BLOG

Corporate and commercial banking trends for 2022

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Globally, banks have weathered the pandemic storm better than most of their leadership teams expected, despite facing a tough and ever-changing macroeconomic environment. The pandemic acted as a stress test, helping banks identify pain points and gaps in product and service delivery. A large number of banks relied heavily on paperwork, a significant amount of manual and branch-dependent services, and outdated and redundant IT systems. Adding to their woes were the complicated and decentralised systems and processes. Digital transformation begun before and during the pandemic is, in some cases, being fast-tracked due to competition from digital banks, fintech firms and other technology companies in the market.

Building resilience in banking and lending services to become a future-proof profitable business is now the overarching theme. Trends likely to define corporate and commercial lending in 2022 and beyond

Banks have been forced to adjust to customers shifting business to digital channels due to the pandemic and to keep up with new competition from fintech and big tech firms. Similar to 2021, fintech firms will likely continue to attract large sums of capital in 2022, enabling them to compete aggressively for new business. With the continued move towards digitalisation across industries, lending as a function – including digital loan origination and management – is becoming progressively digitalised as well. Digitalised lending leads to faster processing times, better-quality decision making (due to limited manual input), enhanced customer service and large cost savings.

Banking as a Service (BaaS), embedded finance and integrated platforms are all gaining in popularity, especially after banks' strong push for digitalisation. BaaS models are gaining in popularity due to their scalability, better customer experience, extensive customer reach, access to large amounts of customer data and lower acquisition costs. Integrated platforms solidify a bank's position, helping a bank provide the entire range of services. We see more banks diversifying their offerings and revenue streams by taking advantage of these opportunities from 2022.

Digital transformation involves a significant amount of cash outlay, and it takes time to achieve a visible return on investment. Keeping costs low has also become imperative while recovering from the pandemic, since margins have narrowed. Strategic collaboration with firms with deep domain expertise is increasing, with large commercial and corporate banks partnering with third-party firms to manage some or most of their middle- and back-office work. With increasing cost pressures and demand for agility, this trend will likely continue and encompass more sophisticated tasks as third-party service providers offer extensive end-to-end services.

Traditional credit decision models underwent substantial change before and during the pandemic. With the emergence of lean fintechs, there is increased need for quicker and more efficient origination and underwriting models. Alternative credit data is gaining traction and will likely continue to be embedded by banks to ensure efficient credit decision models.

Credit risk models will likely be upgraded and rely more on analysis of “big data”. While the use of automated rating models has been more pronounced in consumer lending, advancements in technology have led to the application of artificial intelligence (AI), machine learning (ML) and data analysis in commercial lending decision making as well. Credit risk models are now relying more on forward-looking indicators derived from public and private data that provide information in addition to that gained from an analysis of a borrower’s financial statements. For instance, ML may be used to search social media and websites using keywords to determine potential demand for the borrower’s services and products, as well as its corporate reputation. Trained machines could also analyse payment history and cash usage and identify patterns therein. More and more lenders are thinking of integrating their banking systems with their borrowers’ enterprise resource planning and customer relationship management (CRM) systems to get direct access to management accounts, cash movement and spending patterns. This would continue to drive collaboration between banks and data aggregators, third-party processors, technology companies and fintechs.

Amid a challenging revenue environment, excess liquidity and increased competition from fintechs, some banks are finding it a challenge to remain profitable. Aggregate deal value for US banks in 2021 has already reached the highest level since the global financial crisis; this could reach a high of USD60bn in 2022, according to S&P Global Market Intelligence, allowing for more technological investment and branch consolidation. Also interesting to note is that this trend will likely include deals where a bank and fintech combine to optimise banking knowledge using the latest technology.

With increased focus on mitigating climate change and being socially responsible, most banks have started to direct their capital flows to green projects, including climate-tech startups/ SPACs. Robust demand for such products/investments across sectors globally is expected to create significant opportunities for banks – from lending to trading. This ramp-up is also driven by the need to meet regulatory and any upcoming ESG stress tests. We expect continued innovation in the types of products offered, such as sustainability-linked derivatives and target-linked bonds.

How Acuity Knowledge Partners can help

With two decades of experience in delivering research and analytics services, we have built a robust and sustainable ecosystem of people, process and technology. We have strong credentials within the corporate and commercial banking space, supporting banks across the lending value chain, helping them centralise, standardise and digitalise lending processes.

We understand a generic approach may not work amid a crisis and that developing a bespoke risk-integrated lending solution will address the need for depth, frequency and speed, and be key to achieving operational efficiency and profitability, given the vast scale of and complexities in banks' origination, underwriting and monitoring processes.

Key micro transformations we facilitate are listed below:

- **Centralising and standardising data infrastructure** and building links between all internal and external data sources

- **Adopting a risk-based underwriting approach** for non-bespoke products

- **Using alternative credit data for improved risk decisions** and making this data available through application programming interfaces (APIs) for almost-real-time input of information critical for underwriting decisions

- **Minimising defaults by proactive portfolio monitoring** – developing early warning systems with tailor-made, sector-specific triggers and headroom indicators, current and predictive credit scoring and remediation strategies

Sources:

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About Acuity Knowledge Partners

Acuity Knowledge Partners is a leading provider of high-value research, analytics and business intelligence to the financial services sector. The company supports over 650+ financial institutions and consulting companies through a team of over 6,000+ subject matter experts who work as an extension of the clients' teams based out of various global delivery centres.

We empower our clients to drive revenues higher. We innovate using our proprietary technology and automation solutions. We enable our clients to transform their operating model and cost base.

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