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# Improving Banks' Operating Efficiency with Corporate Clients

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**ABSTRACT**

The author studies the recent changes in the operating conditions of commercial banks regarding servicing corporate clients. **The aim** of the study is to find ways in the current conditions to change the approaches of banks to doing business with corporate clients to get more profit. **The theoretical and methodological basis** of the study is the scientific works by foreign scientists and experts on improving the efficiency of banking organizations. The author used the **methods** of qualitative and quantitative analysis of scientific publications, regulatory and legal sources, retrospective statistical data and analytical materials of well-known consulting companies. **As a result**, the author identified areas for improving the internal banking processes: deeper analysis of the client's activities and the industry where they work; high speed of processing client data without requiring to submit the same documents each time; personalization of the offer to the client of the service according to products, price and other conditions that will attract them to develop their business with this bank; development of financial services by the bank that will help the client to direct more funds and attention to their core business. The author **concludes** that introducing new approaches in cooperation with companies allows banks not only to solve the issues of increasing the profitability of corporate business, but also to help bring the return on capital invested by banks' shareholders closer to the cost of capital, which is an important guideline for investors when choosing investment objects.

***Keywords***: corporate banking; efficiency; digital competitors; Treasury; risks; cost of capital

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## INTRODUCTION

The economic crisis has seriously affected the financial position of companies in many industries, that is also reflected in the financial state of banks. They have fewer opportunities to generate income and are forced to create additional reserves for possible (expected) loan losses. The work of banks regarding capital adequacy, provisioning and mandatory liquidity cushion has been more strictly regulated by central banks. This generally leads to decreasing profitability of banking operations. Digital players emerging on the banking field offer customers more convenient, cheaper and more personalized deals. Corporate clients expect banks to be more closely involved in solving their business problems, developing and offering services that will significantly facilitate the work of treasuries in managing cash, currency, interest rate and commodity risks, giving the financial departments of companies more time to resolve issues of financial support for the development of goods and services manufacturing and strengthening the competitive position in their industries.

## COMPETITIVE ENVIRONMENT

Corporate banking is a very voluminous market, accounting for about 30% of the total $ 5 trillion in banking industry revenues [1]. Banks provide the following services to manufacturing and commercial companies:

- provide loans and liquidity facilities;
- transactional services: payment processing, cash management and trade finance;
- products for risk management of companies: interest rates, swaps, hedging of operations with foreign currency or commodities;
- corporate finance services, for example, intermediation in attracting equity capital and

placing debt securities traded on the market in mergers and acquisitions.

For many years, the corporate banking business model envisaged that banks use their balance sheets to ensure corporate clients with loans and liquidity (in fact, the impersonal goods that almost every bank has, which determines to a fierce competition between lenders). At the same time, they develop relations with such customers for the sale of commission based high-margin products created to meet other needs of the companies.

Within the "lend and cross-sell" model, the role of the bank was clear and unquestioned: balance sheet capacity and the ability to link clients to products were the key sources of banks' competitive advantage and acted as barriers against potential new entrants into the market [2].

However, new trends in banking regulation, which intensified especially after the 2008–2009 economic crisis, when several large banks collapsed, threatening customer confidence in the reliability of the banking industry as a whole, as well as the development of digital technologies have significantly complicated the work of banks.

Regulatory initiatives which require banks to increase of capital, observe certain limits in their balance sheet structure, to hold liquidity buffers as well as to follow tough regulations regarding customer knowledge and customer documentation to combat money laundering increase the costs for corporate banking businesses and decrease profitability.

Following Jeff Bezos's, the founder of Amazon, business approach "Your margin is my opportunity", digital challenger banks are gradually being introduced into operations traditionally performed by banking institutions only and are working in several directions. Online banks such as the newly formed N 26, Atom, Monzo, Starling, Tinkoff Bank, and subsidiaries of traditional banks (such as Markus by Goldman Sachs and Hello by BNP Paribas) are focusing on the customer experience provided by technological innovation (artificial intelligence, big data, analytics, "cloud", etc.), and doing it without bank branches. Large tech companies including Google, Apple, Facebook, Amazon, Baidu, Alibaba, Tencent, and non-bank payment institutions such as Square, Stripe, PayPal, TransferWise, Gemalto and Ingenico operate without a banking license or are usually licensed with little regulation compared with a traditional bank. They mainly provide certain payments of individuals or small businesses and reduce the role of traditional banks to money storage entities [3].

Despite the aggressive approach of digital competitors, their share in providing banking services for corporations is still very low: 2–3% in the management of company accounts, 1–9% in the provision of borrowed funds, 6–12% in making payments and 2–4% in intermediation in financial markets.[1] In big companies, their share tends to the lower value of the indicated ranges, which is largely due to the fact that such companies cooperate, as a rule, with the largest banking structures that have a serious attitude to modern technologies that are convenient for business. In addition, companies themselves require sophisticated products and end-to-end services beyond the reach of challenger banks.

Significance of the threat of digital competitors to traditional banks is, rather, not in the share of the banking services market they are taking away, but in the fact that providing maximum convenience in terms of the speed and round-the-clock services, as well as the requirements to documents and tailoring services to the needs of the client, they look for opportunities to disrupt the bank value chain where banks are closely linked to customers and investors, and aim at the most attractive (because risk-free) part of banks' income — bank fees. The consequences of this threat are already visible: bank fees and commission income are declining. In particular, the non-interest income of the US banks reached in 2004 almost 46% of operating income, while in 2019, it fell to just over 30% [4].

For now, corporate banks are holding the keys to remain the prime provider of core corporate

[1] Enable Customer Centricity in Corporate Banking. Oracle White Paper. Oracle. 2019. July 16. 15 p.

banking services to the real economy. However, there is no reason for complacency. To remain relevant and viable, corporate banks "need to deliver excellence across the value chain — in the near term to preserve returns, while in the medium-term to protect their incumbent position from new types of competitors" [2].

The other side of the competitive environment is rivalry for the customer between traditional banks. As the volume of transactions and its complexity and geographic diversification are growing companies tend to expand the range of banks with which they interact. For transactional banking, 34% of the largest global firms work with 11 or more banks, and 40% ones have more than 150 bank accounts. Even the smallest businesses usually partner with more than one bank. Only 16% of respondents reported doing business with a single bank [5].

However, the concept of the primary bank where the company's operations are aggregated and their main part is conducted remains. In this regard, companies show reasonable conservatism: no one is particularly in a hurry to change their primary bank; companies rather motivate their banks to develop the operations they need. If the bank does not provide a service to the required extent and scale, only then the corporate client will think about changing their primary bank. For example, consumers in the UK change their primary bank only once every 15 to 20 years on average, based on data from the UK's Competition and Markets Authority [6].

## BANK CAPITAL: RISKS OF DECREASE AND POSSIBILITIES OF REPLENISHMENT

Requirements to increase bank capital are determined, first of all, by the regulators' concern about the sustainability of the banking system as a reliable custodian of its clients' savings and funds to the downside risks of the solvency of borrowers, which is also aimed at creating a liquidity cushion by banks. Therefore, banks are forced to raise additional funds in capital. As a result, their state in terms of the capital base has become more stable by 2018. Tier 1 capital has globally reached 6.75% compared to 6.66% in 2011 [7]. This significantly exceeds the Basel III standards for the risk-weighted Tier 1 capital (4.5%). However, few banks in recent years have generated income that exceeds the cost of their capital [8] (currently about 12% [7]), since the average net return on equity in the banking industry is about 9.6% [7]. The main reasons for this situation are an increase in provisions for loans granted and a decrease in fee and commission income.

Considering the economic profit of banks, which is calculated taking into account the cost of refinancing, operating costs and risk provisions, and is a comprehensive indicator of the financial health of banks, and also serves as a useful indicator for determining the impact of pressures of current regulatory requirements, digital and direct competitors on efficiency of banking, the situation is also not very attractive, since 2014 this indicator has fallen from 15 basis points to 6 in 2018 for the entire banking industry in the world [9].

Even before COVID-19, bank profitability was on the wane amid growth of bank capital and a much more significant increase in lending to the real sector. This occurred both as a result of a nominal increase in capital of banks, which allowed them to expand their lending opportunities to the economy, and cheapening of borrowed funds due to the easy money policy pursued by many central banks. According to Standard&Poors, the last decade shows an extraordinary rise in leverage (debt burden), which has raised the median debt ratio from 80% of EBITDA (earnings before interest, taxes and depreciation) in developing countries only, i.e. the debt was less than the funds available to companies in 2008, to two time exceeding the debt in 2019 over the amount of funds available to companies.[2] The transition of the global economy into the crisis has increased the pressure on banks in terms of provisions for increased loan portfolios and

[2] URL: https://www.vedomosti.ru/salesdepartment/2020/08/24/vliyanie-covid-19-na-kreditosposobnost?utm_campaign=newspaper_25_8_2020&utm_medium=email&utm_source=vedomosti (accessed on 10.12.2020).

further complicated the situation with bank profitability.

The bank capital is base of its reliability, which is the main characteristic of banking institutions, and also determines their lending activity. Therefore, it is clear that not only regulators, but also the bank's owners, are concerned to replenish it. Given that the capital available to banks exceeds the corresponding requirements of Basel III, we can state that banks have built significant capital buffers and, according to McKinsey experts, operate in the "cushion zone". In coming months and years, banks might pass into the "caution zone", considering that $ 100 billion to $ 400 billion in common equity tier-1 (CET1) capital would be wiped out due to the losses in the current crisis. Capital formation from retained earnings will drop from a level equivalent to 0.5 to one percentage point of CET1 yearly to only 0.2 to 0.5 percentage point, thus making organic recapitalization much slower [10]. Unfortunately, raising funds in capital on the open market for banks is a big problem due to the low ratio of capitalization to the current net asset value (0.93 in the banking system as a whole in 2019) and a downtrend in recent years. At the same time, traditional banks' competitors — technology companies — are rated much higher (10.36 in 2019 on average for Google, Apple, Facebook, Amazon) [11]. The growth prospects in the market value of such investments are bright. Competition for capital between traditional banks and technology companies, including fintech companies, is not entirely equal: the capitalization of such companies grows, even if they do not generate profits. The best example is the growth in capitalization of Tesla, which has exceeded the value of the three largest automakers producing dozens of times more cars and make a profit. While bank's value falls even with a stable profitability. However, investors are investing more in businesses that are likely to provide greater returns in the future. The problem with banks is that investors don't feel like banks will be able to generate future returns higher than the cost of capital. That is why banks should pay attention to this problem.

At the same time the success of 350 of the 1250 largest world banks, which, according to Ernst & Young, have consistently shown returns above the cost of capital over the past five years [11], means that the banking industry should not perceive the current trends as a "new normal" of low returns. It is better to understand how they achieved these results and follow them to provide sufficient returns for capital replenishment given the present phase of the economic cycle. It will be difficult to do, since the growth of the banking sector remains subdued: growth for the banking industry continues to be muted — industry revenues grew at 2% per year in 2014–2018, significantly below banking's historical annual growth of 5% to 6% [1].

> ***To remain relevant and viable, corporate banks "need to deliver excellence across the value chain — in the near term to preserve returns, while in the medium-term to protect their incumbent position from new types of competitors"***

Banks should seriously consider new revenue streams and to low their operating costs to increase profitability above the cost of capital. This will undoubtedly help to resolve the issues of capital replenishment both by distributing part of the profit to capital and by raising funds in open markets.

In the current environment, the increase in profitability is primarily associated with the maximum satisfaction of corporate clients with the quality of banking services and its versatility in such areas as acceleration and simplification of internal banking processes, the use of extensive analytics to provide services in the management of funds and risks associated with the activities of companies, as well as assisting corporate clients in supply chain and sales financing. Such client centricity instead of product orientation requires significant investments in technology, changes in business models, and a new approach for bank staff to understand work priorities. The main objective of bank employees should not be the amount of income received (by any means) from the sale of their products. It is necessary to strive to get customer satisfaction from the bank's assistance in solving the company's credit and financial issues. Satisfied customers will then acquire more banking services, and the bank will earn from sale of its.

This change in the approach to working with corporate clients is a serious challenge for banks, but at the same time it is an opportunity to show how the bank is differentiated from its competitors.

In corporate banking, besides a product several additional factors play a part, among them pricing, streamlined processes, operational excellence, relationship management, and international presence. With intense competition increasingly levelling the corporate banking playing field at a product level and in order to avoid only price competition for commercialized products, banks must differentiate themselves with expertise and excellence [5].

Investments in this development in order to win the competition require a strengthening of the bank capital, which is not easy. It is especially difficult for small banks that do not have the opportunity to make such investments or to stand out in any other way against large competitors. As a result, small banks cease their activities or merge with larger ones, and the number of banks worldwide is decreasing: the number of commercial banks, along with a well-known trend in the Russian Federation, for example, in the United States, decreased by 33.3% from 2009 to 2019 (up to 4653), and in the EU — by 34.5% (up to 11,948) [9]. For the remaining small banks, the volume of business is decreasing: in the Russian Federation, from 2013 to 2020, the share of regional credit organizations in lending to non financial entities fell almost threefold — from 7.3% to 2.7% of total corporate debt to banks.[3]

## WHAT THE BANK'S CORPORATE CLIENT WANTS

As a rule, the current work with banks is carried out by the head of the treasury (in a large company) or the CFO. This work is divided into two parts: (1) managing day-to-day operations and (2) addressing long-term strategy and business risk management issues, which financially relate to reducing the need for working capital, including solutions along the entire external value chain (primarily, with suppliers and buyers), reducing the cost of raising funds to finance its deficit, as well as managing the risks associated with the growing uncertainty in the commodity and foreign exchange markets.

In the first group, these financial leaders strive for fully digital and hassle-free management of recurring operations. In the second group, where the problems are difficult to solve without qualified business partners, companies would like to receive advice and cooperate with them on a wide range of financial issues.

It is clear that the current operations can be carried out by many banks corresponding to the level that satisfies the client. In terms of consulting, there are serious differences in the ability of different banks to offer convenient and timely advice and services to their corporate clients. These abilities are most appreciated by companies. In the global survey by Ernst & Young, 67% of CFOs indicated that the advisory services provided by many of their core banks are the top benefit of their relationships, and 50% of respondents noted the importance of new ideas and in-depth knowledge of the bank in the industry.[4]

Corporate clients are not just looking for expertise on a specific financial issue, they are interested in the following:

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[3] URL: https://www.raexpert.ru/researches/banks/fed_banks_2020 (accessed on 10.12.2020).

[4] Successful corporate banking: Focus on fundamentals. Ernst & Young; 2013. 30 p.

- innovative ideas that are specific to their industry and enables them to tackle their unique business situations by looking at the problem from a different angle;
- integrated end to end solutions that connect all the silo lines of financial activity of corporates which includes operations with bank, suppliers, buyers, partners and others to enable companies to work out a holistic solution;
- customized and innovative products and services that cater to their specific business need.

It is clear to companies that banks are also commercial organizations seeking to make money. However, it is unacceptable for companies when banks try to convince a corporate client to buy products or services that they do not need. Companies are ready to give the bank more business if it makes a competitive price offer for the required service or if the bank provides the company with interesting information or advice. Companies, of course, want to receive these services "at the best price, but they do not want to bring price discussions to a situation that will not be beneficial to either the bank or the company".[5] As usual, this should be a compromise between the rate and the mass of profit: a little less income of a bank for a specific operation, but a larger volume of transactions with a client that allows the bank to earn more profit on a client, while the company allocates more its banking operations in favor of the bank that most comprehensively solves its problems, making it possible to generate more profit in its core business.

For companies in the non-financial sector of the economy, financial management is an important task. However, its main objective is to produce a highly competitive product or service and to gain its place in the competition in the relevant market. From this perspective, financial management costs are more a non-core expenses that is considered worthwhile to reduce (according to HSBC, in 2018, 60% of CFOs in larger businesses say treasury has received either no additional resources or they have been cut in the past two years[6]), and at the same time to increase the profitability of financial management. In addition, the financial part of the company's activities must ensure realization of the company's production plans. Banks should focus their efforts in this direction to help non-financial companies solve these problems and, as a result, make money on this cooperation.

***Competition for capital between traditional banks and technology companies, including fintech companies, is not entirely equal: the capitalization of such companies grows, even if they do not generate profits.***

Large companies with exceeding liquidity are characterized by the creation of their own internal quasi-banking pools, where temporarily surplus funds of some divisions are not placed on bank accounts and deposits, but are channeled within such companies as internal loans to subsidiary divisions in need of funds. The logic of corporate treasurers is as follows: the difference between income on a deposit at a bank and expenses with a simultaneous loan from the bank, considering additional bank commissions, is greater than the cost of a direct internal loan, i.e. the total corporate costs for transactions within the corporate pool are lower; there are no obligations to provide collateral, the terms of the loan can be adjusted as much as necessary, the procedure for internal lending is carried out much faster than banks usually do.

Therefore, the objective of corporative banking is to make its services better, cheaper and faster than the corporate treasury does so that the company as a whole gets more benefits from cooperation with the bank and can not

[5] Successful corporate banking: Focus on fundamentals. Ernst & Young; 2013. 30 p.

[6] Rethinking Treasury. Executive summary. HSBC; 2018. 4 p. URL: hsbc-cfo-treasury-survey-executive-summary.pdf (accessed on 10.12.2020).

only reduce its treasury costs, but also increase the effectiveness of managing its finances compared to the work of its treasury. If a bank does not transform its corporate operations in this way now it risks losing its business to other traditional banks or companies will transfer their banking operations to its in-house banks to proceed with corporate finance or will try to leverage fintech partnership to get differentiated digital offerings.[7]

Smaller companies may not have a task to effectively allocate their funds within the company's subsidiaries. However, there is definitely a need to reduce the cost of financial management and increase the efficiency of financial support for production development.

In the context of growing uncertainty in almost all markets, when choosing their primary bank, financial managers of companies pay special attention to the factors of stability and reliability of such a counterparty. While price issues remain very important, the value of the range of services, the level of service and knowledge of the client's business is growing. Every CFO in a 2018 Boston Consulting Group survey stated that without trust in the bank, these people in charge of corporate finance simply cannot place huge amounts of company money in the bank, for the safety and growth of which they are personally responsible [12]. Since trust is difficult and long to earn, these leaders are often considered very conservative in the choice of banking partners, which, in turn, determines the rare change of banking partners by companies. This approach is highly justified: no one will risk the company's money for slightly more favorable price conditions if the risks of losing this money increase.

CFOs want their bank to "help them prioritize, share best practices, and help them be more efficient" [12]. At the same time, the context of the interaction desired by companies is radically changing. Instead of contacting only a client manager or a senior banker, companies want to organize cooperation within the integrated groups of the bank and the company in the relevant areas of work: the bank's IT specialists should work directly with the company's IT specialists, treasury operators — with employees of the bank's operational departments, specialists in risk management of the company — with the relevant bank employees [13].

Among the specific areas where CFOs expect constructive help from their banks, the most important are the following:

- accounts receivable management, hedging and factoring;
- reduction of risks associated with suppliers of raw materials, materials and services;
- financing the value chain of both suppliers and buyers;
- management of currency, interest rate and commodity risks and liquidity.

According to the PwC research, the priority of choosing a partner bank by companies in 2019 (in order of importance) is:

- funding of the company's activities;
- product and service capabilities of the bank;
- the cost of banking services;
- a successful history of relationships;
- overall economic efficiency for the company [14].

Thus, corporate clients are looking for a reliable and experienced partner able to provide convenient banking services, as well as a responsible business consultant to advise them on strategic business development and financial management and related risks.

## IMPROVING BANKS' OPERATING EFFICIENCY TO SATISFY THE NEEDS OF CORPORATE CLIENTS

Fundamentally important for corporate clients the reliability and safety of banks that form trust can be realized today only through highly efficient technologies and processes integrated with companies. These, in turn, can be implemented with a clear understanding by the bank management of the development perspectives. In this context, the study of options for further development, i.e. uncertainty

[7] Enable Customer Centricity in Corporate Banking. Oracle White Paper. Oracle. 2019. July 16. 15 p.

assessment requires special attention, because the volume and direction of investment in such development depend on the approved scenario of future development. A problem is traditionally strategy is developed with analytical tools that are supposed to be able to predict strategic development with sufficient accuracy. But in conditions of increasing uncertainty, in which it is difficult to reliably express the future in numbers, "this approach is at best marginally helpful and at worst downright dangerous: underestimating uncertainty can lead to strategies that neither defend a company against the threats nor take advantage of the opportunities that higher levels of uncertainty provide. Another danger lies at the other extreme: if managers can't find a strategy that works under traditional analysis, they may abandon the analytical rigor of their planning process altogether and base their decisions on gut instinct" [15].

For example, the idea of many states to get rid of cars with internal combustion engines in the medium term seems quite attractive. Deeper analysis, however, reveals that the electric car is only clean in the place where it is, and the overall efficiency of generating energy for it is not very high. Well-known Russian entrepreneur in the field of new technologies Mikhail Lifshits notes that when generating electricity at a thermal power plant through electric networks, the car will get at best 25% of the initially used fuel. The direct use of fuel in internal combustion engines in combination with generators that recuperate energy during braking is more efficient from the point of view of using the produced fuel [16]. Thus, decisions based on populist/superficial analysis may not lead to saving fuel resources and protecting the environment, as declared, but to even more fuel consumption and environmental pollution.

Misconceptions about future development are extremely dangerous in banks as well, because wrong decisions cannot help them to win in the competition. As soon as companies are looking for complex end-to-end solutions that require closer corporate connectivity to banks, real-time status updates and full transparency of all banking functions, multi-channel banking and superior digital interactions together with advanced portfolio management and personalized products and services tailored to unique industry and business — customer needs, based, among other things, on deep industry and historical analytics, it seems that banks have no alternative to significant investments in digitalization of internal processes.[8] Globally, the costs of universal banks on innovation are very high and account for 6–12% of their revenues or 15–20% of all bank expenses. While technologies support all core business functions, most banks have limited flexibility working across fragmented legacy infrastructure that has developed over the years [17].

These investments should serve three purposes:

- improving the quality of customer service by moving from product orientation in sales to comprehensive customer satisfaction;
- increasing income based on the results of processing more relevant, deeper analytical data;
- reducing cost by simplifying, automating and increasing the reliability of internal bank operations and reporting.

When analyzing the current operating costs on an operation or a business line compared with the effect of the proposed investment, it is advisable to "have a clear idea of what contributes to the increase in value and what does not … The fact that the activity is less costly does not mean that it creates more value" [11]. That is, we need to weigh the effectiveness of cheap versus expensive transactions, considering that the latter may well bring in more cost-weighted income.

The innovations introduced by banks are not intended to replace bank specialists, but are aimed at comprehensive support of their activities to reduce their involvement in routine operations and provide as much information as

[8] Enable Customer Centricity in Corporate Banking. Oracle White Paper. Oracle. 2019. July 16. 15 p.

possible for analysis and constructive dialogue with corporate clients.

For example, the complex system of intelligent operations offered by the Boston Consulting Group cover automation of repetitive mass operations regulated by certain rules based on robotic process automation. Improving the collection and processing of information using Big Data and Machine Learning technologies, Artificial Intelligence makes it possible to better sense trends, predict future development, help to prevent the implementation of negative scenarios and make better decisions.

Considering that 55% of the employees of universal banks involved in key functions are engaged in repetitive processes [18], the implementation of such a system makes it possible to qualitatively change the work of bank staff towards more creative analytical work, so that they can focus on activities that increase added value based on deep processing a vast array of data, simplification and increase reliability and reducing the erroneousness of routine operations, reducing the time of operations and requirements for customers for the information demanded, development and proactive offering companies the service they need, taking into account a comprehensive analysis of their activities [19].

The main result of such transformations is the staff orientation towards creating additional value for the bank, converting the satisfaction of corporate clients into a larger volume of bank services they buy, including transferring to the bank solutions to those tasks that are usually realized by corporate clients themselves. This is due to the bank, having reorganized itself and freed itself from outdated and expensive approaches to conducting its activities, is becoming better prepared to perform its traditional tasks and, that is no less important, to implement innovative services required by its clients.

The difference in returns on shares between banks that change themselves in this way and banks that do not seek to do so is wide and is worth 17 basic points of RoE (before taxes) [2].

It is necessary to pay attention to the components of this gap in profitability in the context of the bank value chain, which is formed from relations with clients, the development of appropriate products and services and solutions for their structuring for the client, the implementation of operations and transactions, lending, the provision of investment banking services.

Strategically, the banks' operating efficiency largely depends on the client segment by industry, the volume of operations, the level of acceptable profitability of its operations, compliance with the principles of sustainable development, etc., since these parameters determine the acceptability of the risk for the bank and the volume of provisions.

Correct pricing does not mean the lowest prices for banking products and services, but the ability to provide the right product when the client needs it, along with other services the customer requires with a focus on providing as many services as possible that the client really needs. As a result, the bank receives from the client the required share of operations, and the price is calculated based on the entire business of the bank with the client. It often turns out to be very high for one operations and low or market average for another ones, but the client agrees to this because of the bank's comprehensive approach to its service. The client manager, who is fully immersed in the client's business, has a great influence on the transaction price.

Full automation of standard processes and the bank's ability to provide a client with a personalized offer, considering its specifics by industry, size, current state of operations, etc. determines the bank's capabilities in terms of the range and quality of services provided to a corporate client, which, in turn, facilitate cross-selling. The effective use of capital and liabilities, the search for their stable sources in terms of cost and matirity to increase the efficiency of active operations is the foundation of the bank's active operations to provide borrowed resources to corporate clients.

Experts of consulting firm Celent in a specialized study of corporate banking trends conducted in cooperation with the technology company Finastra note that the correlation of cross-selling with lending is significantly higher compared to transactional transactions. They state that 75% of borrowers purchase other bank corporate services, which gives 76% of all commissions from transactions with corporate clients, because there is a potential for new commissions and interest income from payments, money management and hedging for each trade transaction or financed invoice [6]. This also happens when the bank is able to respond to the specific requests of the company regarding lending collateralized with the client's assets, reducing the risk of non-payment by the buyer, currency, interest, commodity risks, and reducing the need for working capital. This integrated approach gives an increase of 60% in the volume of business with a client and 40% in profit on assets allocated to this client [13].

This approach means personalizing customer interactions based on a deep understanding of each customer's unique needs and orchestrating a set of tailored experiences across digital and human channels. A similar approach might be taken by a skillful sommelier who changes a wine recommendation on the basis of a customer's tastes, mood, and resources. Personalization potentially creates a win-win scenario for banks and the customers they serve. The Boston Consulting Group estimates that for every $ 100 billion in assets that a bank has, it can achieve as much as $ 300 million in revenue growth by personalizing its customer interactions, that also drive to a material competitive advantage for first movers that embrace it over the next five years [20].

Analysis of the structure of economic profit, which brings the bank's work with corporate clients, shows that approximately 1% of the total number of serviced companies makes the greatest contribution to its decrease. To get rid of them before repayment of the debt is very costly. Instead, some banks have recognized that the more efficient way is to find the right model for the mutually sustainable relationship. This is due to understanding the client's potential, honest dialogue and drawing up a clear action plan when refinancing or checking the company's activities. Often, the realization that the bank is tracking profitability stimulates the situation to improve, because the client realizes that he will not be able to stay out of control for long with cheap/extra loans and empty promises. The next priority of the bank will be to transfer a client with a negative margin to a group with a moderate return on risk-weighted assets, for example, in the range of 2–4% [21].

*Banks will be able to act no worse, and most likely better than large technology and specialized fintech companies in terms of approaches to customer service, which is likely to become one of the main areas of competition, where, in addition to the product competition, the ways and time of product delivery to the client, the readiness and ability of the bank to solve urgent problems of the client are important*

In terms of the structure of products offered to companies, it should be noted, transaction services are responsible for more than 40% of global banking revenues and its key growth drivers are reassuringly stable. Payments and documentary trade-related business have been the primary growth engines for most banks in 2016–2019. McKinsey's latest global banking survey shows that 71% of respondents cite payments as the number one growth driver in money management and 67% cite documentary business in trade finance. In second place in money management is accounts and deposits while in trade finance it is factoring (and reverse factoring). Transactional foreign exchange operations is also cited as an important driver of growth, with 57% of respondents saying it was a key revenue generator over the past three years. Looking forward, however, there are signs that perspectives on growth drivers are starting to shift. A majority of bankers say liquidity management, documentary business, and supply-chain finance are the most promising product lines, with growth likely to reach 5% or 6% annually. About every fifth of those surveyed believe liquidity management and deposits could see growth of more than 10%, while about the same number see the same in supply-chain finance [22].

Banks' ability to invest in innovation that can reduce costs and increase revenues often depends on the scale of the business. Over the longer term, the growing role of scale in the business is a challenge for smaller and mid-sized players. Smaller players have historically been able to retain a stronger footing with corporate clients than with institutional clients, through tailored local capabilities and strong relationships. This is now changing. For example, the payments business is at the forefront as the efforts of several reputable global transaction banks to change infrastructure are helping to achieve much larger scale benefits.. The world's largest players in the payments market in 2019 received 1.9x more revenue for every dollar of operating expenses compared to the average players. This discrepancy is only likely to become more pronounced over time, as the large players invest further, aiming to drive down costs and improve service quality, and to develop new propositions to fend off incursions from FinTech, BigTech and greenfield challengers. According to Morgan Stanley and OliverWyman, in 2019 large players spent 5–10 times as much on technology innovation as mid-sized providers [23].

## CONCLUSIONS

It's becoming apparent that banks require a serious transformation of internal processes. Otherwise they will not be able to improve their efficiency, reduce costs, meet regulatory requirements, neutralize the aggression of digital challengers, or increase revenues by offering corporate clients new services based on in-depth knowledge of the company and the industry and aimed at comprehensive assistance in the field of credit and financial services to develop the client's business.

As a result, banks will be able to increase the return on equity invested by shareholders, reach and exceed the cost of capital, and further strengthen their balance sheets.

At the same time, banks will be able to act no worse, and most likely better than large technology and specialized fintech companies in terms of approaches to customer service, which is likely to become one of the main areas of competition, where, in addition to the product competition, the ways and time of product delivery to the client, the readiness and ability of the bank to solve urgent problems of the client are important, but not selling by any means its products to the customer.

The change in the paradigm of the bank's relations with corporate clients shifts, in the author's opinion, the focus of both theoretical and applied analysis of the bank's activities from the effectiveness of traditional banking products offered to such clients to the effectiveness of cooperation on a wider range of services, including those that go beyond the usual service. It is widely believed that this issue is resolved by the bank's ecosystem, by which, however, it seems that one should understand not the sale through it of products not related to banking activities (this gives additional commission income, but does not tie the client to the bank, since there can always be a more competitive offer), but offering such services that free corporate clients from non-core activities to solve their key business tasks, reducing the costs of work related to managing their own finances and expanding opportunities for earning additional income through the intellectual information on the client's business provided by the bank. Previously, banks did not see cooperation from this perspective with such clients. Now it makes sense to do it.

With this approach, banks become almost inseparable of a corporate client. This creates a solid foundation for mutually beneficial long-term relationships, which, in turn, significantly changes approaches to banks' activity estimations.

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