Five Key Strategies for Improving Customer Experience and Driving New Transaction Banking Revenue Streams

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INTRODUCTION

Transaction banking has never been more important than it is today. It not only offers banks an essential revenue stream with cross-sell potential but also creates opportunities for them to serve as trusted advisors and partners as their business customers navigate today’s ever-challenging financial and regulatory environment. Unfortunately, though, as opportunities within transaction banking continue to grow, so too does competition from the leading players as well as the emerging new nonbank technology providers looking to win market share and address unmet business needs. As a result, most banks are re-examining current product offerings, delivery channels, and silos within their organizational structures/systems that may prevent them from effectively meeting new customer needs and expectations. Moving beyond the status quo is imperative to remaining competitive and achieving goals. Banks must evolve their strategies, invest in more modern technologies, and identify ways to stand out from their competitors. Providing an exceptional customer experience is at the core of their strategies. Doing so will not only improve their bottom lines but also position their institutions for future growth and success.

Business customers not satisfied with a bank’s self-service capabilities and overall customer experience are twice as likely to switch institutions as those that are satisfied. This white paper, which was commissioned by ACI Worldwide, focuses on five key strategies banks should adopt to improve customer experience and ultimately drive new revenue over the months to come:

1. Broadening the range of services offered
2. Improving access to bank services and information
3. Utilizing analytics to better understand customer needs
4. Lessening customers’ exceptions burden
5. Increasing efficiency through system rationalization and technology investment
FIVE KEY STRATEGIES FOR IMPROVING CUSTOMER EXPERIENCE

BROADENING THE RANGE OF SERVICES OFFERED

The threat of disintermediation is on the rise as customer needs change and grow more demanding. Banks should think about ways in which they can broaden the range of services offered to address the evolving needs of both their corporate treasurer and small-business customers. New tools, easier access to information, and more user-friendly interfaces will be well-received and help customers, regardless of size, overcome challenges. They will also lessen the risk of banks becoming little more than transaction providers and deposit holders. Broader product offerings will reposition banks as valuable partners to their clients while also creating new streams of revenue.

One way to broaden their services and improve customer experience is to enhance their online capabilities. The online channel is currently the preferred channel through which corporate treasurers and small businesses prefer to interact with their banks, yet many institutions offer clunky legacy systems that are more transaction- than customer-focused. Banks need to invest in new solutions with particular focus on general look and feel (including navigation), access to real-time consolidated information, and more actionable reporting and alerting. Clients will soon expect libraries of available widgets as well as the ability for end-users to customize dashboards, view graphics, and perform transactions within interactive—as opposed to static—reports. Customers want to easily view the information they need and not have to search through less relevant data and screens. Further, multi-entity views of data are also needed to enable parent companies to view subsidiary accounts and take action on their behalf. Bank systems not enabling these capabilities are at risk of looking dated and unresponsive to market trends.

Continued investment in technology is needed, as Aite Group estimates that 80% of customers at businesses of all sizes consider not only the sophistication of a bank’s online capabilities but also the overall self-service experience to be important or very important when selecting a new bank partner (Figure 1).
In addition to providing a more customer-centric experience, investments in more modern infrastructures and solutions will enable banks to roll out new products and services at the faster pace that the market now expects. When exploring new product initiatives, banks should begin to more closely examine customer pain points and identify ways to address them. For example, more than 90% of corporate treasurers at companies generating less than US$1 billion in annual revenue are challenged by forecasting and consider improving this capability a priority (Figure 2). More banks should consider offering tools to address this challenge and lessen customer reliance on Microsoft Excel (which is manual and error-prone) and make it less necessary for them to look into investing in treasury workstations that often exceed their budgets.

Similarly, banks should also consider enhancing their supply chain finance capabilities, especially for middle-market and larger companies. Corporate treasurers need tools with which to help them analyze bank payments trends and physical supply chain partner information to optimize production, fulfillment, and delivery. Offering these capabilities will increase bank opportunities to generate revenue while also deepening customer relationships.
Like corporate treasurers, small businesses also need more sophisticated products than those already offered and need help managing their finances. This customer segment is demonstrating a growing inclination to look beyond their banks to solve common pain points and challenges such as collecting receivables more efficiently, managing cash flow effectively, forecasting incoming and outgoing funds more accurately, and more easily making online payments. More than one-third of U.S. businesses generating less than US$20 million in annual revenue already go elsewhere for some of the services just mentioned (Figure 3). Similar scenarios exist outside the United States. Banks have an advantage over nonbank providers in that they already have the trust of small businesses. Further, these customers would prefer to do business with them and manage all of their finances from a single location. Therefore, banks need to innovate more quickly, broaden their tool sets, and create bundled pricing options that better align with small-business preferences. Doing so will help them reclaim the small-business customer segment.

**Figure 2: Corporate Focus on Forecasting**

<table>
<thead>
<tr>
<th>Revenue Size (US$)</th>
<th>Very important</th>
<th>Somewhat important</th>
<th>Not important</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than $10 billion</td>
<td>73%</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>$1 billion to $10 billion</td>
<td>76%</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>$500 million to $1 billion</td>
<td>90%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>$251 million to $500 million</td>
<td>94%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Less than $250 million</td>
<td>96%</td>
<td>5%</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Aite Group survey of corporate treasurers*
**Figure 3: Growing Competition for Banks**

Q. Does your business get each of the following from a company other than your financial institution?  
(Percentages represent those that do; by asset size in US$)

<table>
<thead>
<tr>
<th>Service</th>
<th>Total (N=1,003)</th>
<th>Less than $100,000 (n=322)</th>
<th>$100,000 to $999,999 (n=226)</th>
<th>$1 million to $4.99 million (n=182)</th>
<th>$5 million to $9.99 million (n=121)</th>
<th>$10 million to $20 million (n=152)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Make payments using a payment service like PayPal</td>
<td>37%</td>
<td>20%</td>
<td>37%</td>
<td>32%</td>
<td>36%</td>
<td>43%</td>
</tr>
<tr>
<td>Collect payments using a mobile payment service like Square</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>E-invoicing and receivables from a company like Bill.com</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>Cash management and forecasting tool</td>
<td>36%</td>
<td>36%</td>
<td>36%</td>
<td>36%</td>
<td>36%</td>
<td>36%</td>
</tr>
<tr>
<td>Account aggregation from a company like Yodlee</td>
<td>45%</td>
<td>45%</td>
<td>45%</td>
<td>45%</td>
<td>45%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Source: Aite Group's survey of U.S. small businesses, September 2013

**IMPROVING ACCESS TO BANK SERVICES AND INFORMATION**

In addition to increasing product breadth, access to existing bank services and information should also be improved for a better customer experience. The last section discussed the importance of enhanced online capabilities to improve overall site look and feel and access to information. The creation of customer-driven dashboards is critical to achieving that goal. By enabling end users to select widgets for frequently performed transactions and self-select (rather than having the bank do so) the information they want to appear on their landing pages or dashboards provides them with the customized experience they expect. In fact, Aite Group estimates that more than 65% of corporate treasurers believe customer-driven dashboards are "important" or "extremely important" to improving their overall online experience.¹

Dashboards will also serve a greater role as the entryway to larger portal initiatives currently underway at many financial institutions. Next-generation portals address the broader responsibilities now held by treasurers within their organizations. As their day-to-day tasks become more global and strategic, these individuals need access to information and transactions often housed within several siloed systems across the bank. Portals bring together—through single sign-on—a consolidated view, transactional capabilities, and user experience across multiple solutions such as cash management, remote deposit capture, lockbox, trade finance, foreign exchange, and credit. Hence, they provide customers with a 360-degree view of their relationship with the bank and the ability to perform multisystem transactions. For example, customers should have the convenience of being able to view account balances and pay down loans using funds from those accounts all within a single workflow. They should also be able to

seamlessly navigate from one solution to another without having to re-enter their login credentials. Ideally, each solution should have a similar look and feel.

While the online channel continues to play a vital role in enabling the desired customer experience, developing an omnichannel strategy, which provides business customers with similar capabilities and information regardless of the channel they choose, is critical to future success. Despite low mobile banking adoption to date (less than 10% of treasurers at midsize and large businesses and approximately one-third of small-business owners), mobile usage is expected to increase dramatically over the next few years. Growing demand—especially for payment approvals—will be driven primarily by convenience. Convenience is something most treasurers and business owners are willing to pay for, especially if it ultimately helps them operate more efficiently and save money in the long run. While most Tier-1 and Tier-2 banks around the globe will offer mobile banking capabilities to their corporate customers by the end of 2015, it is essential that banks of all sizes at least think about a mobile strategy today.

Additionally, even though the tablet offers a far richer experience than a smartphone given the larger screen size, banks should offer both, as customers are showing no preference for one device type over the other or even a preference between the online and mobile channels in general (Figure 4). Customers are likely to use the device or channel most convenient to them at that time. As new channels and devices are rolled out, it goes without saying that they must include the necessary security to safeguard customer information so that customers are comfortable using them. Banks can also use their high levels of security as a differentiator and advantage over lesser-known nonbank competitors.

**Figure 4: Mobile Device Preferences**

| Q. If your business were to bank via a mobile device, would you prefer it to be … ? (N=41) |
|-----------------------------------------------|-----------------------------------------------|
| A tablet                                      | 32%                                           |
| A smartphone                                  | 22%                                           |
| I don’t have a preferred device; it would be the device I have in my had at that moment | 46%                                           |

*Source: Aite Group survey of corporate treasurers, May 2014*

Finally, just as corporate treasurers seek multibank connections that consolidate data from multiple bank sources, forward-looking financial institutions are also finding ways to connect their systems with the multiple applications company executives use to run their daily
operations (e.g., enterprise resource planning, customer relationship management, and supply chain management). Banks need to deliver better integration between their systems and their clients' enterprise resource planning systems for a more seamless data exchange.

**UTILIZING ANALYTICS TO BETTER SERVE CUSTOMERS**

Analytics are vastly underutilized within the financial services industry. Most banks do not use them beyond fraud prevention and risk management. Aite Group estimates that less than 10% of Tier-1 and Tier-2 banks around the globe use analytics for cross-selling or to predict the next most likely product a customer will need, and even fewer leverage analytics to provide more actionable information. Using analytics to the fullest extent will help banks identify opportunities to better serve their customers, improve the banking experience, and grow their bottom lines. Further, by providing customers with information around trends and advanced analytics to make more informed decisions and better manage their cash, banks could be providing a service their customers would be willing to pay for.

Access to high-quality data is required by most businesses to operate effectively and efficiently. Historically, companies have relied on their banking relationships to provide them with account balance reporting, incoming and outgoing payments amounts, investment balances and activities, stock transactions, and monthly transactions data on account analysis statements. This bank-provided data is mostly a "data dump," meaning that the bank provides the raw data without manipulating or examining it. It is therefore not surprising to find that fewer than 20% of corporate treasurers believe bank reports provide them with the information they are looking for. By instead providing insights and trends information based on analysis of the data coupled with more flexible reports, banks will spare their customers the painful process of manually keying bank-delivered information into their own more relevant reports (which makes them vulnerable to entry error) or adopting other internal systems to help with decision-making, information tracking, and forecasting. This will also keep customers on the bank site longer, thereby increasing bank opportunities to cross-sell other products.

Banks must interact with customers more creatively and proactively than ever before to retain their business, deepen relationships, and ward off the threat of nonbank competitors. They must begin leveraging the wealth of information collected through daily transactions that often sits idle. While banks' raw data is almost always transactional in nature, it could be mixed with external data to achieve actionable insights. By realizing a more comprehensive information system that leverages all available data across the whole payment value chain and the different payment systems, banks can transform their data management capabilities into a real decision-support system to provide customers with timely, accurate, and complete analytics. Examples of more valuable information banks could be providing to customers include trends regarding incoming and outgoing payments, timing of the payments, trading partners receiving or making the payments, maturing investments for forecasting cash flows, and liquidity.

Basel III's bank capital adequacy and liquidity management rules are quite demanding, with the liquidity coverage ratio representing an essential component. The liquidity coverage ratio promotes the short-term resilience of a bank's liquidity risk profile by ensuring that a bank has an adequate stock of high-quality liquid assets that can be converted into cash easily and
immediately to absorb shocks arising from financial and economic stress. Banks must keep track of their progress toward achieving the expected liquidity coverage ratio targets with dedicated monitoring systems. As banks leverage tools to get a handle on their own liquidity, they can also leverage their knowledge to provide customers with liquidity management advice and recommendations as to the types of accounts they should have. It can also be used to provide more effective risk management and efficient capital usage.

In addition to providing better data to customers, analytics can also be leveraged to help bankers better predict the needs of customers and thus sell more products. Further, they can be used to create more effective current and upsell bundles, which include the products customers need most and eliminate those they don’t. Knowledge is power, and banks are giving up power by not fully utilizing analytics. Additionally, analytics can ultimately help to erase the misperception many corporate treasurers have that their banks don’t understand their needs, a negative sentiment that is even stronger among small businesses.

**LESSENING CUSTOMERS' EXCEPTIONS BURDEN**

Exceptions prevent straight-through processing and require manual intervention. Figure 5 shows the degree to which the pain of exceptions prevents most companies from enjoying straight-through processing for the majority of their receivables. In fact, Aite Group research has found that for U.S.-based businesses generating greater than US$1 billion in annual revenues, the number one factor negatively impacting their receivables business is a large or growing number of exceptions and returns. Corporate customers' exceptions processing is often a time-consuming task that can be lessened with the help of their financial institutions.

Banks looking to improve the overall experience for their customers will invest in "intelligent" technology. Such technology will have the ability to analyze and identify problems/exceptions and communicate them to the customer so the customer is aware of them and can avoid making similar errors in the future. It also has learning capabilities that allow it to observe how customers resolve common exceptions and automatically correct them in the future. Finally, by leveraging a database that can be accessed to automatically look up and correct common errors such as incorrect bank identifier codes and international bank account numbers, banks are again improving the overall experience for their customers and eliminating time-consuming administrative tasks that take them away from running and strategically growing their businesses. While this section focuses on receivables, payables exceptions can also be reduced through the use of similar "intelligent" technology.

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Figure 5: The Exceptions Challenge

Q. What percentage of the below payments types are processed straight through—that is, fully automated without operator intervention? (U.S.-based respondents that receive at least 5% of their total payments by that instrument)

<table>
<thead>
<tr>
<th>Payments Type</th>
<th>0%</th>
<th>1% to 25%</th>
<th>26% to 50%</th>
<th>51% to 75%</th>
<th>76% to 99%</th>
<th>100%</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct debit (ACH)</td>
<td>52%</td>
<td>16%</td>
<td>16%</td>
<td>16%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>59%</td>
<td>14%</td>
<td>5%</td>
<td>9%</td>
<td>14%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Card</td>
<td>62%</td>
<td>13%</td>
<td>5%</td>
<td>5%</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wire transfer</td>
<td>63%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paper check or draft</td>
<td>66%</td>
<td>9%</td>
<td>11%</td>
<td>6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit transfer (ACH)</td>
<td>65%</td>
<td>9%</td>
<td>14%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Aite Group survey of 150 receivables managers or experts at U.S. based companies

INCREASING EFFICIENCY THROUGH SYSTEM RATIONALIZATION AND TECHNOLOGY INVESTMENT

While businesses of all sizes often select their banking partners primarily based on those with whom they have their credit relationship and the level/type of service and online experience a bank offers, price is also a consideration. Thus, it is essential for banks to operate as efficiently as possible to remain competitive, enjoy higher margins, and, if they choose, price their products more aggressively to win new business. Greater automation is key to improving efficiency and an area where banks can improve.

One way to achieve greater efficiency is through platform rationalization. Today’s modern architectures are flexible and customizable enough to easily scale to meet the needs of the smallest businesses up to the largest corporations. By serving all sizes of business customers from a single technology platform, banks will save time and money by not only maintaining a single rather than multiple platforms but also by only building new product enhancements or channel capabilities once. This not only saves money but also enables banks to roll out new capabilities faster, which is a win-win situation for both banks and their customers.

Further, with a single platform, banks will be better positioned to more easily offer customers more sophisticated capabilities as their needs grow without the hassle of migrating them from one solution to another. Customers will be more satisfied, and banks will have greater opportunities to cross-sell products. In fact, some banks are already enjoying such benefits by migrating their small-business customers off consumer platforms and onto their commercial ones. By having a single offering for all of their business customers, many banks are enjoying higher deposit balances as well as more products and advanced capabilities used per customer, both of which lead to greater revenue (Figure 6).
Investments in modern architectures to replace legacy systems will help banks lower their costs while also creating a more flexible environment in which they can evolve their strategies to address changing customer requirements. New technologies are far less costly to run and maintain than older ones and therefore allow for more competitive pricing, not to mention a more modern look and feel for customers.

Figure 6: Benefits of a Single Platform for All Business Customers

Source: Aite Group estimates
CONCLUSION

Regulations have constrained not only banks' operations but also their bottom lines. Banks need new streams of revenue to make up for those lost and to position them for continued growth. Achieving their goals requires change and investment in technology. The status quo is no longer sufficient, nor is a desire to be "good enough." A 2014 Aite Group survey of bank IT executives around the globe found that most large and midsize banks expressed not only high levels of dissatisfaction with their online corporate banking capabilities but also a higher likelihood to invest in that area over the next two years relative to other types of technology. Those not doing so will be left behind. How well-positioned is your bank for the future?

ABOUT AITE GROUP

Aite Group is an independent research and advisory firm focused on business, technology, and regulatory issues and their impact on the financial services industry. With expertise in banking, payments, securities & investments, and insurance, Aite Group's analysts deliver comprehensive, actionable advice to key market participants in financial services. Headquartered in Boston with a presence in Chicago, New York, San Francisco, London, and Milan, Aite Group works with its clients as a partner, advisor, and catalyst, challenging their basic assumptions and ensuring they remain at the forefront of industry trends.

ABOUT ACI WORLDWIDE

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