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Joining forces to secure the future of banking technology

The banking sector is experiencing an unprecedented degree of change, driven by technological innovation and an ever-more globalised world. Such developments are fuelling client demand for faster, more transparent and convenient payment and banking services for domestic and cross-border purposes alike. Dominic Broom, Head of Treasury Services EMEA, BNY Mellon, examines how banks are meeting these demands and turning to collaboration to cement their leading position in this new era of payments.

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The banking landscape is changing rapidly in terms of the parties involved and products offered. The growing strength of emerging markets and resulting "south-south" trade flows has catalysed the rapid growth and increasing complexity of global payments. Meanwhile, today's millennial generation of technology-proficient business leaders is resulting in an intensifying demand for a level of corporate payment innovation similar to that seen in the retail sector. For instance, the industry has experienced the proliferation of mobile capabilities as well as real-time payment initiatives, to name just two recent client-centric developments.

Furthermore, banks have been confronted by the influx of new market players – innovative start-up companies as well as non-banks entering the payments space – that have been responsible for much of the retail payment industry's regeneration. The corporate payments space has seen lower levels of innovation in comparison, due in part to the degree of resources (both human and capital) that banks have been required to dedicate to adhering to heightened levels of regulatory compliance, but the rate of change in the retail space is opening corporate clients' eyes to what is possible and heightening their expectations at a rate that banks may struggle with working alone.

Alongside more convenient payment solutions (such as in-app payments, or round-the-clock capabilities) corporate clients are also seeking improved efficiency, transparency and accessibility, and an overall enhanced transaction experience. In this respect, the fintech community has truly excelled, benefitting from having not only fewer rules and regulations to adhere to than banks, but also being free of legacy systems.

In order to stay at the forefront, banks should continue to focus on a technology-led, client-centric strategy. This is much easier said than done, however. Banks are often bound by legacy infrastructures and traditionally-siloed systems, as well as their compliance-based projects and even their responsibility as guardians of clients' wealth – making overly-ambitious or risky innovation projects incompatible with stakeholder objectives.

This changes, however, when the responsibility for initiating innovation is shared across many parties. Indeed, with interoperable, harmonised and innovative payment solutions, it makes sense that an equally coordinated approach is taken to developing such solutions. With this in mind, many banks are seeking to maintain a leading position and push the boundaries of what's possible, embarking on collaborative bank-bank and bank-fintech initiatives to develop pioneering payment capabilities for the future.

Strengthening bank-bank collaboration

As bankers adapt to the market and industry pressures, a growing number are recognising the benefits of collaboration. Indeed, collaboration is occurring between banks in the form of industry-wide initiatives and global/local partnerships. For instance, R3 – a blockchain technology company – is leading a consortium of 45 financial institutions to explore the potential of the blockchain: one of the most widely-discussed financial technology advancements. This distributive-ledger technology (more commonly known as the foundation for Bitcoin) holds interesting possibilities for cryptographically-secure corporate payments in the future.

In addition, SWIFT – the global providers of secure financial messaging services – has created a Global Payments Innovation Initiative (GPII) with the potential to radically alter the payments landscape. Currently, 21 banks participating in the pilot phase (including BNY Mellon) are leveraging SWIFT's global presence to realise ambitions for real-time cross-border payments as part of the aim to establish global interoperability and improve payment visibility between correspondent banks. Although in its infancy, the project comprises a new service level agreement (SLA) rulebook that offers banks a means of innovative collaboration. It would seem that co-operative arrangements will continue to play a crucial role in successfully transforming the payments industry, and it is hoped that such an approach will be increasingly encouraged by regulators.

While the future direction, pace and precise nature of banking innovation is yet to be determined, banks are certainly keenly aware of the power of the fintech community and are choosing collaboration over competition to remain relevant to the industry's long-term progression

Elsewhere, global correspondent banks have also been strong advocates for collaboration through non-compete local-global bank alliances, which demonstrate similar marriage of respective skillsets. In this respect, the local bank can benefit from the extended reach of global payment specialists and, in turn, global banks gain access to new customer bases and country-specific insights. Such bank-bank relationships could be a significant strategic move, enabling both parties to meet growing client needs through the provisions of local market expertise and more sophisticated technology platforms.

BNY Mellon is dedicated to providing innovative, client-focused solutions that facilitate interoperability and, in one of our most significant technological investments to date, has developed a new digital ecosystem: NEXEN. A flexible solution that will allow clients to consolidate their technological solutions into one interoperable cloud-based, open source platform, NEXEN is a one-stop digital portal, which will allow clients to have a clear operational overview with access to all necessary files – granting the client levels of automation and speed necessary to perform in today's fast-paced digital environment.

Emerging alliances between banks and fintech companies

With a growing number of non-bank providers entering the payments space, banks are also realising the benefits of collaborating with these new players, who are bringing technology-honed skillsets to the table. Fintechs too are coming to realise that uniting with banks could be the best and most sustainable route to market for their offering. Indeed, banks' long-established role and unrivalled expertise in both regulation and the requirements of the transaction space, as well as the enhanced position of greater capital to initiate projects and established consumer trust, offer a complementary and equally valuable skillset to fintechs. This means both parties can benefit from working together – pooling their different skills and expertise to deliver enhanced solutions.

BNY Mellon, for example, has established strong relationships with key fintech players, and has launched a number of innovation centres around the world in order to explore new ways to provide added-value services for both banking clients and their own clients.

Joining forces: a call to arms

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Interoperability and harmonisation are key in today's globalised world, and banks need to adopt a similarly harmonised approach if they are to secure their position in this new digital era. By sharing expertise and resources – through both bank-fintech and bank-bank collaboration – the banking community will give itself the best chance of delivering revolutionary changes to the payments sphere and meeting the evolving demands of clients.

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