Global Transaction Banking Survey 2012

A report from

MISYS Finextra

About this survey

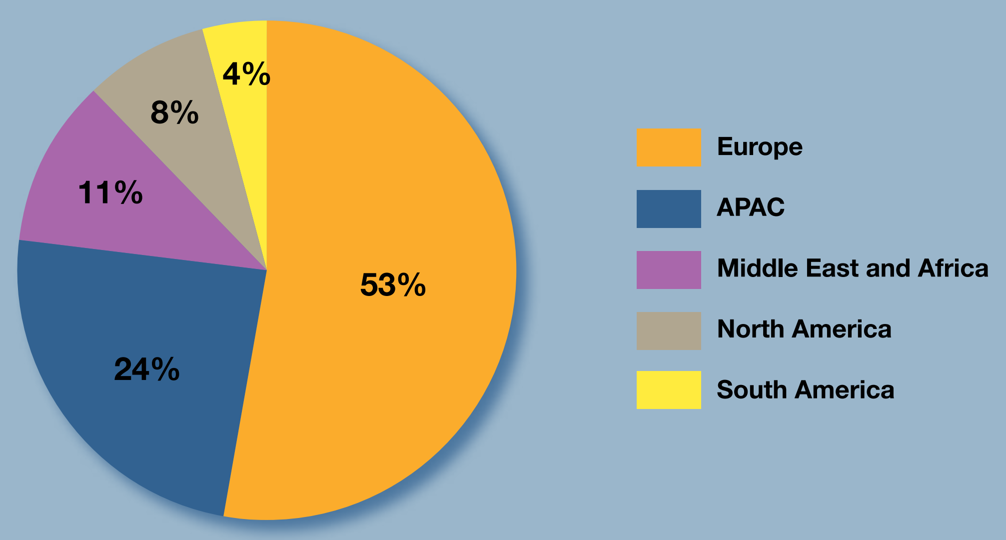
This is the third survey Misys has conducted with Finextra evaluating the state of the global transaction banking sector.

This year's survey received 105 responses from 70 different financial institutions. Banking groups with multiple responses were often represented by respondents from different country operations.

Tier 1 banks are categorised as those that appeared on the list published by The Banker of the world's top 150 banks by asset size in 2011. This has further been broken down to split those that have significant global operations or subsidiaries in more than five countries from those that are mainly domestically focused. Compared to last year, slightly more respondents were from countries outside Europe and North America – 39 per cent, up from 32 per cent.

Where responses to survey questions were markedly different across organisation type and geography this has been noted in the question breakdowns.

Country of respondent



Executive summary

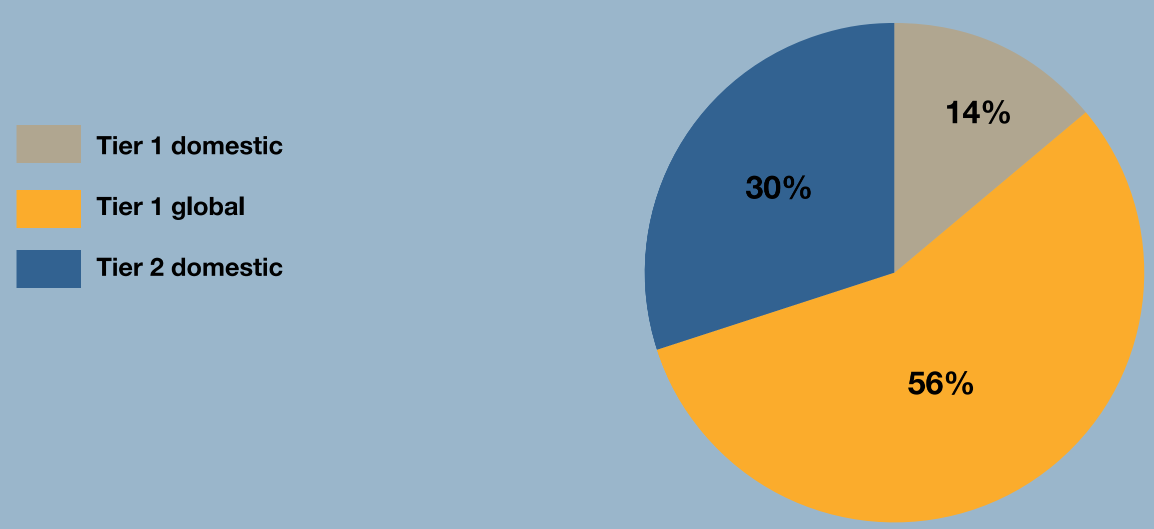
The days of having separate business units responsible for cash management, payments and trade finance are well and truly over at most banks surveyed. 90 per cent of banks have created a transaction banking group or plan to in the near future.

The resulting integration and centralisation has enabled a stronger strategic focus on customer service and channel and product innovation, although many are still challenged by complexity in their IT environments. Mobile channel development is a growing trend, with 45 per cent of banks ranking this a priority in the coming year, while 63 per cent said expanding self-service channels such as mobile would be part of their strategy over the next three years.

Supply chain finance solutions are more widespread and mature in the market, with 88 per cent of respondents saying their bank has, or will soon offer, some kind of supply chain finance offering for corporates. But there is still work to be done, with most of these banks expressing dissatisfaction with the sophistication and packaging of their current solutions.

As open account trade continues to rise in most markets, there is increasing interest in the new ICC Bank Payment Obligation (ICCBPO) instrument to achieve better standardisation and reduce risk. At the same time, more than half of banks are demanding simpler ways to manage regular updates to existing standards. Both of these results are good news for SWIFT, given its current involvement with the International Chamber of Commerce (ICC) to develop the ICCBPO, and its work with member banks and corporates on the MyStandards platform.

Scale of organisation



Structure and three-year plan

The trends for banks to create a more joined-up, corporate customer focused division from disparate product and service teams gained real momentum after the 2008 global financial crisis. Particularly at tier 1 institutions, boards began to value more highly the steady, fee-based business of payments, cash management and trade finance. So they began to seek better ways to manage these business divisions and differentiate through improved customer service.

This trend has not yet run its course, but the model is well established in all markets. 81 per cent of surveyed institutions say they have created a transaction banking group that combines cash management and trade finance, at least at an operational level.

The journey that banks embark on to make their proposition more cohesive is two-fold. Internally they must achieve operational integration of systems, managers and staff. Externally, they must develop and present their capabilities and be able to deliver on their “one-stop shop” promises.

Some banks have come undone in the past when the sales pitch has hit the market without the operational integration being completed. But it now appears that for most banks, particularly tier 1 global players, this integration work has been done. Only 9 per cent of respondents said their bank still had plans to go down this path, while 10 per cent – all domestically focused or tier 2 banks – planned to retain separate business units.

Taking a medium term view over three years, banks are mostly looking at strategies to improve customer service through new products and services and self-service channels. In last year’s survey new products and services was also the top response, but this year customer service and self-service channels have featured much more prominently.

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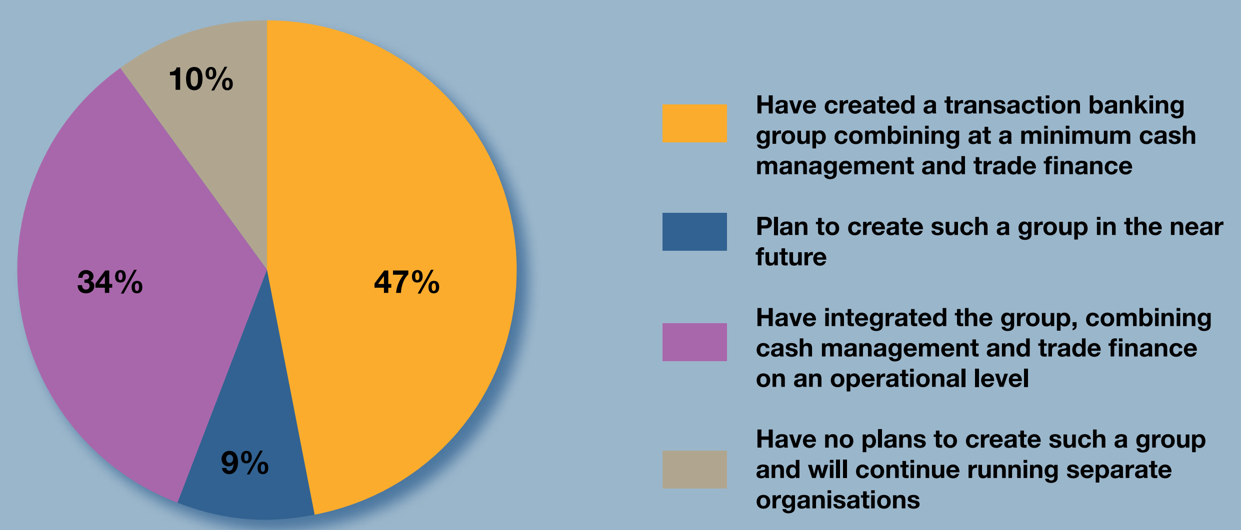
This point is further elaborated in question 4, where online and mobile channel development are identified as immediate priorities for the next 12 months, and question 7 where respondents provide more granular detail on what features they are adding or enhancing in their online channels.

As more people become accustomed to personal banking via smartphone and tablet, those who work in the corporate world increasingly expect the same intuitive interfaces and simple functionality to enable them to authorise payments and view transactions and letters of credit and other trade finance documents. All these things they can do while deskbound, they are expecting to be able to do remotely, or even via mobile device while in the office.

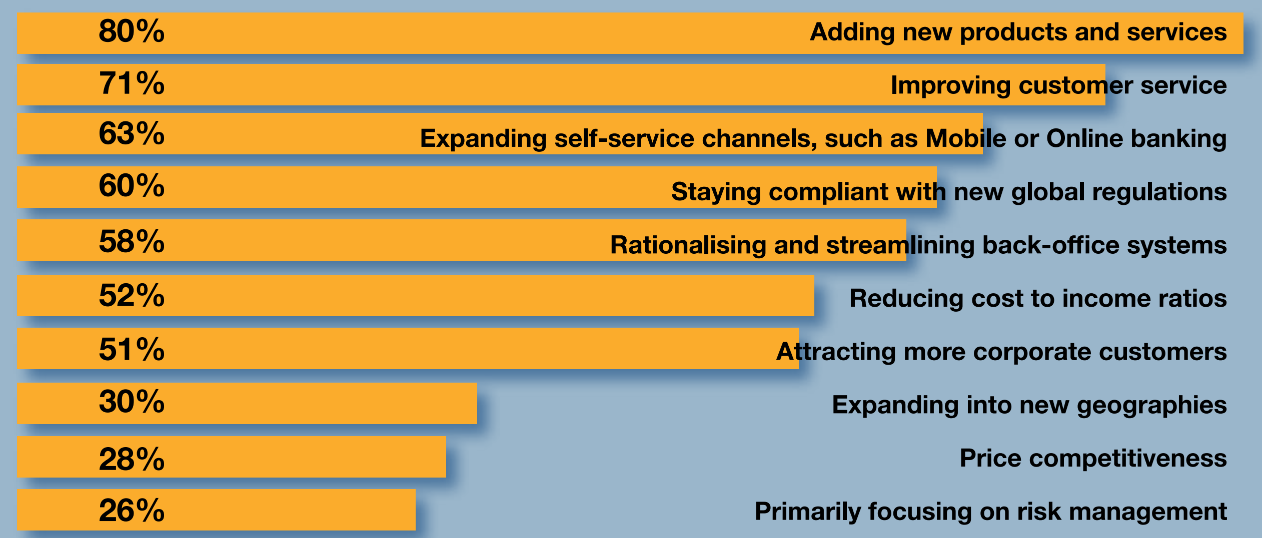
Corporate transactions are much more complex than retail, with various levels of authorisation through different parts of the customer corporate and the bank. Cash management and trade finance processes involve many more accounts and parties. As a result, mobile channels cannot simply be ported across from the retail business. Relevant mobile functionality must be identified, designed and securely delivered from scratch to meet the corporates’ needs.

Only 26 per cent of respondents said that risk management played a big role in their three-year strategy. While trade finance operations staff and treasury account managers may not be involved directly in the bank’s risk management, it could be argued that good risk management requires a joined up view across the organisation, including input from those who are operating at the front line of customer servicing.

Q1: Please describe your organisational structure for transaction banking services



Q2: What will be the strategic focus for managing your transaction services or cash management business over the next three years? (tick all that apply)

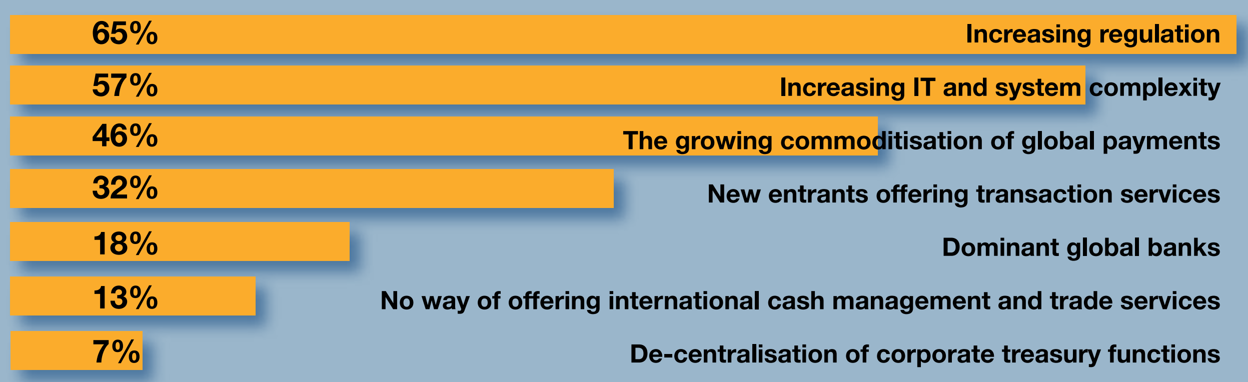


Revenue challenges

Just as for last year's survey, increased regulation was seen as the major challenge to growing revenue. While regulatory compliance obviously has a cost associated with it that is considered a burden for many banks, there is a supplementary view that regulation such as Basel III can also distract attention from and limit the bank's ability to pursue new revenue opportunities, particularly in trade finance.

The 57 per cent of respondents who said IT and system complexity is a hindrance maps closely to the 58 per cent who said in question 2 that streamlining back-office systems was a strategic priority over the next three years. With new products, services and channels coming online as a strategic priority, banks need to avoid the danger of adding complexity and cost in the front and back office.

Q3: What do you see as the major challenges to growing revenue from your bank's transaction services or cash management business? (tick all that apply)



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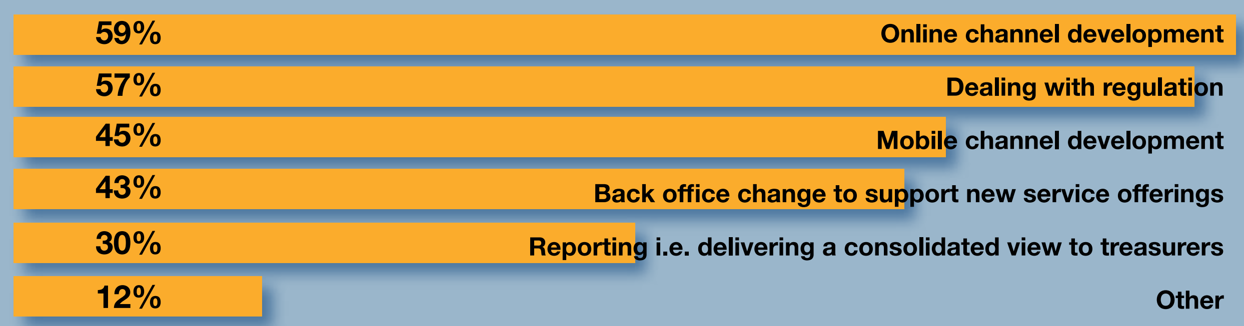
Near-term priorities

Drilling down on the three-year strategic view illustrated by question 2, this question looks at immediate priorities in the next 12 months. While online channel development is an ongoing process of improvement and support for new products, for most banks mobile channel development will be a new field of endeavour, albeit one that can leverage the work done for desktop application and web offerings.

Nearly half of all banks are working on their mobile channel offerings this year, suggesting that banks think the demand is there from corporate customers.

While regulation and integration again dominated responses to this question it is interesting to note the response about reporting and giving customers a consolidated view of their data and interactions at the bank. Recent requests for information and proposals from banks to technology vendors increasingly contain demands that all online channels and back office applications are served on a common platform with a single log-in. This reduces IT complexity, and enables the bank to sell to their corporate treasury customers a consolidated suite of services with a single log-on, greatly improving the customer experience.

Q4: Where do your transaction banking priorities lie for next year? (tick all that apply)



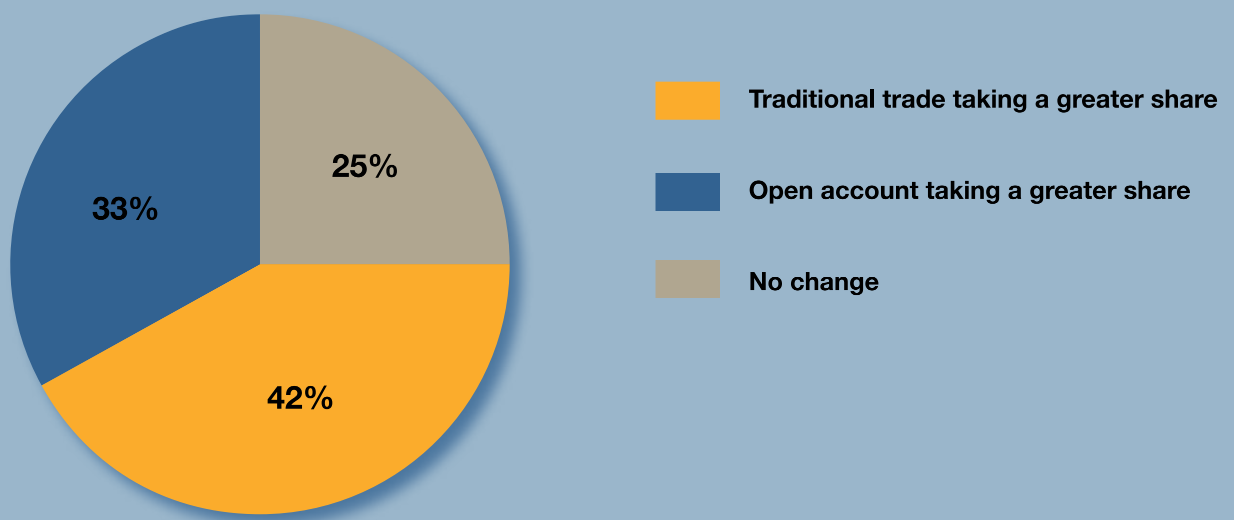
Open account trade

Last year, just 29 per cent of respondents had seen an increase in open account trade, compared to 37 per cent who reported an increase in traditional trade finance. This year 42 per cent of respondents have seen an increase in open account trade.

For tier 1 institutions, by far the most common response to this question was that open account trade has increased over the past year. As these banks are the primary providers for large multinational corporations more willing to take on the higher counterparty risk and reduced access to finance in return for lower cost and less paperwork, this makes sense. For tier 2 banks, the highest responses were for no change, or an increase in letter of credit usage, which would suggest that the risk mitigation features of letters of credit (LC) are still appreciated by many corporates served by these banks. Industry adoption of the new ICC Bank Payment Obligation instrument (see question 8) may change this over the next few years.

Geographically speaking, the increase in open account transactions is happening faster in North America, Middle East and Europe, whereas in Asia Pacific the number of those reporting increase in traditional approaches was much closer to the number reporting a rise in open account.

Q5: How has the ratio of traditional trade finance, e.g. letters of credit, versus open account transactions changed over the past twelve months? (tick one)



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Supply chain finance

88 per cent of banks say their corporate customers are demanding supply chain finance services. This is up slightly from 86 per cent last year. But the banks' response to this demand varies, as does the sophistication of what's being offered.

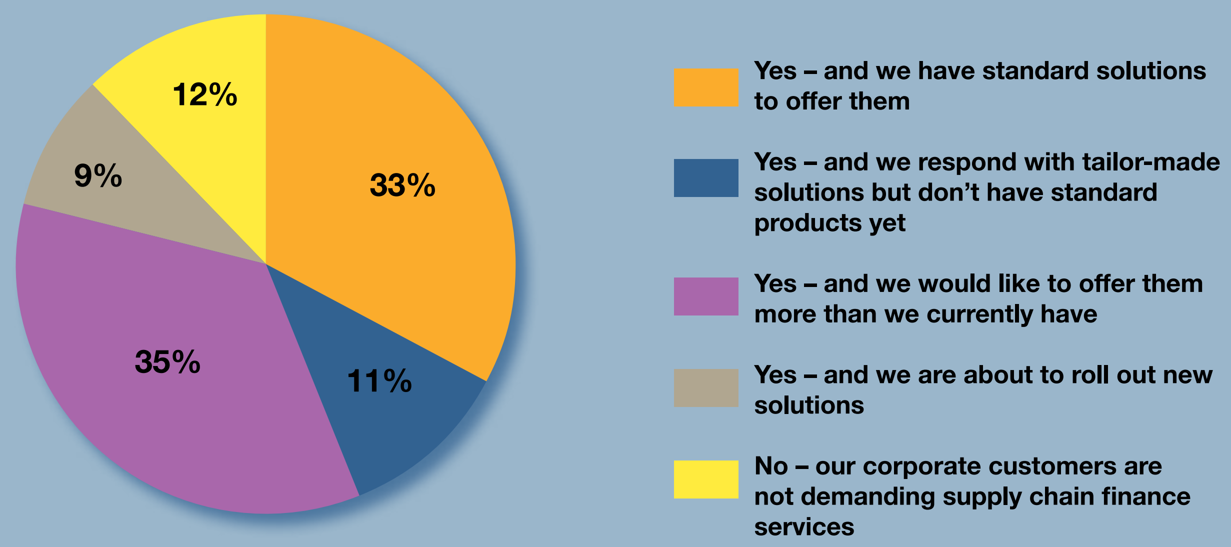
Only 33 per cent have standard supply chain finance solutions in place to help finance their large corporate customers and downstream suppliers. But 35 per cent of respondents say they would like to be able to offer more than they currently do.

Some of the more sophisticated banks are today offering reverse factoring, dynamic discounting, and invoice finance, covering not only open-account trade but also LCs and guarantees, in addition to online collaboration for all parties. By next year we expect that the 9 per cent of banks that are about to roll out new solutions will be joined by even more banks keen to improve their supply chain finance proposition and target new customers.

This is particularly so in the Asia Pacific region, where many small to medium enterprises are finding themselves underserviced by local banks that are not offering them globally competitive rates[1]. Many tier 1 global banks are interested in tapping this market, using their large multinational clients in the region as "anchor" corporates to tempt their downstream suppliers with more favourable financing terms.

[1] *"Supply Chain Financing: Flavour of the Year?" Axel Pierron and Prathima Rajan, Celent. August, 2011*

Q6: Do you see demand for supply chain finance services from your corporate customers? (tick one)



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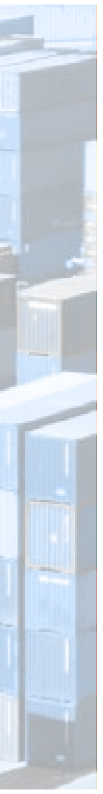
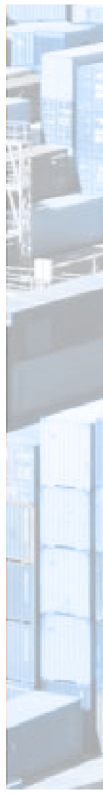


Online channel functionality

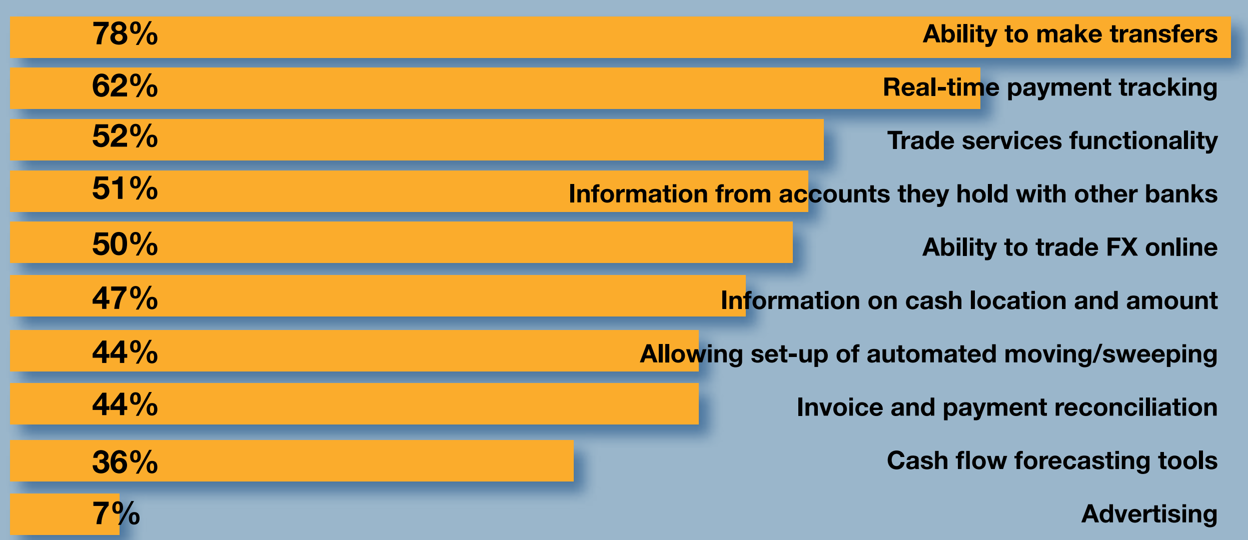
Simple functionality such as the ability to initiate online transfers is most common for those banks with online offerings today. While real-time tracking of payments is fairly common at 62 per cent, by next year it will be an even more ubiquitous service with another 31 per cent of banks planning to add it to their online channel.

Invoice and payment reconciliation and cash flow forecasting tools are less common today, but these two areas will also see a lot of activity in the next 12 months.

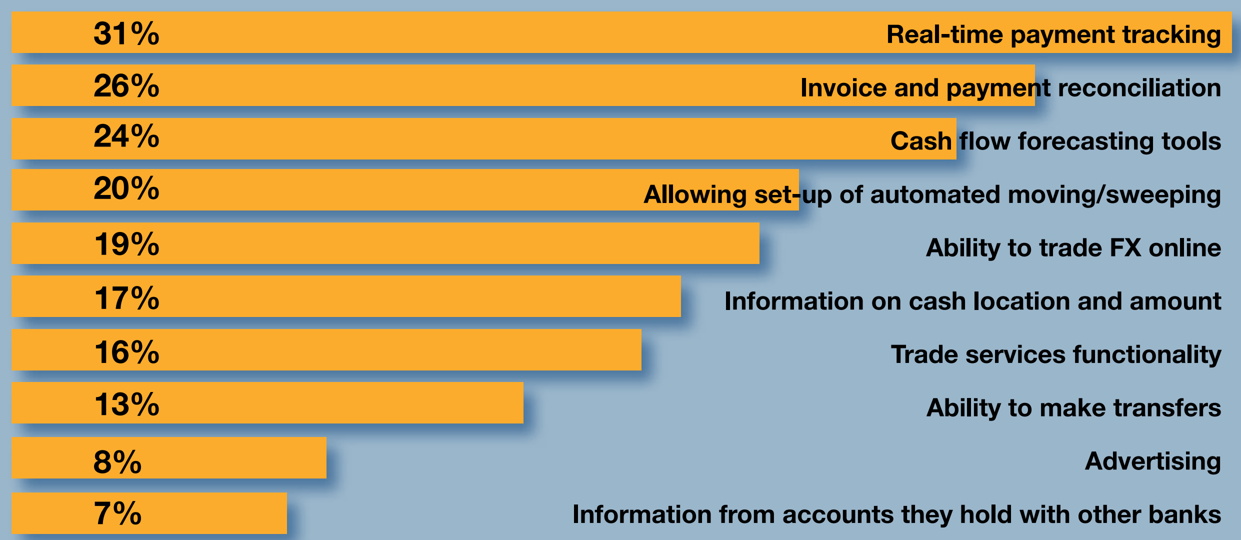
Just over half of respondents said they offer some kind of trade services functionality online today (52 per cent), but this is not expected to grow significantly, with only 16 per cent of respondents looking to add it in 2013.

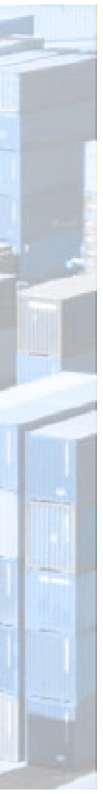


Q7a: In your online banking services for corporate customers, what functionality do you offer now?



Q7b: ...and what do you plan to add within the next 12 months? (tick all that apply)





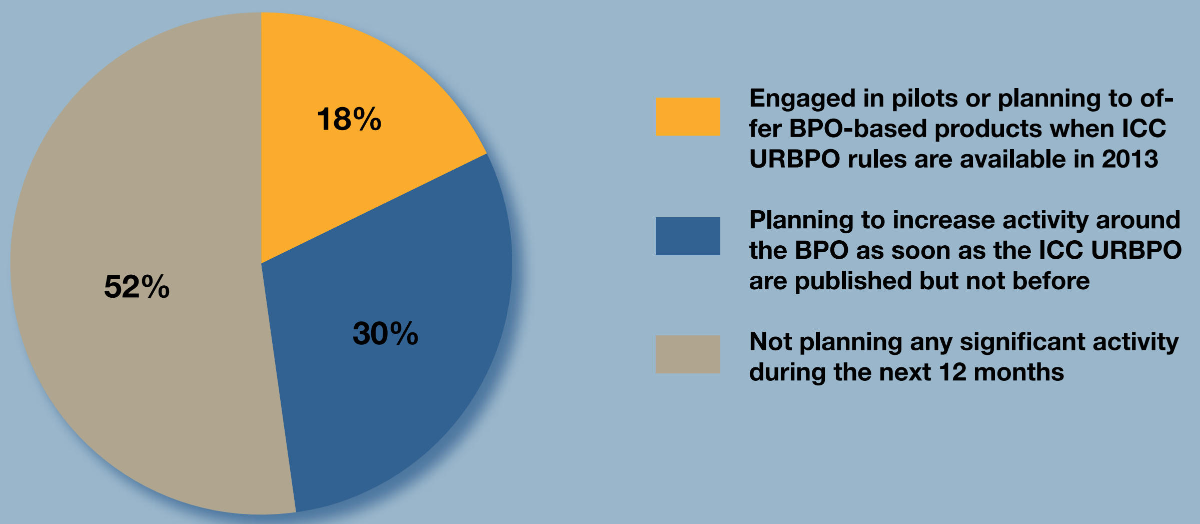
ICC Bank Payment Obligation

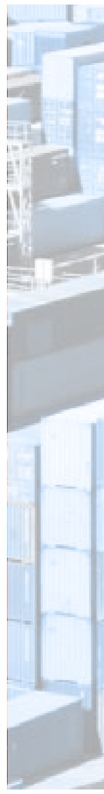
Launched at the beginning of 2010 by SWIFT, the ICC Bank Payment Obligation (ICCBPO) provides an alternative means of settlement in international trade. SWIFT, together with the International Chamber of Commerce (ICC) Banking Commission and a working group of banks and corporates, undertook an initiative to establish the BPO, signing a co-operation agreement at Sibos in September 2011. The two organisations aim to encourage industry-wide adoption of BPO and support for ISO 20022 messaging standards to mitigate risks and shorten the trade life cycle for open account trade.

Just under half (48 per cent) of banks surveyed are planning to increase activity around ICCBPO before or immediately after the rules are published by the ICC in April 2013.

18 per cent of respondents say they are already engaged in the pilot work, and SWIFT will be looking to increase this number during Sibos 2012 in Osaka, particularly among Asia Pacific banks. 30 per cent expect to get involved after April, whil 52 per cent have no plan in the next 12 months.

Q8: What is your bank's approach to the ICC Bank Payment Obligation (ICCBPO)? (tick one)



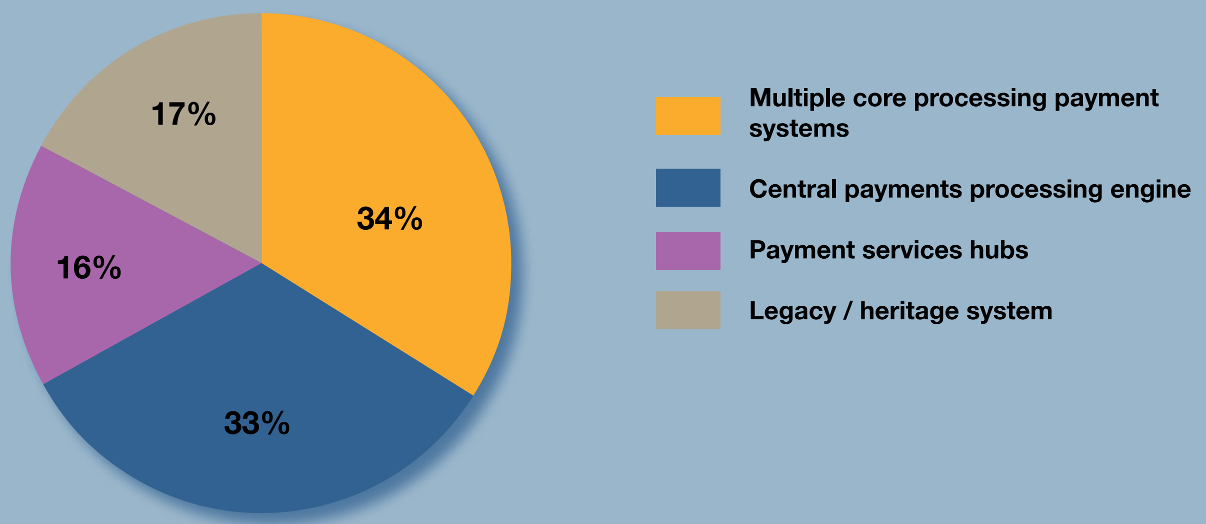


Payment infrastructure

For years there was a view that a payment was a payment, and their role in the success of a transaction banking business was not closely examined. But now there's a growing realisation that a successful payments operation is a major driver of customer satisfaction, through making sure the correct message is delivered on time without mistakes, and being able to resolve issues quickly if there are errors or lost messages. Being able to do this well is quite difficult and expensive for banks with multiple, often legacy, systems, as is the case for an unfortunate 34 per cent of respondents in this year's survey.

These are the same organisations who in question 3 said they saw IT and system complexity as a barrier to revenue growth.

Q9: How would you describe your current payment management / processing infrastructure? (tick one)



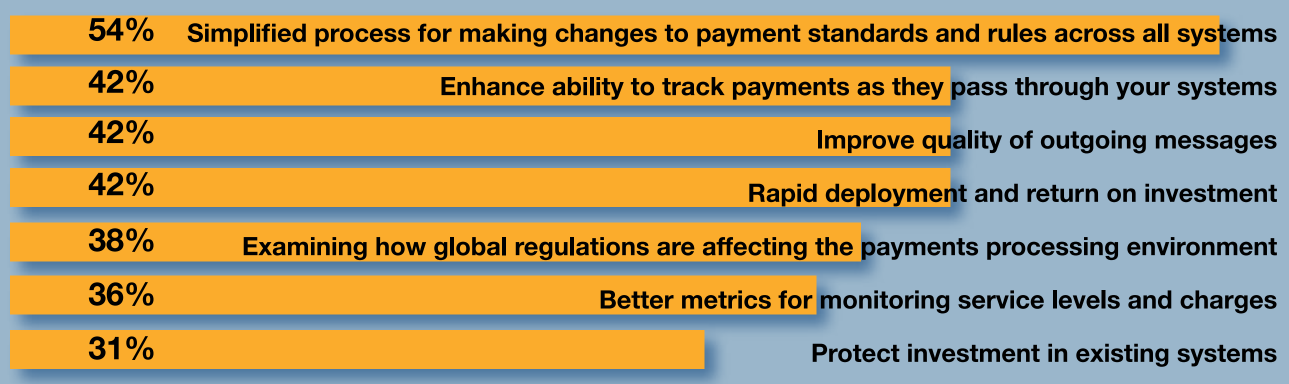
Improvement priorities

Another challenge exacerbated by multiple and/or legacy payment systems is the ability to manage standards updates and the general quality of messaging.

Standards management is an area that SWIFT and other payment processors are working on with member banks (e.g. its MyStandards platform) to find ways to simplify how annual changes to message standards are managed, and there is clearly demand for such assistance, with 54 per cent of respondents describing this as an improvement priority.

42 per cent of banks want to enhance their ability to track payments though their systems, and this includes all those who are working to add real-time payment tracking to their online offering in the next 12 months.

Q10: What are your priorities for improving your payment processing environment? (tick all that apply)



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Looking ahead

As the consolidated transaction banking division becomes a near-ubiquitous structure in most large banks, future questions will be about execution and the evolution of this model rather than its existence. Are changes in customer satisfaction being quantified? Are some banks leveraging relationships and more integrated capabilities to get greater wallet share of key clients?

As transaction banking self-service channels evolve, banks will get better at managing the ongoing development of the mobile channel alongside the more established browser-based or desktop applications. Driven by customer input and a desire among banks to be seen as innovative, new functionality that is well-suited to the interface and portability of smart devices will likely emerge.

Only 16 per cent of banks are adding trade services functionality to their online channel next year (on top of the 52 per cent who already have it). But we expect that as other important functionality such as real-time payment tracking and cash-flow forecasting become ubiquitous, more banks will begin looking to expand in this area.