banks can bilaterally agree to raise the upper payment limit – enabling larger corporates to participate in the scheme and extending the benefits right to the end of the supply chain.

In this respect, SCT Inst stands as an early example of the value of inter-bank collaboration. In 2017, UniCredit processed the first ever cross-border instant payment between Germany and Italy, with funds transferred in just 2.5 seconds – making it the first bank to offer the service in Germany.

UniCredit was among the pilot banks for SWIFT gpi – bilaterally agreeing with the other participating banks to process outgoing and incoming payments made through the programme. As of July 2018, the scheme already counts more than 180 participating banks, processing payments across 100 currencies and 450 corridors – a leading example of how collaboration can drive the reach and critical mass required for large-scale viability.

### Keeping an edge

However, a renewed focus on collaboration does not signify less competition. Indeed, while collaboration

is essential, competition is the essence of the transaction banking business. Building new solutions in collaboration is certainly valuable – the input of multiple banks and fintechs should result in an agile, relevant product which can then be distributed to a larger, combined customer base. Yet once the standards for tech solutions have been set and the services are widely accessible, how is a bank to set its solution apart from others in the space?

This is one area where fintechs could play an important role: by intelligently partnering with a fintech, banks can combine their customer awareness as well as their industry and regulatory expertise, with the latest technology to create a sleek digital user experience. Again, however, the thinking must be pragmatic – creating the best technological portal for services will not simply be a question of partnering with the biggest or best-known fintech, but rather of finding a partner whose strengths align with the bank's own approach and provide support where it is needed most.

### Open banking is opening doors

Open banking offers a good example of how banks must toe the line between competition and collaboration. PSD2 mandates that banks open up their customer data to licensed third-party providers (TPPs) by mid-2019. TPPs can use this data to become account information service providers (AISPs) or payment initiation service providers (PISPs). AISPs offer the client a holistic view over their various bank accounts, while PISPs can initiate a payment directly from the customer's account to a

merchant account – generating simpler, less costly payments processes.

Forward-thinking banks will see the opportunity to position themselves as a TPP to offer services as an AISP or PISP – and, in so doing, they can find a competitive edge while simultaneously adding considerable value for clients. For example, by positioning itself as an AISP, a bank can aggregate clients' data from multiple banking partners around the world – offering them a consolidated global view of their finances and effectively becoming the fronting bank for that client's cash management services.

This offering can also be enhanced by incorporating a rules-based artificial intelligence (AI) programme to offer businesses automated advice based on their financial data and pre-agreed preferences. In combination, these services can function as a type of treasury dashboard – emulating the functions of enterprise resource planning (ERP) systems used by larger corporates. ERPs, of course, are traditionally expensive, bespoke systems well beyond the resources of smaller business, but this kind of bank-fronted offering presents a compelling equivalent for those that do not have the budget of a multinational organisation. Indeed, this kind of service promises businesses of all sizes unprecedented access to sophisticated financial management and planning functions, along with tailored advice based on their account data.

It's also an excellent chance for banks to carve out a competitive advantage – and one that they can only grasp with the very best client interface. ■

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