

A hand holding a glowing white padlock over a digital interface with various icons like a lightbulb, gear, and envelope.

**UNLOCKING SUCCESS IN
CORPORATE BANKING
THROUGH DIGITAL**

MAY 2019



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UNLOCKING SUCCESS IN CORPORATE BANKING THROUGH DIGITAL

| SAURABH TRIPATHI
| PRATEEK ROONGTA
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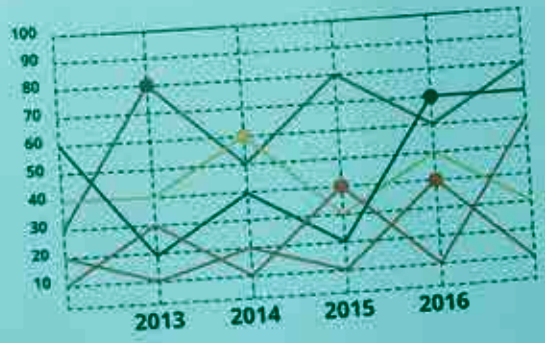
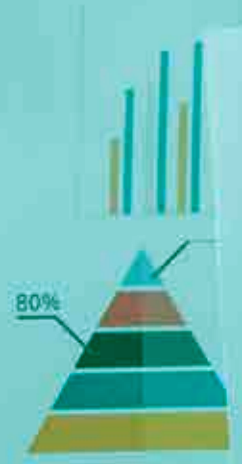
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EXECUTIVE

SUMMARY

Today's corporate banks operate in a challenging and turbulent environment. Faced with shrinking lending margins, increasing instances of cyberattacks and frauds, digitally disruptive FinTechs and tech-savvy customers, corporate banks must look at diversifying their portfolio while securing their data and revamping their operating models to stay relevant. To thrive in this environment, corporate banks need to ride the digital wave and leverage the currency of big data with one of the most powerful tools of modern banking – advanced analytics.

Firstly, by developing **productized solutions for clients across priority sectors**, banks can diversify their portfolio, combat sector volatility and boost their fee income. The sector solutions can range from dynamic working capital facility, cash management, trade, FX hedging solutions, to advisory services. It is imperative for corporate banks to create a cross-functional team like a Sector Solutions Group that works in agile squads with operations, risk

and IT. Leading Asian banks have already made rapid strides in creating sector-specific solutions and have demonstrated tangible impact and delivered client value.

Secondly, banks can **achieve operational excellence by digitizing their front-end channels** (by developing digital RM tools) **and their back-office processes** (end-to-end customer journey digitization). Further, public and private institutions are taking concerted initiatives to reduce the industry's operating costs and risk through interventions like Global Payments Innovation and digitizing cross-border trade. Corporate banks, therefore, ultimately stand to reap the benefits of a leaner cost structure translating to real bottom-line impact.

Lastly, corporate banks can **leverage big data and advanced analytics to transform their topline through a mix of pricing, selling and retention algorithms**. By crawling the vast trove of historic customer and transaction data with AI engines and Machine Learning algorithms, banks can churn out high quality leads and also establish linkages with existing clientele. By seamlessly flowing this intelligence to the RM through user-friendly interfaces and a robust feedback mechanism, banks stand to strengthen the advisory role of the RMs, improve conversions and ultimately augment their fee income.



THE NEED FOR DIGITAL TRANSFORMATION



Indian corporate banks are currently going through a turbulent phase

Corporate banks face key challenges on multiple fronts



Shrinking lending revenues

▶ Erosion in share of corporate lending revenues to overall banking revenues



Increasing credit and fraud risks

▶ Growing NPAs, instances of reported fraud on LoUs¹



Rising customer expectations

▶ Increasing expectations of sophistication and convenience in digital banking



Competition from FinTechs

▶ Disruption in business model across the banking ecosystem through digital offerings

Note: Corporate banks refer to those banks that offer banking services to corporates segment. Hurdle rate refers to the repo rate of 6%.

1. LoU - Letter of Undertaking

Source: BCG Research, FIBAC Survey 2018 (Covers 30+ Indian banks, including public sector banks and private banks)

Key facts and figures

45%

of Indian corporate banks showed declining profits in FY'18

64%

of Indian corporate banks had return on capital below hurdle rate (6%) in FY'18

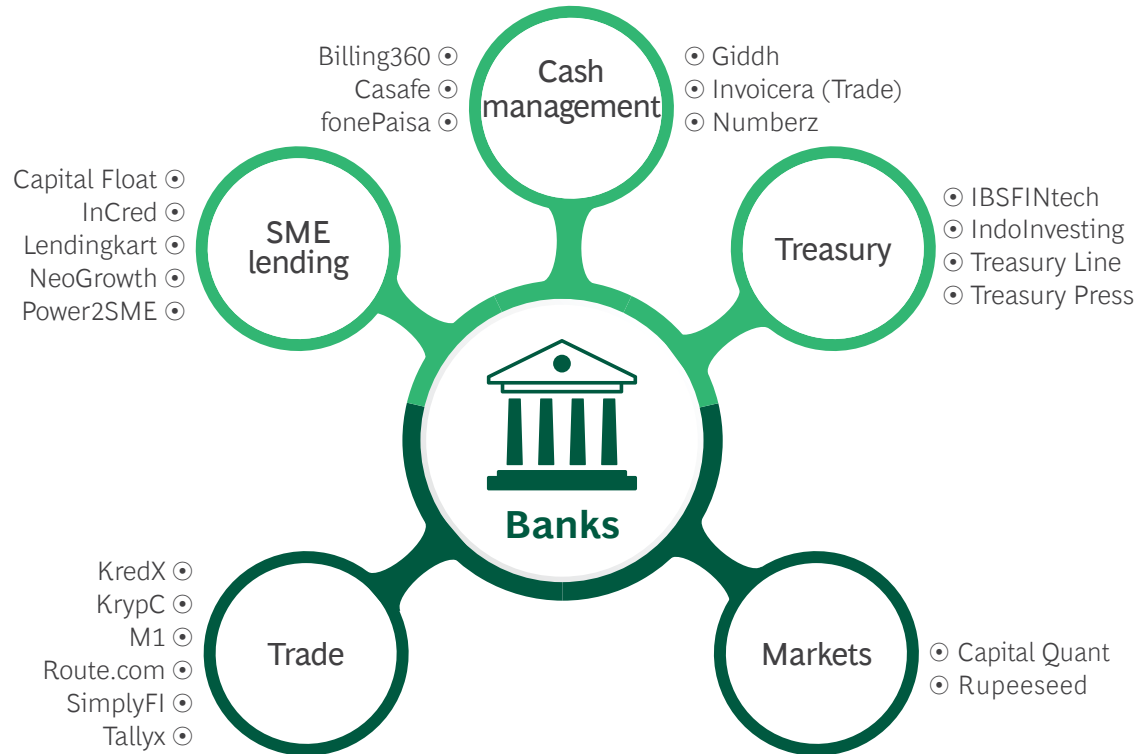
10%

difference in pre-tax returns on regulatory capital between top quartile and bottom quartile banks

2.7
percentage
points

increase in gross non performing assets from FY'17 to FY'18

FinTechs ushering in digital disruption across the corporate banking ecosystem



Some key facts and figures

\$960 million

investment in Indian FinTechs in 2018

42%

yearly growth in FinTech investments in 2018 vs 2017

1260

Indian FinTech startups founded between 2015-2018 (second highest globally)

Thriving in this environment warrants a coherent digital transformation of corporate banks



Achieving operational excellence

Achieving operational excellence to improve cost structure and customer experience



Customizing product proposition

Developing sector specific solutions for priority sectors



Leveraging data and analytics

Using analytics to leverage bank's data to augment corporate banking revenues



The background features a hand reaching down to interact with a glowing globe. Overlaid on the scene are various digital elements: a grid of white human icons, a 'NETWORK SEARCH' panel with a grid of colored squares, and several panels with binary code and the word 'WORLD'. The overall color palette is dominated by shades of green and blue.

ACHIEVING OPERATIONAL EXCELLENCE

WORLD



Banks can achieve operational excellence across three key dimensions to improve customer experience

Sales force enablement



Digitally empower the RM to enrich the client sourcing pool and improve conversions

Operations and process digitization



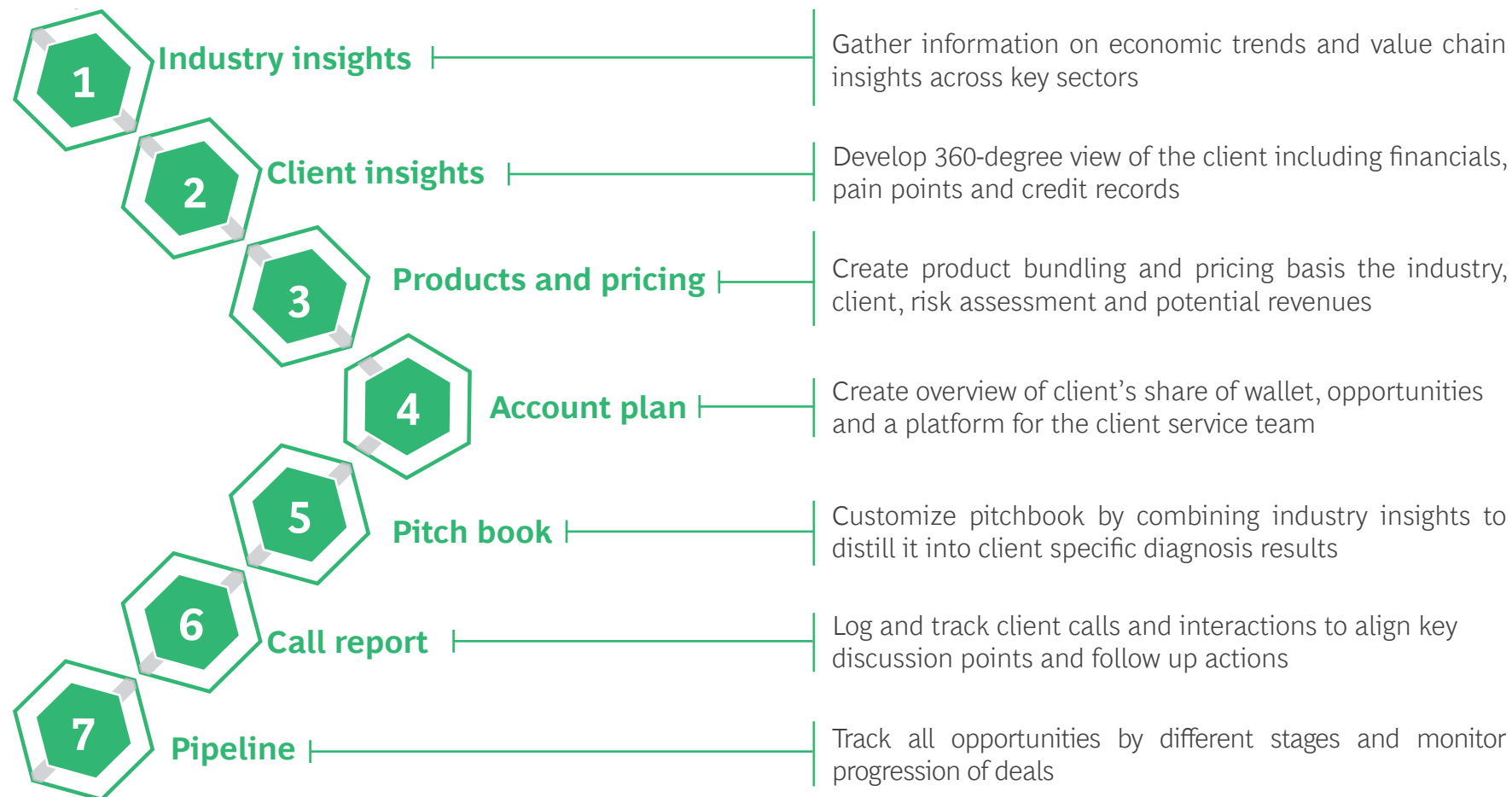
Digitize end-to-end processes to improve client servicing quality and achieve operational excellence

Innovations in cross-border transactions



Streamline cross-border transactions to improve end-to-end customer experience

Banks can empower and enable their sales force with a digital RM tool to go to market with greater efficiency and effectiveness



Source: BCG Experience

Banks can unlock significant value by strengthening the advisory role of their RMs

A leading Asian bank built a digital RM tool to improve deal TAT¹ and pricing

Context

- ◉ The Asian bank is the top player in all segments but not winning in the mid-corporate segment²
- ◉ Customers in the segment already 'banked' by competitors, sticky to their existing bank
- ◉ Product offerings were largely undifferentiated
- ◉ RMs mere product pushers

Action

- ◉ The bank built a digital RM tool based on industry customer journey to enable RMs in strengthening advisory role
- ◉ The digital tool featured:
 - Industry insights, client benchmarking, analytics, product recommendations, etc.
 - RM performance enablers: Integrated performance dashboard, month plan, and alert functionalities

Note: 1. TAT: Turnaround Time. 2. Companies with annual turnover of \$15 to 300 million
Source: BCG Experience

Impact on RM effectiveness

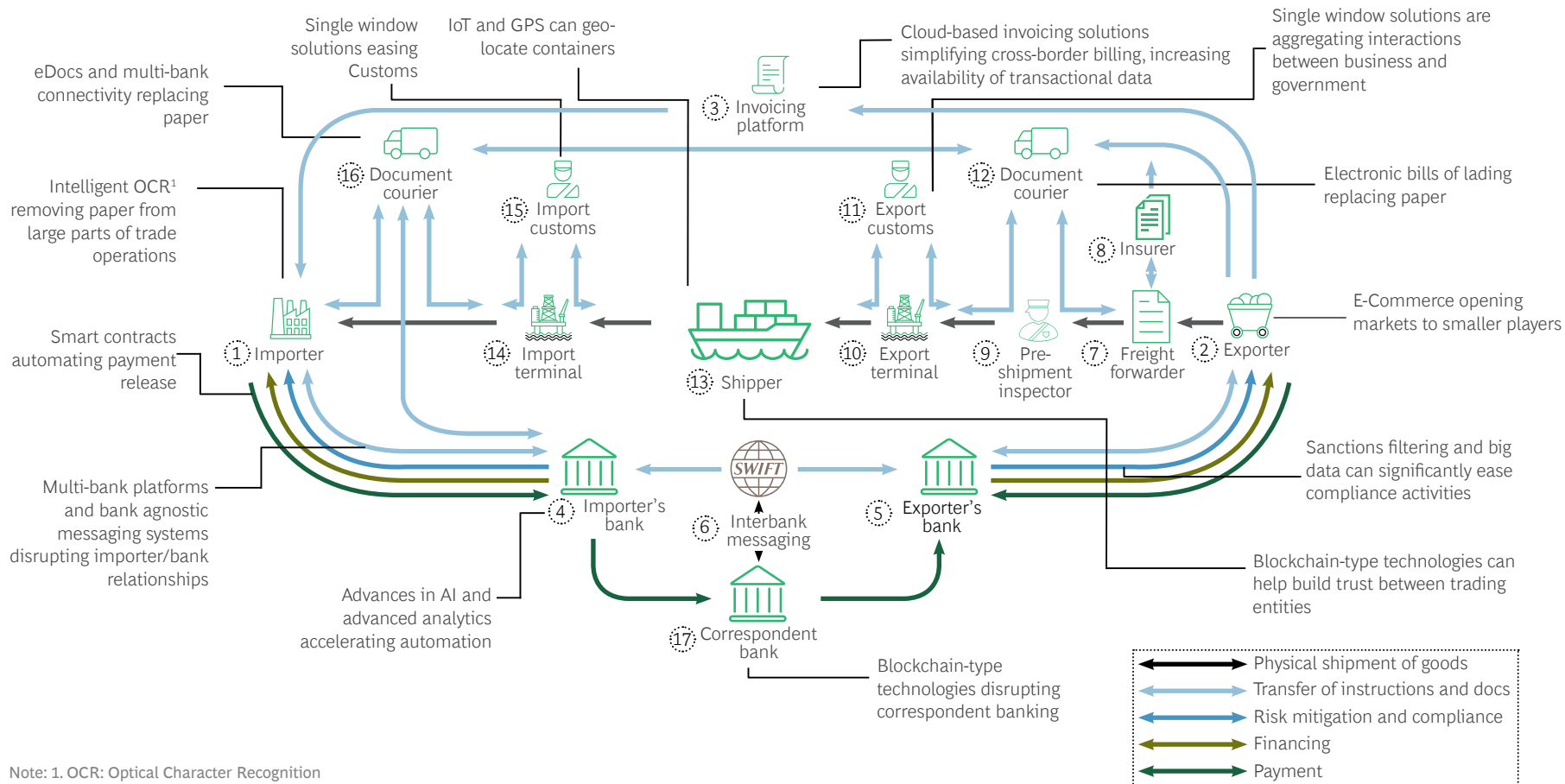
The share of the RM's time spent with client increased



Decrease in pre-work time per client



Emerging digital innovations have the potential to transform operations-intensive trade financing



Note: 1. OCR: Optical Character Recognition
Source: BCG Analysis

Institutions are making rapid strides towards streamlining trade financing through digital



Automated e-stamping

- Digitized the procedure of e-stamping that obviates the need for collecting a paper certificate for stamp duty for BGs¹
- Impact:** Reduces operating overhead and risk for banks



e-Invoice validation

- Mandated the e-way bill documentation in all trade finance requests
- Enabled banks to check bill authenticity and also other banks' interest for trade financing through SWIFT²
- Impact:** Streamlines documentation and reduces trade risk



e-Bank guarantee

- IBA³ is currently seeking approval from the Ministry of Finance for the issuance of e-bank guarantee
- The Department of Customs has agreed to the proposal in principle, conditional to the Ministry of Finance's approval
- Impact:** Reduces operating overheads and trade fraud risk

Note: 1. BG: Bank Guarantee. 2. SWIFT: Society for Worldwide Interbank Financial Telecommunication. 3. IBA: Indian Banks' Association
Source: The case study was prepared using SWIFT's ongoing work with IBA in digitizing trade financing

SWIFT² India has collaborated with the Indian Banks' Association (IBA) to form a committee to alleviate trade finance challenges around cost and time taken, with an agenda to help India improve its ranking in 'Ease of Doing Business'. Significant projects have been implemented to get multiple stakeholders on a single platform and digitise paper documents

Cross-border transactions increasingly being digitized

SWIFT Global Payments Innovation (GPI) improves customer experience by increasing speed, transparency and end-to-end tracking of cross-border payments

Objectives

- Create value through a transaction management user interface
- Reduce back-office cost without fully replacing banks' existing IT landscape
- Reduce interbank cost through new clearing and settlement models
- Enable collaborative innovation with third party banks, payments services, etc. through common APIs¹

Key Benefits

Banks

- Better cross-border payment experience for corporate clients
- 50% lesser payment enquiries
- Improved liquidity management

Customers

- Accelerated payments for international trade
- Shorter supply cycles and reduced forex exposure
- Integrated, real-time view of cross-border payments
- Improved cash forecasting

Impact of GPI

Adoption

3,500

financial institutions have adopted GPI worldwide

60/60

of SWIFT's top banking groups have adopted GPI

Service levels

50% payments

completed in

< 30 minutes

90% payments

completed in

< 24 hours

Note: 1. API: Application Program Interface

Source: The case study was prepared using SWIFT's ongoing work in digitizing cross-border payments

Institutions driving key priorities for digitizing cross-border payments



Improve end-customer experience and end-to-end Straight-Through-Processing of payments through a pre-validation service



Standardize bank-to-corporate tracking information, starting with a pilot for SWIFT connected corporates



Facilitate 'accelerated' cross-border payments, by linking a fast cross-border leg via GPI into a domestic instant payments system



Accelerate e-commerce/trade payments through GPI bank via a secure, transparent gateway. A proof of concept is being launched in collaboration with a leading blockchain software partner

Source: The case study was prepared using SWIFT's ongoing work in digitizing cross-border payments



CONNECTION
ANALYSIS
DATA
SEARCHING
VERIFICATION
CODING
SENDING

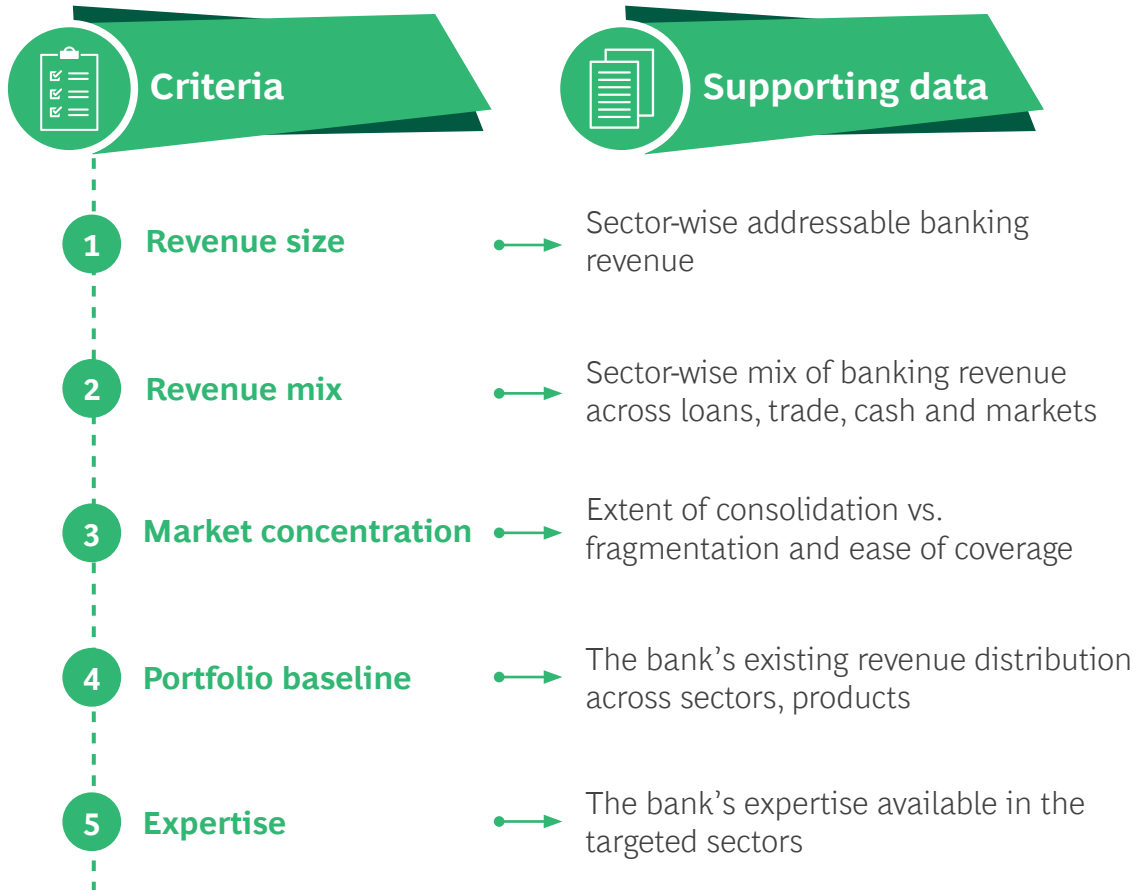
CONNECTION
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**CUSTOMIZING
PRODUCT
PROPOSITIONS**



To offer sector-specific solutions, banks need to start with sharply prioritizing sectors



Source: BCG Research

Why sector solutions?

With increasing commoditization in lending products, corporate banks are moving towards cash, trade and fee-based products in various sectors. However, sector volatility impacts banks' performance despite diversification

Productizing sector specific solutions will not just diversify banks' portfolio, but also help manage risk by staying ahead of the curve

Productized offerings can be developed by understanding three key dimensions

1 Structure of the sector

- ⊙ **Macro:** Sector revenues, outlook, regulation
- ⊙ **Value chain:** Structure, number of players, market share
- ⊙ **Business flows:** Trade flows, amount of payables and receivables, terms of trade

2 Financial profiles

- ⊙ **Profit margins:** Across value chain
- ⊙ **Profit volatility**

3 Product portfolio

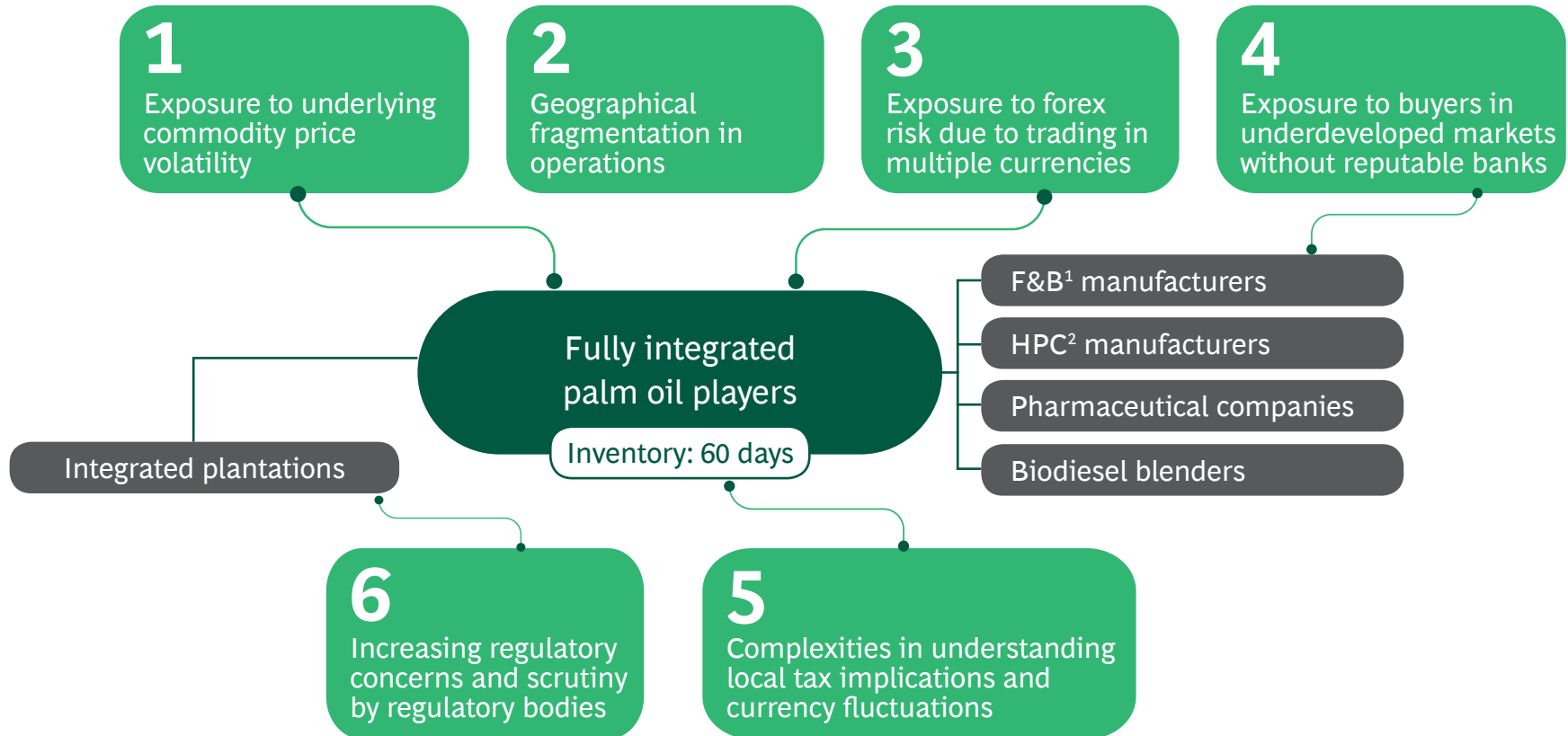
- ⊙ **Cash/trade:** Cash/trade heavy segment
- ⊙ **Loan:** Long term and short term financing
- ⊙ **Global markets:** Use of foreign exchange, commodity and interest rate derivatives
- ⊙ **Risk profile:** Debt/equity ratios across the value chain

Imperative to create an organizational push

For corporate banks to consistently develop high quality, customized solutions, it is imperative to create a Sector Solutions Group (SSG) that works with the product, risk and operations teams in agile squads to develop sector solutions

Sector solutions entail leveraging industry insights to understand the client's pain points

A leading Asian bank was able to distill six key pain points of palm oil players in the supply chain



Note: 1. F&B: Foods and Beverages. 2. HPC: Home and Personal Care

Source: BCG Analysis; World Bank; Euromonitor; Ministry of Agriculture, Indonesia; Bloomberg Finance

Banks can unlock value from customizing solutions based on the client's pain points

The Asian bank developed six solutions specific to the palm oil sector for existing and prospective clients



1

Dynamic working capital facility

- ⦿ Limits linked to palm oil price
- ⦿ Multi-currency drawdown and repayment facility



2

Facilitate cross border forex transactions

- ⦿ Forex in all major currencies including USD¹, MYR², IDR³, THB⁴, CNY⁵, SGD⁶, HKD⁷



3

Cross border hedging solutions

- ⦿ Forex spots, forward and swaps
- ⦿ Derivatives and commodity hedging on palm oil



4

Cash management solution

- ⦿ Centralized reporting of group cash through a single channel
- ⦿ Streamlined receivables and ease reconciliation



5

Trade solutions (Domestic and not domestic)

- ⦿ Letter of Credit (LC) issuance, confirmation and financing
- ⦿ PO⁸, invoice financing and accounts receivables purchasing



6

Sector specific advisory services

- ⦿ Views on commodity prices, forex trends across markets
- ⦿ Sector events

Note: 1. USD: United States Dollar. 2. MYR: Malaysian Ringgit. 3. IDR: Indonesian Rupiah. 4. THB: Thailand Baht. 5. CNY: Chinese Yuan. 6. SGD: Singapore Dollar. 7. HKD: Hong Kong Dollar. 8. PO: Purchase Order. 9. NTB: New to Bank
Source: BCG Experience

Impact of sector solution

170
bps

of corporate banking topline improvement

4x

faster growth of non-loan income vs. loan income

15
percentage points

increase in NTB⁹ lead conversion rate

Corporate bankers need to overcome multiple hurdles in order to drive sector solutions effectively



1 Unclear wholesale banking value proposition

Prioritize sectors based on clearly defined criteria



2 Too many products and services not connecting with each other or customized for clients

Develop customized packaged solutions targeted at specific pain points



3 Lack of sector insights leading to slow decision making and belated reactions to the market curve

Dedicate RMs, sector specialists and business intelligence tools for each sector



4 Unstructured, ad-hoc decisions limiting the bank's ability and speed to market

Consistently review and refine product framework and risk guidelines



5 Legacy IT platforms not enabling a transparent view of clients and way of approaching clients for RMs

Update legacy systems, invest in digital RM platforms and align them with sector focus



6 Change resistance, low risk appetite and misaligned divisional goals impacting speed to market

Build agile sector solution teams with clearly aligned mutual goals

Source: BCG Research





LEVERAGING DATA AND ANALYTICS



COMMERCE



Corporate banks can leverage big data and analytics to drive revenue transformation



Smart re-pricing

- Understand drivers of pricing disparity for similar clients
- Develop market-based price models
- Identify right pricing behavior through analytics



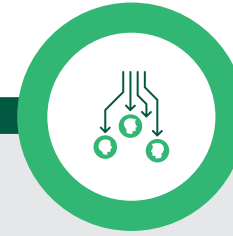
Smart selling

- Size client's revenue potential and share of wallet
- Develop tailored product recommendations
- Prioritize RM activities through product need



Smart retention

- Rigorously track existing gross attrition
- Assess root causes or drivers of attrition
- Develop predictive models for identifying 'at-risk' clients
- Proactively manage attrition by preparing an implementation roadmap for RMs



Smart prospecting

- Identify high-quality prospective clients through a lead generation engine
- Establish linkages between the NTB¹ leads and ETB² clients using a network map
- Define go-to-market approach for converting the leads and establish a feedback loop

Note: 1. NTB: New to Bank. 2. ETB: Existing to Bank
Source: BCG Experience

Banks can augment revenues through smart re-pricing

Current context

Potential impact



No proper pricing guidance

Banks follow cost-plus pricing, with RAROC¹ hurdle as sole pricing heuristic



Unexplained pricing disparity

Similar clients get very different prices that are not explained by rational factors



Wrong KPIs

Sales are measured on revenues or abstract profitability metrics

10-15%

increment in revenues

5-15%

increase in fee

**10-20
bps**

increase on rate products

Note: 1. RAROC: Risk Adjust Return On Capital
Source: BCG Experience

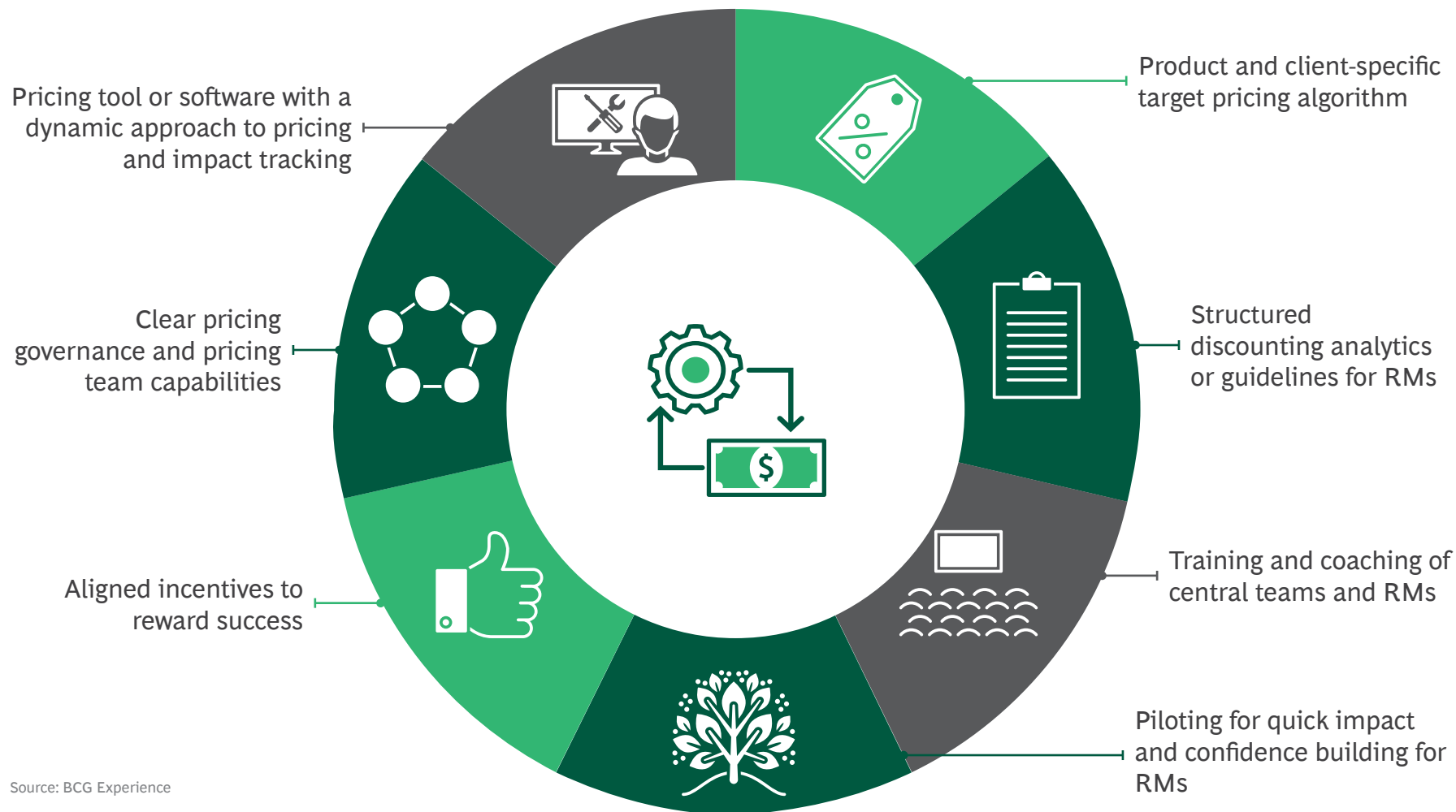
Corporate banks can learn from best practices in smart re-pricing

Key tenets of pricing excellence in corporate banking

- ◉ Pricing is not just based on risk but relationship, customer willingness to pay and strategic priorities
- ◉ Larger corporate banks are ideally positioned to extract full-value from their vast trove of historic pricing data & extensive RM experience
- ◉ Pricing bands created with a clear hurdle and target are more effective in guiding front-line pricing behavior
- ◉ Technology-based tools form the backbone of pricing excellence
- ◉ Pricing tools create transparency and peer comparison for two critical new metrics: (1) price realization (2) actuals vs. committed targets
- ◉ Long term, sustainable impact only comes from building pricing capabilities and driving change management with RMs

Source: BCG Experience

Corporate banks can drive smart re-pricing through seven key levers



Source: BCG Experience

Banks are increasingly taking a digital approach to smart re-pricing by rolling out new pricing tools to the field

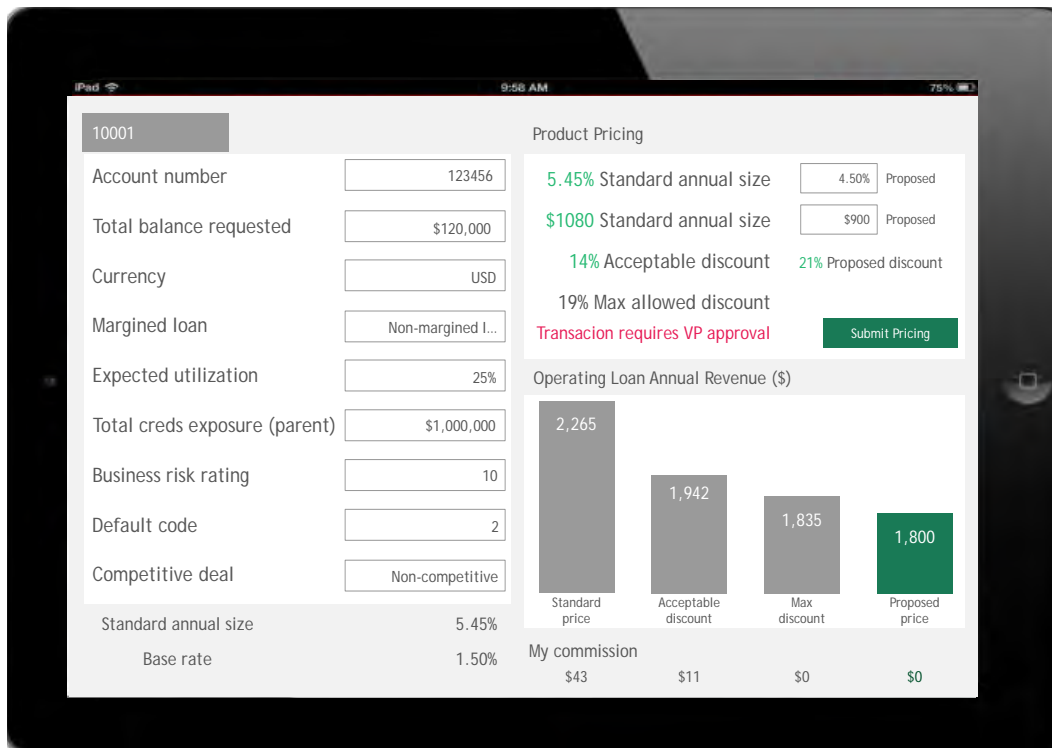
Holistic customer view on price realization

Insights on RM's price performance vs. peers

Standard price, acceptable and maximum discount

Differentiated by customer segment

3 minutes to quotation



Direct feedback on impact of discount on revenue/margin

Escalation if discount outside limits

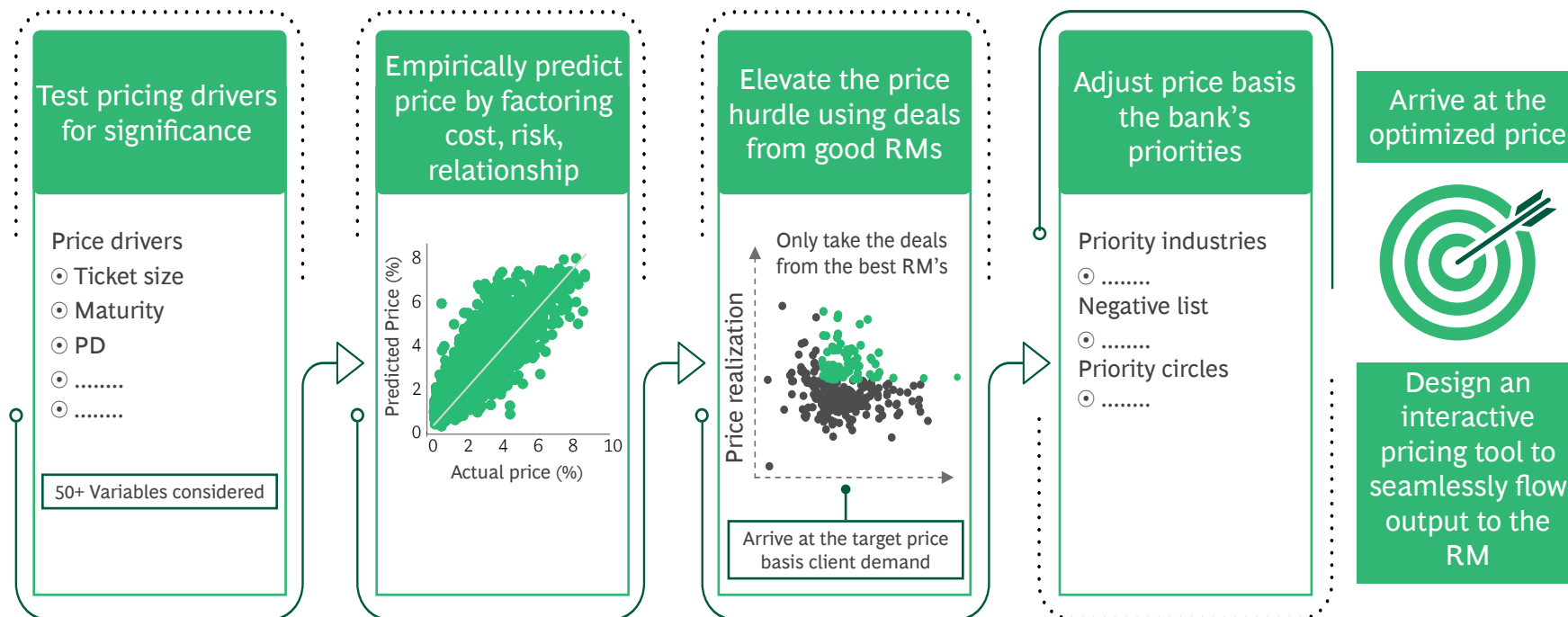
Synchronize with central database to track performance

Capture win or loss data

iPad or desktop based

Corporate banks can achieve smart pricing by codifying the wisdom of good RMs into a pricing algorithm

Components of the pricing algorithm



Banks can optimise share of wallet through smart selling

Current context

- ⊙ 10x difference in revenue from similar clients
- ⊙ Portfolios **skewed towards lending**, thereby missing out on significant value
- ⊙ Banks typically capture only a **third of potential non-lending wallet** from their clients
- ⊙ Lead pipelines based on rudimentary logic with **poor conversion rates**
- ⊙ **5x difference in performance** between top and bottom performers, despite similar portfolios

Potential impact

5-10%

of revenue uplift can be achieved using share of wallet optimization

Corporate banks can capture a greater share of client wallet by smart selling



Analyze the bank's current share of wallet

- ⦿ Leverage existing sources of customer, transactions, financials, product data to understand client's profile
- ⦿ Baseline the RM's current product and revenue mix from clientele



Understand the drivers of high share of wallet

- ⦿ Benchmark clients with high share of wallet vs. clients with similar revenue using clustering
- ⦿ Identify driver variables that contribute to high share of wallet



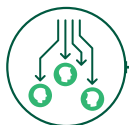
Size and validate the revenue potential of the client

- ⦿ Develop AI models to identify revenue potential for cross-sell and up-sell basis aggregated data
- ⦿ Validate client's potential with experts



Develop tailored product recommendations

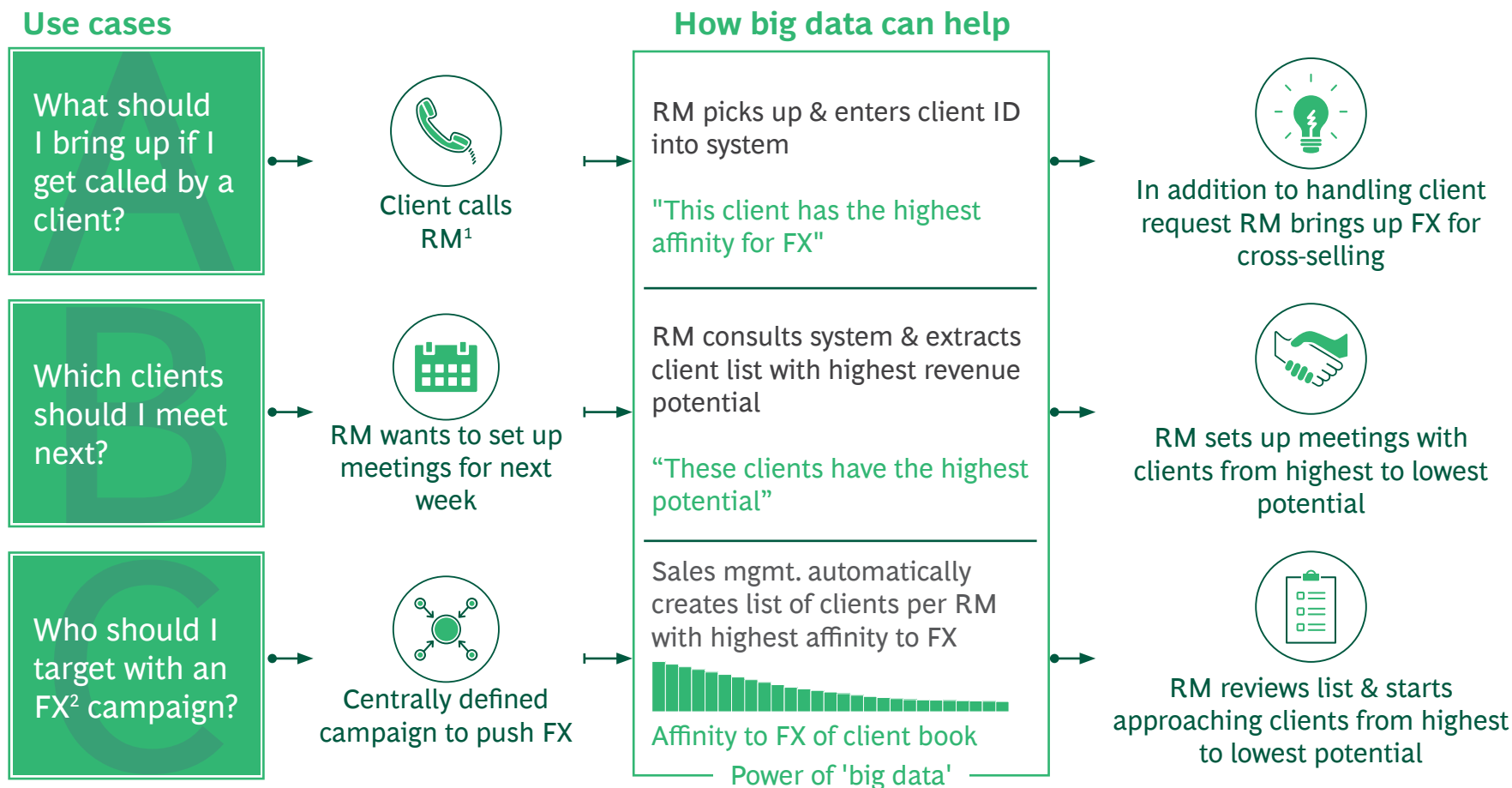
- ⦿ Use ML and AI algorithms to develop product bundles basis current and desired share of wallet
- ⦿ Validate product and relationship teams and client interviews



Use the intelligence from smart selling to prioritize RM activities

- ⦿ Develop the RM's account plan basis client's share of wallet and product bundles
- ⦿ Analyze the performance of product bundles to strengthen future recommendations

Top use cases where big data and analytics can be highly leveraged



Note: 1. RM: Relationship Manager. 2. FX: Foreign Exchange
Source: BCG Experience

Banks can stem attrition through smart retention

Current context

Potential impact



Banks lose 10 to 20% of revenues through attrition



Typically not fully tracked and incorrectly attributed to external factors



Proactive attrition management is necessary – especially in an environment of weakening client demand

Potential to stem 25% of attrition through smart-data led approaches



Attrition prediction



Attrition mitigation



Impact assessment

Corporate banks can proactively stem key client attrition through smart retention



Rigorously track existing gross attrition in client portfolio

- ⦿ Clearly define client attrition, including 'hidden attrition' through objective metrics (e.g., # clients)
- ⦿ Baseline historical attrition



Understand the root causes or drivers of attrition using analytics

- ⦿ Statistically cluster attrited clients based on their attributes using k-means clustering, etc.
- ⦿ Conduct a quantitative survey in the client portfolio to understand objective drivers of attrition



Develop a predictive model to identify 'at-risk' clients

- ⦿ Historically analyze data to identify behaviors correlated with attrition
- ⦿ Understand likelihood of attrition based on identified predictors
- ⦿ Develop a predictive model and risk scoring based on tools like logistic regression, random forest, etc.

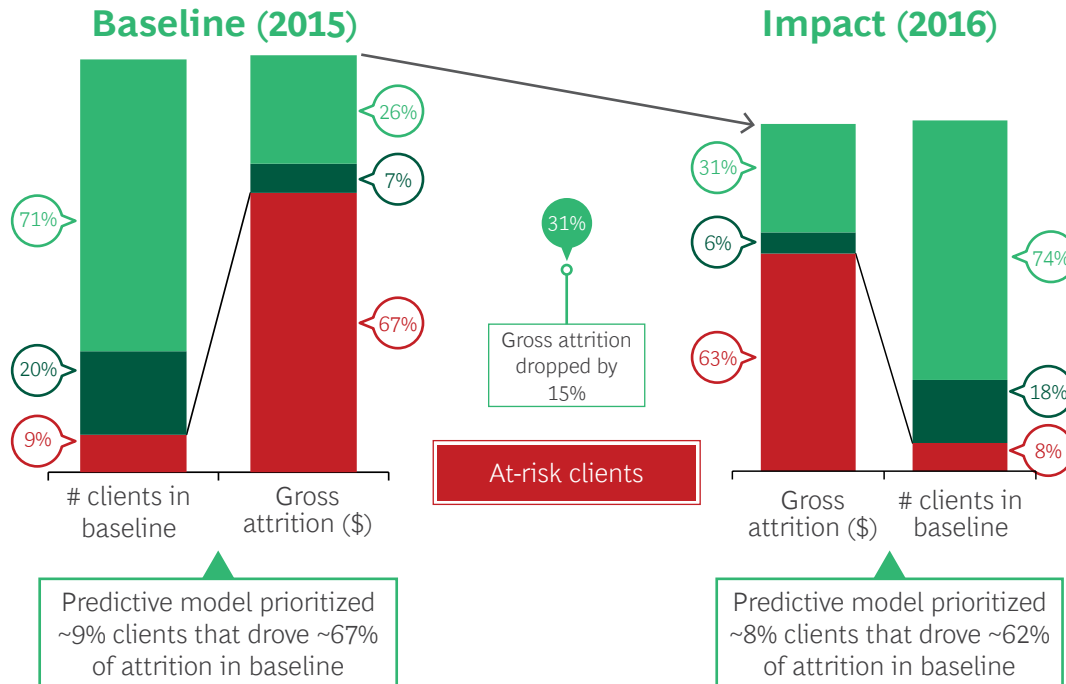


Proactively manage attrition of 'at-risk' clients

- ⦿ Design tactical and strategic solutions to deploy for 'at-risk' clients
- ⦿ Test and refine key solutions with clients
- ⦿ Create an implementation roadmap to manage key clients

Banks can iteratively identify 'at-risk' clients to progressively stem attrition

A leading Asian bank identified its 'at-risk' clients through predictive modelling and reduced gross attrition by 15%



How did the bank manage attrition?

- In 2015, a leading Asian bank faced high gross attrition
- It identified that 67% of its gross 'at-risk' attrition was driven by 9% of its clients
- Developed tactical and strategic solutions for 'at-risk' clients over the next 12 months
- As a result, the gross attrition value reduced by 15% in 2016 vs. 2015

Banks can expand cross-selling horizons through smart prospecting

Current context

Potential impact



Banks looking at diversifying revenue streams (to cash, trade, markets) and sector mix



Banks sitting on humongous trove of customer data with limited analytics to churn it

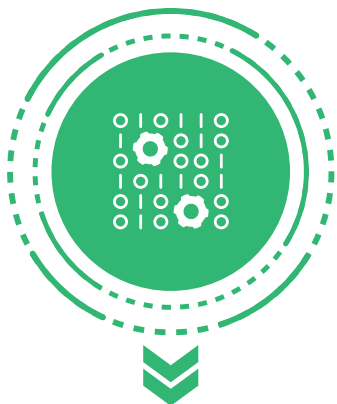


Cross-sell limited to only sourcing more products from existing clients (and not new clients)

3X

of improvement in fee income through an increase in lead acceptance rates by RMs

Smart prospecting helps generate high quality leads, establish linkages with existing clients and empowers RM to convert leads



Lead generation

- ⦿ Create robust database using multiple data sources
- ⦿ De-duplicate and enrich lead data using machine learning algorithms
- ⦿ Rank the leads basis attractiveness using a lead quality index



Connectivity mining

- ⦿ Leverage corporate networks and data sources to identify linkages between NTB¹ leads and ETB² clients
- ⦿ Create a network map that links the leads with channel partners and industry leaders



Lead transfer and feedback

- ⦿ Seamless transfer of lead pipeline, client clusters, product bundles to the RM
- ⦿ Iterate lead engine through feedback from the field to improve lead quality and conversions

Note: 1. NTB: New to Bank. 2. ETB: Existing to Bank
Source: BCG Experience

Data and analytics can be leveraged in each stage of smart prospecting

Approach for smart prospecting

Identify & aggregate leads from multiple sources

- ◉ Bank's revenues
- ◉ Trade transactions
- ◉ Remittances
- ◉ CRR¹
- ◉ ETB²
- ◉ Shareholding patterns of clients
- ◉ Supplier relationships
- ◉ International data
- ◉ Employee referrals of clients
- ◉ Output from research houses and industry associations like NASSCOM, etc.



Assess lead quality

- Once the lead pool is formed on the EDW³
- ◉ Assess quality of lead pool basis recency, traction etc. using lead quality index
 - ◉ Enrich leads through ML⁴ algorithms



Establish lead linkages

- ◉ Create network map depicting connectivity between NTB leads and ETB clients
- ◉ Leverage multiple databases like social media, brokers etc to create the map



Establish lead flow to RMs

- ◉ Send most attractive leads to RMs with a call to action
- ◉ Input the feedback from RMs on lead conversion into ML algorithms



Note: 1. CRR: Cash Reserve Ratio. 2. ETB: Existing to Bank. 3. EDW: Enterprise Data Warehouse. 4. ML: Machine Learning
Source: BCG Experience

Smart prospecting augments revenue through better lead quantity and quality

A leading Asian bank leveraged smart prospecting to augment revenue

Context

- Bank wants to grow outside home market
- 10x smaller than competitors in book size and income
- Wants to shift product mix to cash, trade, markets
- Wants to differentiate & diversify sector mix

- Designed new databases, processes and interventions to identify high quality leads
- Leveraged state of the art processing mechanisms to build connections between existing & new clients
- Integrated lead generation and connectivity modules to RM for use on the field

Impact achieved

\$
120m

incremental revenue

3K

leads shared with RMs

125%

increase in acceptance rate by RMs

2x

conversion lead rate over baseline

For further reading

Boston Consulting Group publishes reports, articles and books on related topics that may be of interest to senior executives. Recent examples include those listed here.

Global Corporate Banking 2018: Unlocking Success Through Digital

A report by Boston Consulting Group, March 2018

Reinventing Banking for the Digital Age

An article by Boston Consulting Group, February 2018

Global Risk 2018: Future-Proofing the Bank Risk Agenda

A report by Boston Consulting Group, February 2018

How Pricing Can Solve European Banking's Earning Crisis

An article by Boston Consulting Group, February 2018

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