The Future of Transaction Banking: Transforming the Ways in Which Banks Operate and Interact
INTRODUCTION

The gaps between what banks offer and what their customers need is widening as the role of the corporate treasurer expands. This role is not only more global and strategic in nature, often cutting across multiple product lines, but treasurers are also being asked to do more as employee headcounts decline. At the same time, banks are increasingly being viewed as mere transaction providers, placing them at risk of disintermediation if they fail to more quickly react to the changing environment. This predicament is a direct reflection of outdated bank technologies, as opposed to a failure to understand customer needs (though that is how corporate treasurers often perceive it). Most bank systems are old, inflexible, and unintegrated, thereby limiting the types of transactions they can provide and the level and quality of advisory services they can offer. Further, it prevents them from quickly addressing new market demands, launching new services and channels, and achieving their goal of rolling out new value-added services. In essence, negative bank inertia is slowing industry evolution, creating opportunities for non-bank competitors, and leading to missed revenue opportunities for banks.

Transaction banking, too, is going through a paradigm shift. Banks must replace outdated systems and think more about flexibility, tighter system integration, and new ways to interact with their customers, or risk losing business to their competitors. This white paper examines the future of this industry and the key areas on which banks will focus over the next few years. It leverages recent Aite Group surveys of bank executives within transaction banking as well as corporate treasurers responsible for their company's accounts receivable, payable, and/or management of finances, and the author's in-depth knowledge of bank strategies. It provides banks with a deeper understanding of key trends and the needs of the corporate market as well as the types of initiatives they should implement to ensure greater future success.
KEY AREAS OF BANK FOCUS

As one looks at the top IT priorities of banks, regardless of size or geographic location, it is clear that financial institutions have increased their focus on the overall customer experience, especially through the online and mobile channels. These channels are critical as banks look to transform the ways in which they interact with their customers. Banks’ focus on corporate technologies has also risen as banks recognize their growing potential for new streams of fee-based revenue from corporate customers and the urgent need for a face-lift on the technologies that serve them. In fact, a Q4 2012 to Q2 2013 Aite Group survey of Tier-1 and Tier-2 banks around the globe found that 55% of those institutions consider investment in their bank’s corporate portal a "top-three priority," while an additional 27% consider it "important."

This section highlights some of the key areas of bank focus for transformation and the impact those transformations will have on corporate customers. Though some of these initiatives are already underway, most will evolve as bank strategies over the next few years.

MORE TIGHTLY INTEGRATED SYSTEMS

As the role of the corporate treasurer expands, banks must be prepared to provide broader, more consolidated, and increasingly consistent access to information and transactional capabilities. Creating corporate portals will be central to achieving this strategy, allowing banks to offer corporate customers not only a single entry point to access all of their account data, services, and payment information but also a complete, 360-degree view of their finances. Portals eliminate the need for customers to log into multiple systems, and they present bank information in a more consolidated (rather than siloed) way. Cash management is often the starting point for portal creation, with banks developing a technology-integration roadmap based on the products and services used most often by those customers. Trade is typically the first system that global banks integrate with cash management. In the United States, banks are also focused on integrating remote deposit capture and lockbox systems early on and adding credit systems later in the process. As the largest global banks build out their portal frameworks, the majority of smaller institutions will likely leverage the landing page of their cash management solutions as their point of entry.

While many Tier-1 and Tier-2 banks already have their corporate portal initiatives underway, almost half are still in the early planning stages. These projects will move along over the next few years as customers grow more demanding and the level of urgency and competitive necessity to have portal capabilities increases. Aite Group forecasts that at least 86% of Tier-1 and Tier-2 banks will have portal initiatives underway by the end of 2016 (Figure 1).
Unfortunately, integration has been a major challenge for many banks, given the common practice of using systems from various vendors as well as the prevalence of older solutions, whose technical architectures are less open and easily integrated with other solutions. Of Tier-1 and Tier-2 banks surveyed, 86% describe integration as a "major challenge."¹ Going forward, most banks will be paying closer attention to service oriented architectures (SOAs), which make integration a far less daunting task.

Tighter integration of systems brings with it a more efficient way for banks to operate, providing the ability to create new services once and leverage them across systems as well as the potential for far better customer service. Integration provides banks with more of a 360-degree view of a customer, thereby better positioning them to identify and predict current and future product needs. This leads to greater customer satisfaction, a stronger potential for cross-selling products, and an ability to uncover new needs and think up new and innovative products to address them.

Integrated systems also enable easier access to information for customers. In fact, a large part of system integration and portal development revolves around the creation of a customer-driven dashboard that sits on top of the portal. Next-generation dashboards leverage Web 2.0 and widget technology that enable corporate customers to determine which information appears on their dashboard for a more customized experience. A properly designed dashboard could enable a user to perform as much as 70% of their most frequently performed transactions from a single screen. Approximately 66% of corporate treasurers consider this type of dashboard to be "very important" to "extremely important" to improving their overall online experience (Figure 2). Building such a dashboard would require substantial effort by a bank with older technology and a lack of system integration, however.

Figure 2: Interest in Dashboards

Q. How important is a customizeable user dashboard, in which you can predetermine account information that appears and easily perform the transactions you complete most often, to improving your overall online cash management experience? (N=185)

Source: Aite Group survey of 185 corporate treasurers, July to August 2013

A SHIFT TOWARD REAL-TIME DATA

A challenging economic environment makes accurately forecasting and managing cash flow very important. Therefore, having access to real-time or near-real-time information is a must. In fact, 81% of corporate treasurers stated in a recent Aite Group survey that access to more real-time information is critical to improving their online cash management experience (Figure 3). While many banks already offer this, others harbor older cash management solutions and core banking systems that limit their capabilities. Here too, a lack of integrated systems often results in partial or incomplete data, which is of limited use.

In some cases, we find that customer awareness of bank capabilities is sometimes lower than it should be. Over the coming months, banks will need to either enhance their real-time capabilities or better communicate to their customers about the capabilities they already have.
**ENTERPRISE PAYMENTS**

Payments are an integral part of the entire "source-to-settle" process, although they are frequently thought of as "purchase-to-pay" by a company's accounts payable or "order-to-cash" by a company's accounts receivable area (Figure 4). Increasingly, the broader strategic focus of treasury means that payments are positioned in the context of source-to-settle, looking across trading partners' financial operations—procurement, accounts payable, accounts receivable, cash application, credit management, forecasting cash flow, and management of liquidity and working capital.
Handling a corporation's daily payables can be a time-consuming task, especially when a business makes different types of payments, which is often the norm. Many institutions require payers to go to different modules within their site to make Automated Clearing House (ACH) payments and wire payments, and some even require logging into different systems, especially if international wire payments are needed. In an effort to improve the customer experience and provide greater transparency into the payment profiles of bank customers, many banks will focus, over the coming months, on consolidating all payments to a single location, thus embracing more of an enterprise payments approach. In such an environment, customers will be able to make any type of payment, in any currency, and to any payee, from a similar location in a similar way.

The idea of enterprise payments is not new. Many banks have been talking about this type of initiative for some time now. The European banks are further along than the U.S. ones in this area, as European initiatives such as Single Euro Payments Area (SEPA) forced their hands. U.S. banks' focus on enterprise payments is expected to grow over the next few years as banks look to improve efficiencies and streamline the processing of multiple payment methods. Unfortunately, as with their portal initiatives, legacy technologies are proving to be a barrier as banks look to progress with enterprise payments architectures. The industry faces the challenge of using yesterday's technologies to meet the needs of today's payments business. Banks will be forced to replace systems and will likely seek out technology partners that provide the necessary infrastructure to achieve their payment goals.
Banks will also seek to decommoditize payments by improving corporate process inefficiencies. Prepayment processes will be of particular focus, given the manual steps that continue to exist within many corporations. Invoice matching on the payables side is one such example. On the receivables side, banks will look to provide data streams that can more efficiently be used to update corporate enterprise resource planning (ERP) systems used to manage receivables and cash account posting.

MORE FLEXIBLE ARCHITECTURES

A common theme throughout this white paper is the need for banks to deploy new cash management systems with more flexible architectures. Greater flexibility enables the easier integration of systems as well as greater efficiency and a faster speed at which they can offer new products and services. It also allows banks to be more competitive and, at times, enjoy the benefits of first-mover advantage and differentiation, and it impacts the speed at which they can add new channels. As mobile becomes an increasingly important part of peoples' lives and communications, corporations will expect the convenience of mobile access for their financial lives.

Banks have been offering mobile banking to their consumer customers for a few years and are now focused on adding more bells and whistles to their offerings. The launch of mobile has been slower on the corporate banking side, however, with mobile banking plans just now coming to fruition at many institutions. Corporate mobile offerings within the United States are currently limited to mostly the largest banks. A June 2013 Aite Group survey of 32 of the 50 largest U.S. banks ranked by total assets found that approximately 58% of the top 20 banks offer corporate mobile, while 32% of the top 50 do. An additional 56% of banks surveyed plan to roll out their corporate mobile offerings during 2014. Aite Group is seeing a similar trend around the globe, especially in more developed countries. Mobile banking has been slower to take off in emerging countries, but adoption is expected to increase, especially in areas where Internet connections are less dependable and mobile is the preferred means of communication.

While most banks are only seeing moderate demand for mobile, more than 80% expect it to be very strong by the end of 2015 (Figure 5). All banks, regardless of size, therefore need to implement architectures that can offer this channel, along with the necessary functionalities, such as payment approvals, to meet customer demand. The mobile channel arms banks with the ability to offer corporate treasurers greater convenience and the potential to generate a new stream of revenue. While most early mover banks are offering corporate mobile free of charge, more than 50% of top 50 banks in the United States plan to charge for the use of this channel.

2. See Aite Group’s report, Corporate Mobile Banking: Gaining Momentum, August 2013.
Figure 5: Demand for Mobile

Q. On a scale of 1 to 5 (with 5 being the highest), how would you rate the level of demand from cash management customers for mobile banking? (N=30)

By year-end 2015
- 1 rating: 7%
- 2 rating: 10%
- 3 rating: 63%
- 4 rating: 20%

June 2013
- 1 rating: 17%
- 2 rating: 67%
- 3 rating: 13%
- 4 rating: 3%

Source: Aite Group’s survey of 32 of the top 50 U.S. banks, June 2013

MORE RELEVANT REPORTS

One of the biggest complaints that Aite Group analysts hear from corporations regarding their banks’ online capabilities concerns the quality of reports. Most feel as though the reports offered by their banks demonstrate a lack of bank understanding about customer needs. In fact, more than 20% of corporate treasurers state that most bank-offered reports go unused, and they instead prefer to export data from their bank site and create their own reports (Figure 6). Bank reports are also viewed as static and inflexible. In many cases, banks agree that their current reporting capabilities, especially in the areas of cash management and liquidity, are not as strong as they should be.
Banks are looking to improve their reporting capabilities by making them more interactive and integrating data to provide greater value to customers. Some banks are also looking to move beyond just multibank reporting to include multibank initiation. Banks can help customers by bringing information from different sources to a single location or report and by making data more comparable.

In the challenging economic environment, cash position reports are of particular focus for many financial institutions. Financial institutions recognize that these reports must have multibank capabilities and be more interactive. As a result, end users must be able to manually enter information that is not tracked by the bank or has not yet been processed. Some institutions and technology developers have incorporated greater graphical capabilities into their solutions, including graphics that show cash position and account balance trends. The most advanced platform enhancements will enable users to take action from within a report, such as by transferring funds and initiating payments.

**GREATER INCORPORATION OF ANALYTICS**

Analytics are currently underutilized by banks, especially in the bank treasury services space and on the corporate side. In fact, with the exception of fraud prevention with incorporated behavioral tracking and risk management, the use of analytics is extremely limited, if espoused at all, and analytics are rarely used by most bank treasury services groups either internally or as customer offerings. As banks look to provide higher levels of customer service and better position themselves as advisors, greater usage of analytics will be critical to their success. Most banks recognize the importance of analytics but feel as though they are not yet in a position to use it to the fullest extent. Most continue to struggle with siloed systems, data housed in multiple warehouses, and inconsistent data across the organization. These banks feel that they...
must better integrate their solutions and consolidate data before they will be able to benefit from analytics. As such, analytics is at least two to three years out on most banks' roadmaps, but something they are at least already starting to think about. For those already using it, it has generally been limited to analyzing customer online activities and areas in which navigation throughout the solution may need improvement. A smaller percentage are using it to look at the types of transactions that customers are performing to infer potential cross-sell opportunities, and none are using it to predict the next product they are likely to need (Figure 7).

Figure 7: Limited Use of Analytics

Q. How is your bank currently utilizing analytics within your corporate portal? (N=21)

<table>
<thead>
<tr>
<th>Type of Analytics</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online analytics</td>
<td>43%</td>
</tr>
<tr>
<td>Transaction-based analytics</td>
<td>24%</td>
</tr>
<tr>
<td>Predictive analytics</td>
<td>0%</td>
</tr>
<tr>
<td>Analytics for customers</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Aite Group’s global survey of 22 Tier-1 and Tier-2 banks, Q4 2012 to Q2 2013

The effective use of analytics can prove to be an important differentiator and potential revenue generator for banks down the road. Its benefits can be applied both internally within the bank as well as externally to customers. For example, analytics offers important insights for the bank to better position itself to create attractive product bundles for customers, provide higher levels of service due to a greater understanding of their products usage and needs, and more effectively cross-sell products. These insights can also be incorporated into peer benchmarking or trend analysis data that can be packaged and sold in report format to customers as a value-added service.
CONCLUSION

There is no doubt that transaction banking will evolve significantly over the coming years. But which banks will be willing to make the necessary technology investments? And how quickly will they do so? Future success will also require a change in bank mindset—siloes will need to come down, new tools will need to be implemented, and the ways in which banks interact with their customers will have to dramatically change. Those willing to transform themselves and their strategies in the ways described throughout this piece can expect to enjoy such benefits as:

- A greater ability to demonstrate to customers an understanding of their needs, leading to greater cross-selling success and deeper customer relationships
- Greater flexibility to offer customized product and service offerings that address new customer pain points and requirements
- Better positioning to advise customers and evolve from a transaction provider to a true partner
- New options for revenue growth
- Greater customer retention and new customer attraction
- New and innovative ways for banks to interact with their customers and quickly offer more relevant and needed products and services to be more competitive

Change is never easy, but it is almost always necessary over time. The market continues to evolve alongside customer demands and challenges, and banks must be willing to make the necessary investments or lose business to competitors.
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.

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