# The future of correspondent banking – turning regulatory and risk requirements into real business opportunities

**By Martin Fiddaman, Global Head of Financial Institutions**

The correspondent banking landscape is undergoing huge transformation. An increase in regulatory demands, are increasing costs for correspondent banks. In addition, regulators and governments are paving the way for more competition.

Like all aspects of the payments industry, correspondent banking is seeing change and at pace, Martin Fiddaman, Global Head of Financial Institutions at RBS Transaction Services, sees opportunity: "New regulator directives do not come out of the blue, they come from market changes. Hence, adapting to regulatory demands means adapting to market changes, and as such, this is something any successful bank will be compelled to do."

However, he does acknowledge that a balance is needed so that fulfilling regulatory requirements does not distract banks from the bigger picture. Therefore Fiddaman urges that "banks need to be customer-driven as well as regulator-driven," pointing out that this entails "early identification and exploitation of potential business opportunities that could arise from regulatory change."

In addition to regulation, Fiddaman sees four further factors that spur change in the correspondent banking market: customers, innovation, business needs and risk management. For the RBS expert, these big five themes represent an interdependent quintet: "They might look conflicting at first glance, but appreciating the interdependencies and handling these smartly can help to shape a stronger correspondent banking market by creating new revenue streams and lowering costs."

## New customer behaviours and a "new customer"

"Customers today expect a fast, high quality and low cost experience, delivered by simplified processes and better and more convenient access to information," says Fiddaman, adding that new technologies are driving customer behaviours. "Customers want to see payments moving in real time, and they only want to be one click of a button away from accessing their financial data."

In addition to changing customer expectations, banks face a new type of customer. In the UK the regulator's concept of Open Banking, which like PSD2, postulates that UK banks need to open up their architecture not only to existing but also to new non-financial market players, will bring increased competition and provide customer services via Application Programming Interfaces (APIs).

Banks, depending on their individual strengths and competitive situation, will pursue different strategies in relation to new market players, including FinTechs. It is likely that most banks will partner with FinTechs offering core banking services as well as specialist products around, for example, authentication or data provision.

## Regulation emphasises the need to adapt to the market

After the financial crisis and with it the massive financial penalties making headlines, regulation has reached a new high. While challenging, there is good news here. Complying to the new regulatory environment can help to kill three birds with one stone: while short term investments will continue to be needed to keep systems compliant with the more stringent regulatory demands, mid- and long-term this can help to pave the way for future growth whilst bringing overall costs down.

With the banking industry further "de-risking", on-going investments in risk mitigation programmes should not be considered as a cost exercise, but rather as something that can be developed into a new revenue stream. Actively managed, risk mitigation services could equally be sold to other market players. "The correspondent banking market is a mature market, volumes are defined, hence growth also needs to come from areas other than the traditional banking services. Therefore banks must look at each and every single investment and enquire whether and how it could be turned into a business opportunity," Fiddaman stresses.

Investing in systems to ensure compliance and to improve risk mitigation should also be seen as a chance to bring down costs mid - and long-term by fully digitalising processes in-house and between banks. With SEPA and PSD2 postulating further harmonisation, this is the time to remove any remaining paper-based processes. "We still have too many of these, in particular in correspondent banking," Fiddaman notes, adding that "RBS is on a digital journey, removing paper wherever possible, and by doing so becoming more efficient and more convenient to do business with – exactly what our customers expect."

## Innovation

The only constant is change and RBS in partnership with other specialist providers is horizon scanning to ensure we continue to bring new propositions to our clients.

The RBS approach to innovation includes global scouting teams, innovation labs, hackathons and its "Open Experience Centre." The new centre is bringing start-ups and other partners together to build upon the smartest ideas. The ideas are tested with customers, refined and developed into new customer experiences.

Fiddaman concludes that partnering with Fintechs can help us as much with back office solutions, such as providing assistance to reduce the strain of data-gathering as a correspondent bank, as they can help with front office solutions to make banking for each of other customer groups more convenient." This is yet another example of the power of mutual benefits.

[1]Strictly European Economic Area (EEA) i.e. EU plus Norway, Iceland and Lichtenstein.
[2]Strictly Account Service Payment Service Providers in this context.
[3]Although they will need to be regulated (in the UK by the FCA)
[4]Financial technology firms
[5]API (application program interface) a set of routines and tools that detail how software should interact with programming user interfaces

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