Global Transaction Banking Survey 2013

A report from

MISYS Finextra

About this survey

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

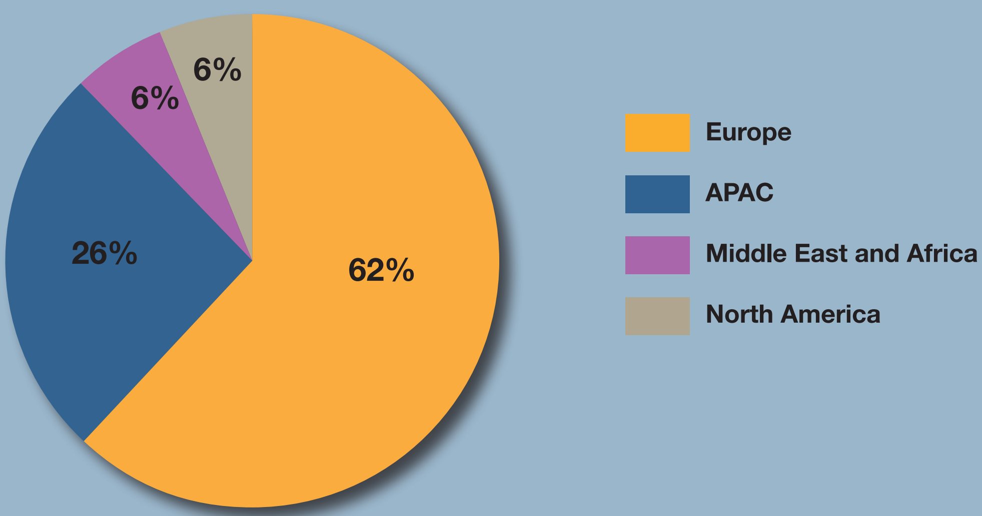
This year's survey received 107 responses from 73 different banks or banking groups. Banking groups with multiple responses were often represented by respondents from different country operations.

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 2012. 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.

Europe and Asia Pacific are the two best represented regions in the survey.

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

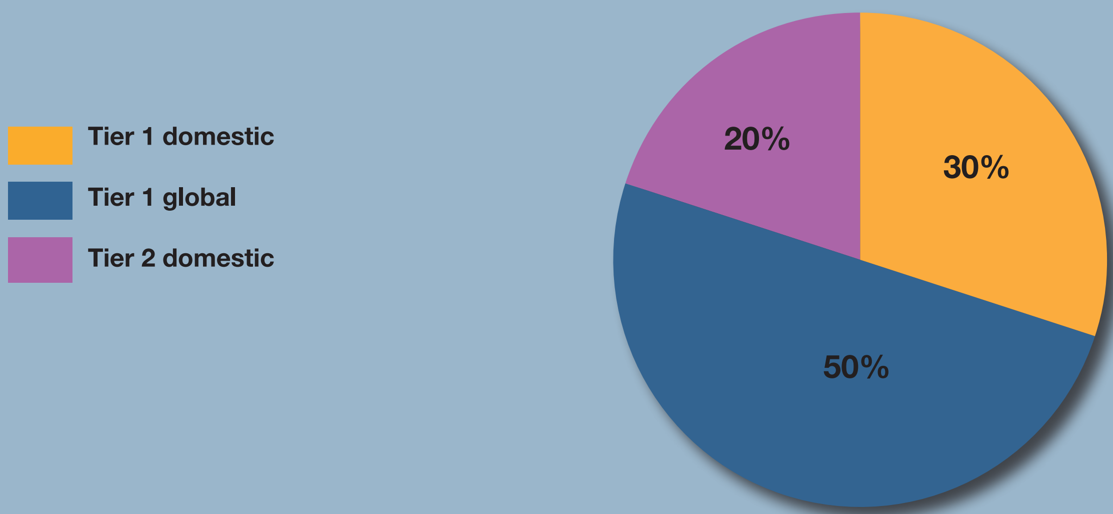
Continued unification of trade finance, cash management and payments in global transaction banking (GTB) business units presents banks with both opportunities and challenges. Banks are extending new services in reaction to key market drivers, such as currency and counterparty risk, but the fundamentals of GTB are still causing headaches, with banks missing out on latent growth opportunities. While marginal growth is seen from value-added transaction services, banks have identified that unleashing the full potential of payments, trade finance and more unified corporate transaction banking channels and services are key to their future growth strategy and in particular the enablement of greater international and cross border payment capabilities.

On the whole, banks are looking to get their house in order first, to capitalise on core business lines before executing on their longer term aim to deliver non-traditional value added services, for example new supply chain finance services or products enabled by real-time payments. New revenue streams have come from the delivery of more reactive value-added services that address market volatility and risk, rather than innovative new services that will provide competitive advantage and differentiation in the longer term.

Key findings:

- Most growth potential for global transaction banking is seen as coming from the Asia Pacific region.
- Banks are striving to satisfy corporate demands, but hampered by lack of automation and operational inefficiencies. They are looking to new, non-traditional services but focusing first on core business.
- 69 per cent said that the main challenges to growth remain operational inefficiencies across core transaction banking systems. While business lines have consolidated, systems have not. 84 per cent said that increasing payments processing efficiency was one of their top two priorities for investment, and for 56 per cent investing in streamlining the trade finance business was in their top two priorities.
- While unified cash, trade and payments was seen as key to growth, 75 per cent said rolling out unified services in new regions was difficult and a barrier to growth.
- Cross-border payments processing is seen as the top priority for investment and growth.
- Only 12 per cent of banks offer the full breadth of online banking services.

Scale of organisation



Services and opportunity

The wave of consolidation of previously standalone business units within global transaction banks is largely complete. Last year this survey established that 81 per cent of surveyed institutions had created a transaction banking group that combines cash management and trade finance, at least at an operational level. It's now clear that most banks operating internationally in this space have gone down the same route.

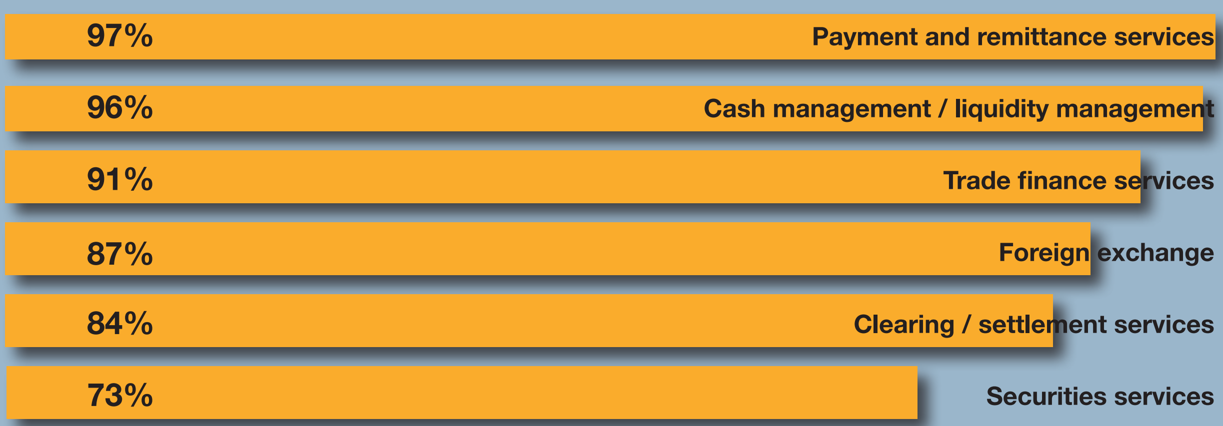
Banks need to make their proposition more cohesive for corporate customers by focusing efforts both internally and externally. Internally they must achieve operational integration of systems, managers and other staff. Externally, they must develop and effectively present their capabilities and be able to deliver on their "one-stop shop" promises.

The move to a global transaction banking (GTB) umbrella has had an impact in terms of operational efficiency and customer service. However, now the structure is maturing, particularly within large banking groups, there is a push to add more services to capitalise on new revenue streams by reacting to new market drivers. The consolidation of banking disciplines within the GTB business has also revealed that growth and client retention can not only be achieved through new services, but also through a greater drive to streamline and join up existing transaction banking offerings.

From previous surveys, it is evident that most banks have more unified offerings for cash management, trade and payments. This year we wanted to see how far the trend was extending into packaging other products and services together in a single business unit for servicing corporate clients.

Whether and how these are delivered via the online channel is discussed in later questions, but first we wanted to see more broadly how many banks are offering additional services outside the remit of traditional transaction banking offerings. It was evident that increasingly, foreign exchange, clearing and settlement and securities services are being offered as banks look to generate new revenue streams and meet client demand.

Q1: At your bank, which transaction banking services do you offer? (tick all that apply)



Opportunities for growth

Overall, most respondents said they saw the Asia Pacific (APAC) region as providing the best growth potential for their business. Considering most respondents were from Europe or APAC, with a much smaller number from the Middle East and Africa, North America and South America, this is perhaps not surprising. But looking at who sees opportunity where yields some more interesting results.

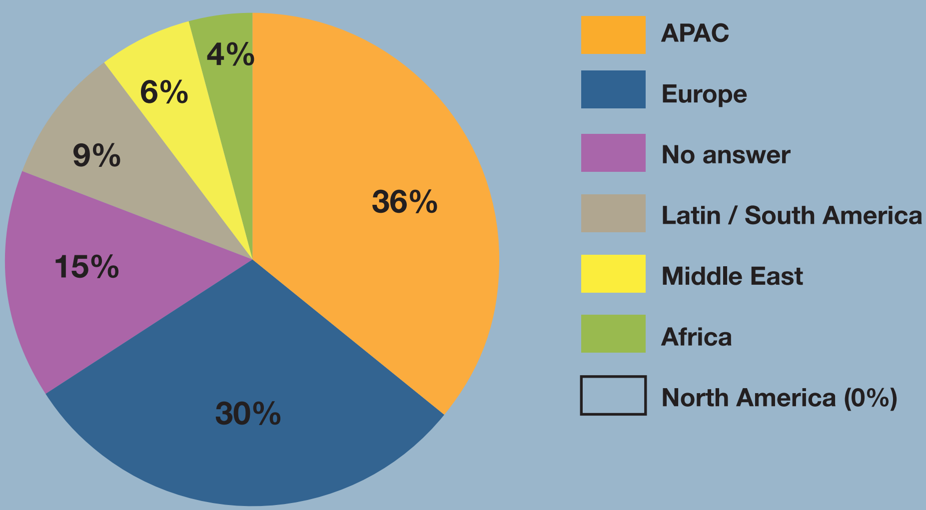
All APAC banks saw the most opportunity within APAC, reflecting not only that these banks are looking close to home for new business in markets they understand, but also the dynamism in the region.

European banks were more split in their focus. 55 per cent were pursuing growth opportunity in Europe, with 25 per cent looking to APAC, 12 per cent to Latin America and 8 per cent to Middle East and Africa.

No respondents, even the 6 per cent for whom it is their home market, said that North America was their biggest opportunity for growth. But as respondents were asked to rank the regions 1-5 in terms of opportunity North America was the most popular second choice, at 31 per cent.

In the multinational and large corporate sectors in North America, transaction banking business is dominated by a few big players, but this result shows that banks outside the region are still keeping an eye on opportunities there, even if it's not their primary focus.

Q2: Please rank where your business sees the most opportunity



Products and services for growth

For the top priority region identified in the previous question we asked which products/services banks see as being most important to enabling that growth.

Overall figures show cross-border payments processing as the most important. But breaking it down by region, this is far more important for those targeting APAC than those targeting Europe.

89 per cent of those targeting growth in APAC chose this as a critical product offering, which makes sense given the greater economic and monetary fragmentation in the region compared to Europe with its more cohesive ties and more mature cross-border payments infrastructure. 47 per cent of those targeting European growth flagged this as important.

Across all respondents, second and third in terms of importance were supply chain finance and working capital optimisation – and online trade services and cash management.

Q3: For the top priority region, which products/services do you see as being most important to enabling that growth (tick all that apply)

Risk mitigation for cross-border trade and asset liability management is another area where we see differences in perceived importance depending on which region is being targeted for growth. 55 per cent of those seeking growth in APAC deemed this an important offering compared to just 15 per cent for Europe.

From the response to Q4 it is clear that large corporates are becoming more demanding. Many multinationals already have access to a full range of transaction banking and financial supply chain services from their main relationship banks. But often these have been tailor-made by the bank, and aren't standardised offerings that can be delivered on a greater scale. For banks looking to win more clients, particularly in the growing SME sector, being able to deliver new services in a standard fashion and back them up with scalable back-office infrastructure is crucial. Trade and supply chain financing for SMEs is a high-volume, low-value business and realising growth and capitalising on opportunity here demands greater efficiencies in bank's trade finance operations.

Q4: Which sizes of corporate organisation are demanding these services the most?

Challenges and investment priorities

Operational inefficiencies, disparate systems and poor straight-through processing remain the major challenges to growing revenue in transaction banking.

Unlike the challenge posed by external regulatory pressures, this is entirely within the scope of banks to tackle and improve. While IT system complexity is a factor, organisational and business process management also plays an important part.

As well as being seen as the greatest potential for growth, increasing operational efficiency in payments processing is by far the most pressing area for investment among survey respondents.

The growing commoditisation of payments is another challenge emerging more strongly, with 58 per cent of respondents highlighting it this year, compared with 46 per cent last year. As it becomes harder to differentiate with standard payment products and services, banks are under increasing pressure to achieve greater efficiency in existing areas – and scale them at a regional or global level – while also directing resources to new product development and delivery.

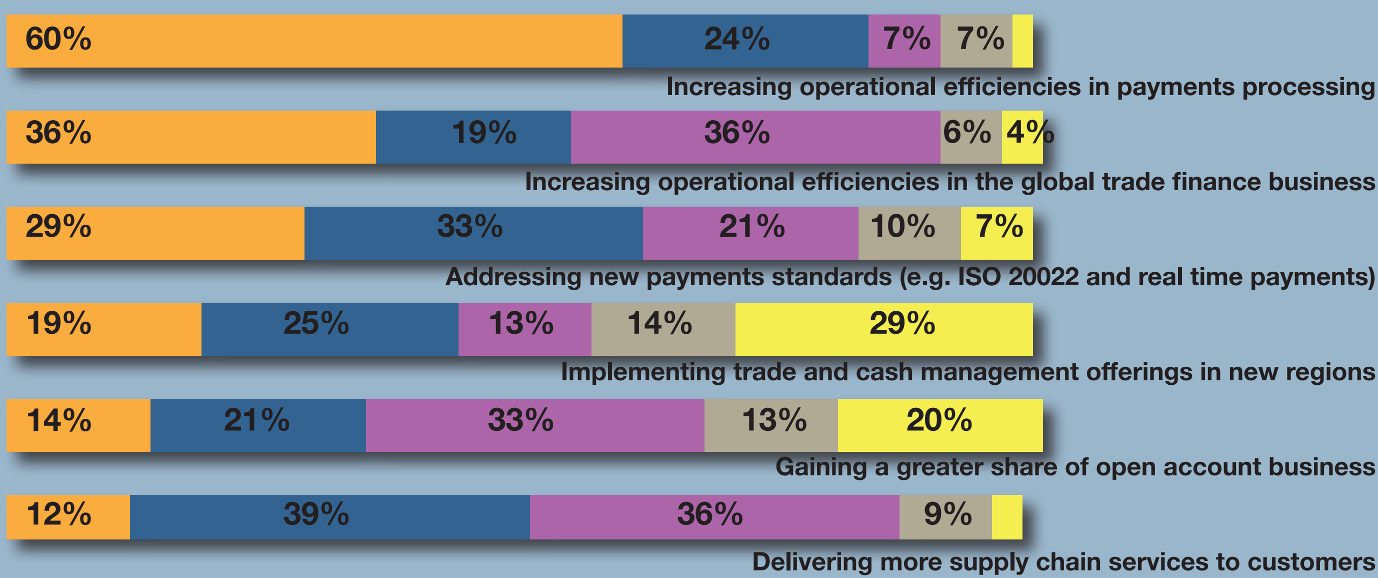
Q5: What do you see as the major challenges to growing revenue in transaction banking? (tick all that apply)

Regional challenges can take the form of regulation, different market practices and the nature of corporate clients and trade dynamics.

Regional challenges were considered a hindrance to growth for 59 per cent of respondents, including all banks from the Middle East and Africa. 55 per cent of European banks and 50 per cent of APAC banks saw regional issues as a challenge to revenue growth.

Of those that considered online trade services and cash management a key product for ensuring growth in their target market (Q3), 75 per cent considered regional challenges in offering international payments, cash and trade services a hurdle to revenue growth.

Q6: How will you prioritise investment in your business to move forward in the next three years? (rank 1-5, 1=highest priority)



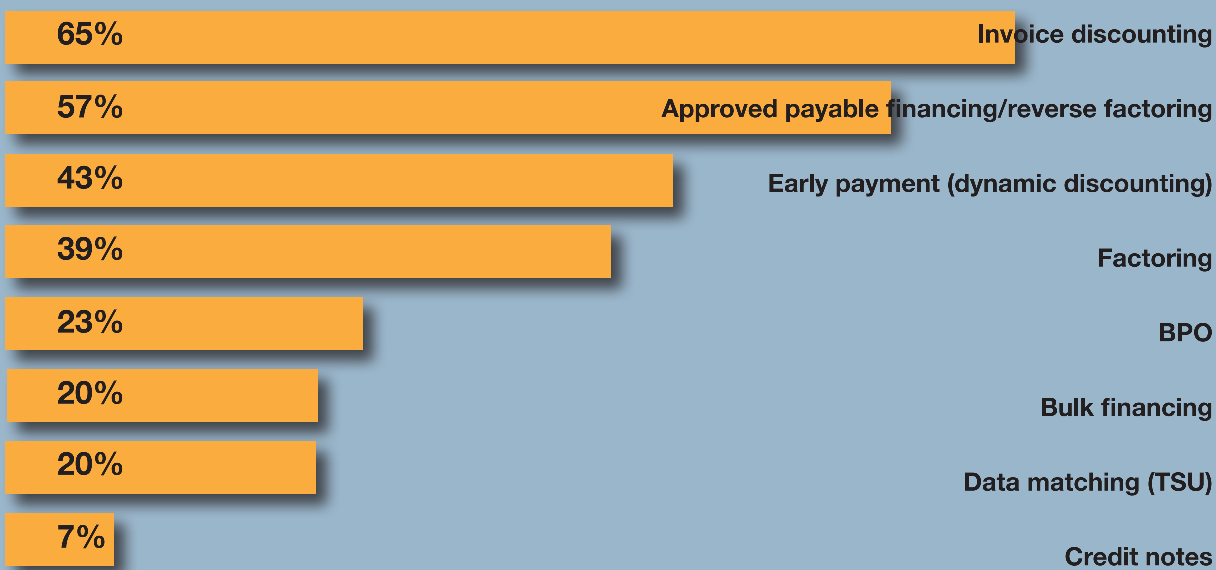
Financial supply chain services

The definition of supply chain finance varies from bank to bank. Today, many leading banks in the space that offer supply chain finance programmes see this as meaning the delivery of approved payables financing.

It is clear that these fundamental elements of supply chain finance are the most in demand today and banks are looking to walk before they run when it comes to offering additional services. Still, over half saw expanding the services they currently offer to corporates as a top two priority.

Delivering additional value-added supply chain financing tools, such as early payment/dynamic discounting, factoring and bulk financing demand the right technical architecture, real-time purchase-order and invoice information, straight through processing capabilities and integration with corporates' own ERP systems. These services are still seen as the future of supply chain finance rather than the established norm.

Q7: Which financial supply chain services are most in demand from customers? (tick all that apply)

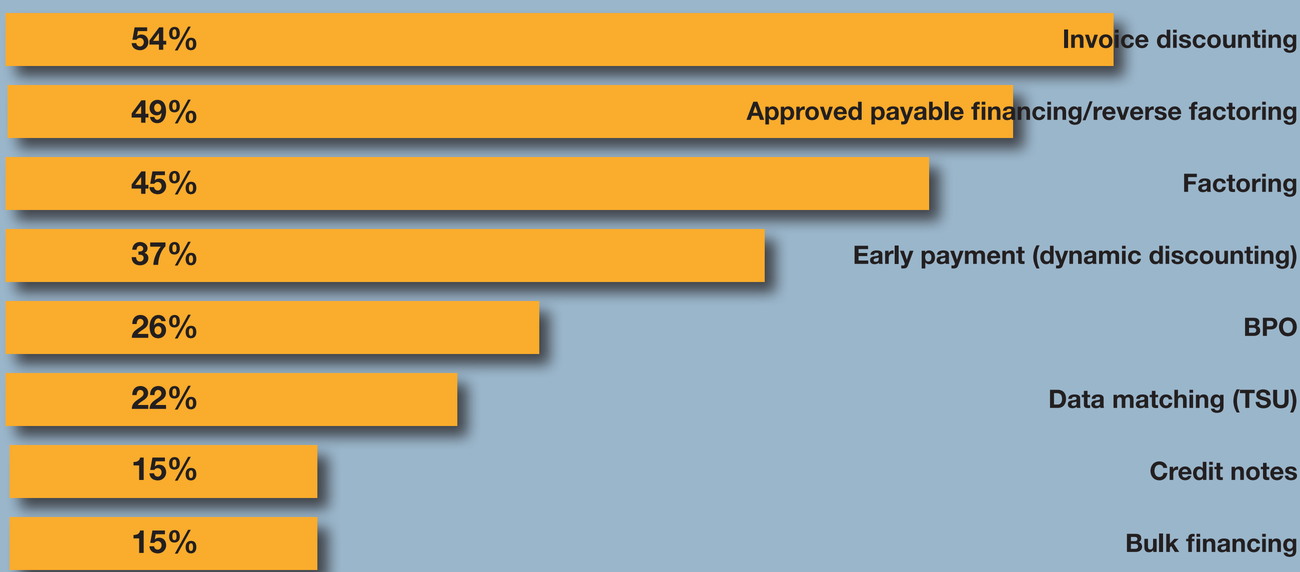


A prime example of this gradual move to enhanced services in the supply chain is the continued slow but steady uptake of the Bank Payment Obligation (BPO) and move to data matching via the Trade Services Utility (TSU). Banks will increasingly see new services as an opportunity to to attract new customers and differentiate from the competition, particularly in the SME sector where more flexible financing and risk mitigation has been a growing concern. Uptake of the BPO so far has mostly been in APAC, so banks outside of the region looking to service corporates in APAC are keeping an eye on the growth of corporate demand for BPO in the region.

But the market is still in the process of offering the basics. The level of perceived demand from the corporate sector for invoice discounting and approved payables finance is higher than the percentage of banks that are currently or imminently offering these services. This indicates a potential opportunity for those banks that have yet to begin offering core supply chain finance services.

For factoring, dynamic discounting and BPO, perceived demand and product availability from banks are tracking more closely.

Q8: Which of these supply chain services do you currently provide, or plan to deliver in the next 12 months? (tick all that apply)



Bank Payment Obligation (BPO) – still early days

The Bank Payment Obligation (BPO) is an electronic trade finance payment assurance and risk mitigation tool created by banks to add value for corporate customers in a world where open account trade is growing, while growth in trade using bank partners and traditional letters of credit has remained stagnant.

In last year's survey 18 per cent of respondents said they were engaged in pilots or planning to offer BPO-based products when ICC URBPO rules became available in 2013. This maps closely to the 17 per cent of respondents this year who said their bank is already BPO-enabled.

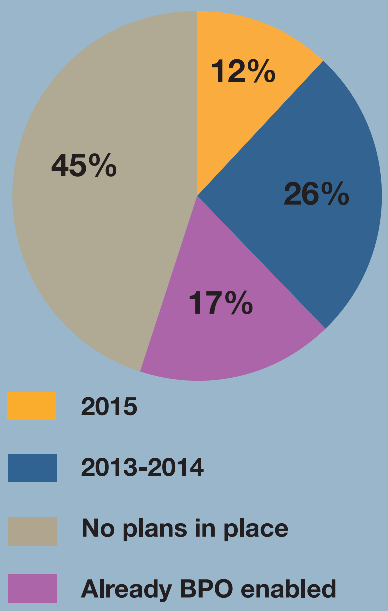
Looking at Q8, which asked about products coming online within the next 12 months, we could expect that by this time next year, that figure would be 26 per cent.

And given that 26 per cent of respondents say they plan to invest in BPO enablement in 2013-2014, that figure should continue to steadily grow as bank's offerings come to market.

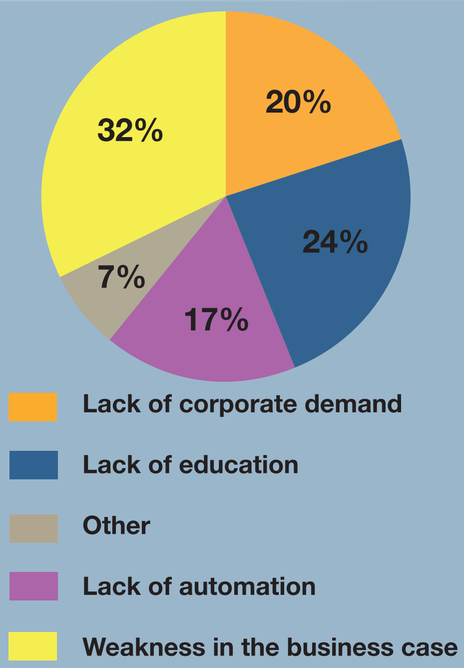
But lack of education and lack of automation could continue to keep growth rates of BPO adoption low, with 41 per cent of respondents citing this as a risk to more widespread adoption in the market.

The largest single factor, with 32 per cent, is weakness in the business case and there is still a debate in the market as to whether the BPO was conceived as a tool to achieve the goals of banks, rather than designed purely with the needs of corporates in mind.

Q9a: When does your bank plan to invest in BPO enablement?



Q9b: What is the main risk against market adoption of BPO?



The online channel

In last year's survey, 80 per cent said adding new online services was a strategic priority and many have stuck to that goal, with 85 per cent saying they have an online portal offering for corporates. The majority still only offer siloed services or fundamental transactional services online though, with very little in the way of joined-up offerings delivering visibility across trade, payments and cash.

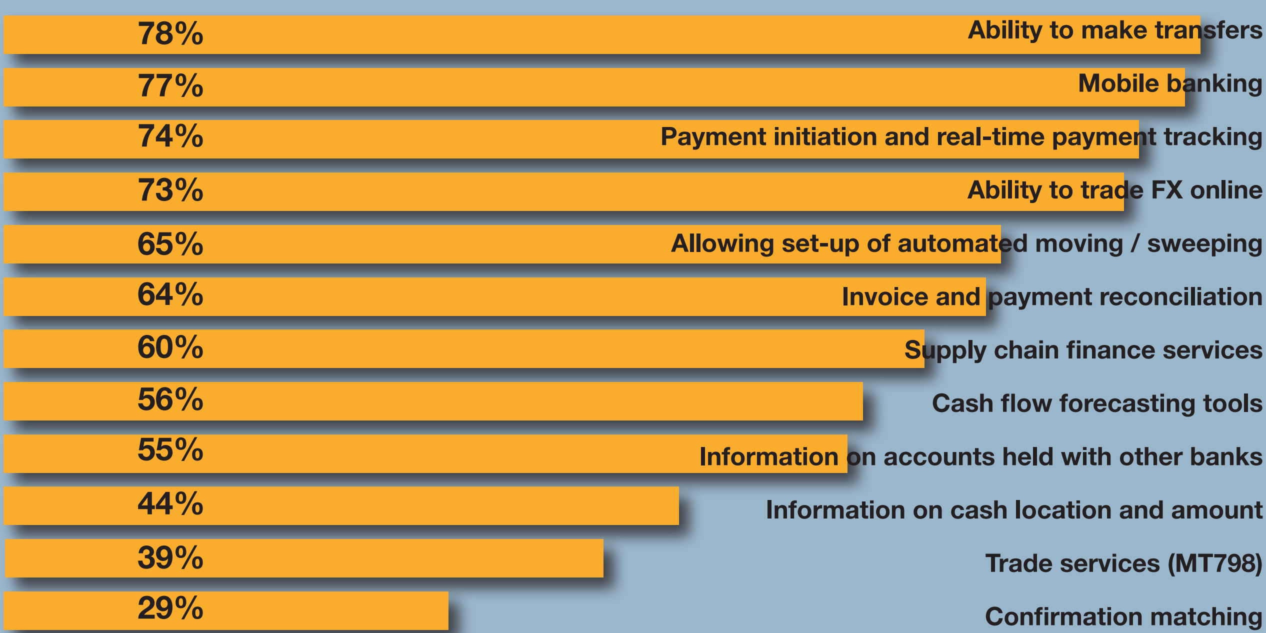
Only 12 per cent of responding banks claim to offer all 12 of the services listed at Q10a. The average number of services offered is seven.

The big change this year from last is the addition of FX to online portals. Last year 50 per cent of banks said they offered online FX, and that has now risen to 75 per cent, driven by customer demand for self-service currency and risk management.

Cashflow forecasting online has jumped from 36 per cent to 56 per cent – again a sign that corporates are demanding more and more control over working capital and risk mitigation.

Trade and supply chain finance services are available more frequently online too – up from 52 per cent to 60 per cent this year.

Q10a: Which online banking services do you currently offer to corporates?



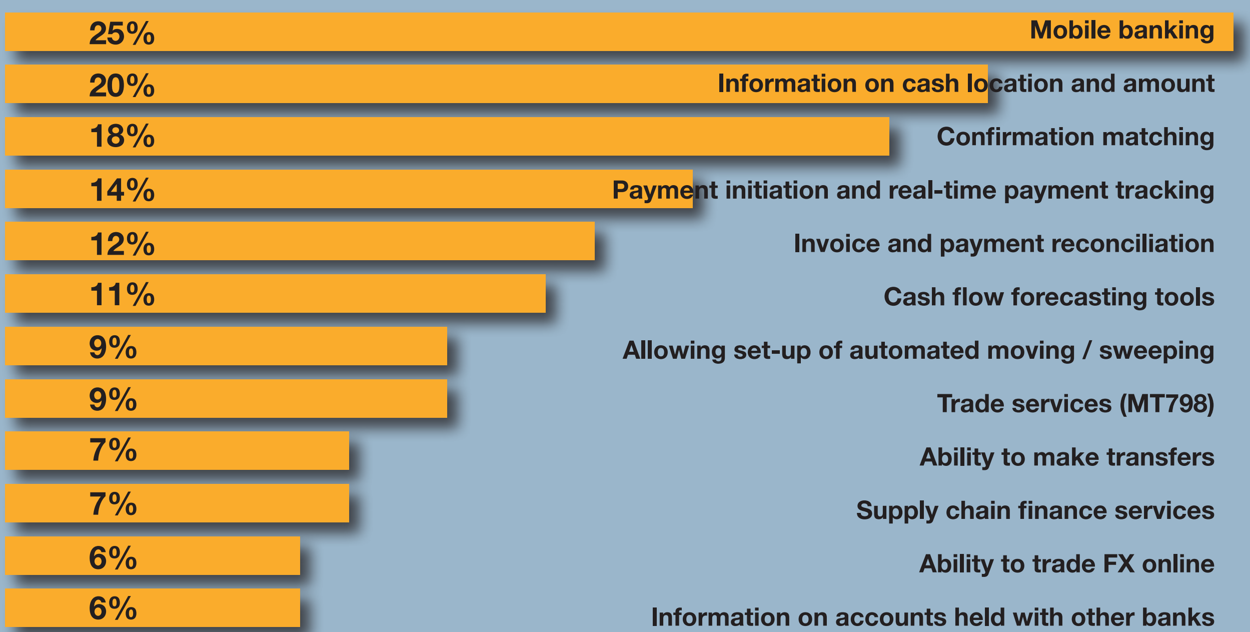
Mobile ubiquity

Last year we predicted that as the 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 better suited to the interface and portability of smart devices continues to emerge. 77 per cent of respondents said they currently offer mobile banking with 25 per cent saying they will add or extend this capability within the next year.

Beyond mobile channel enhancements, next year will also see more of a focus on cash management transparency, confirmation matching and real-time payments.

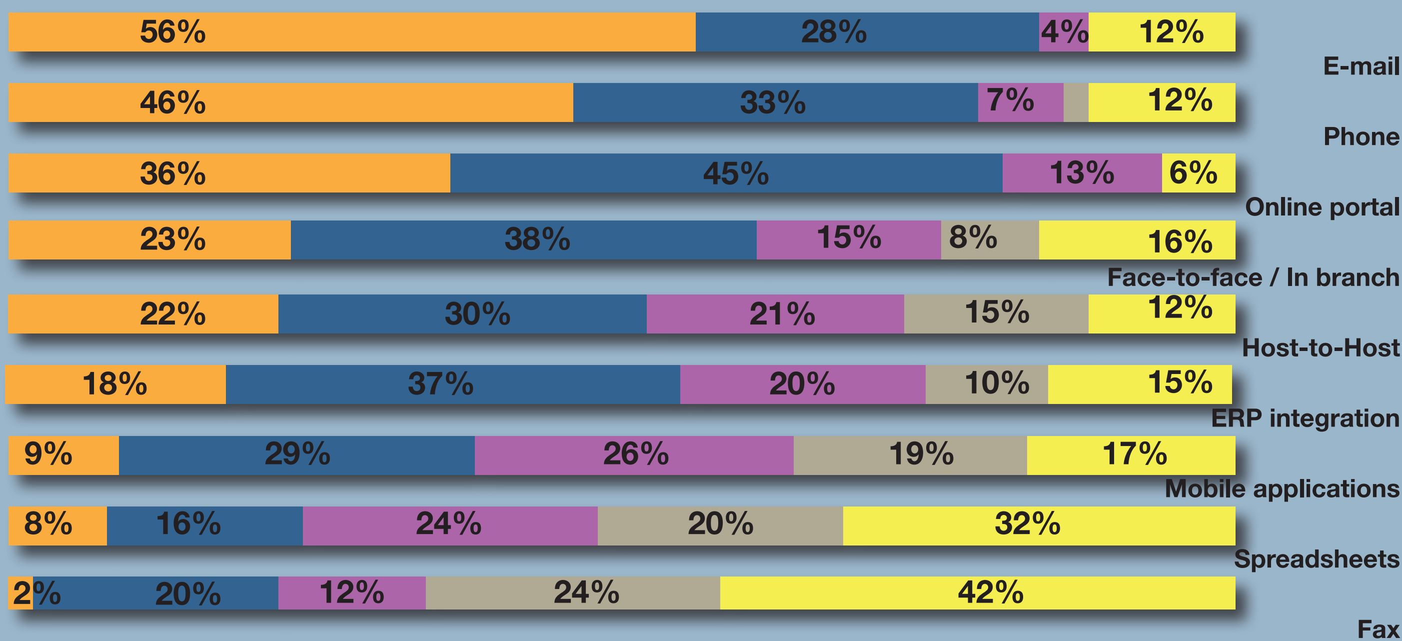
Q10b: ...and what do you plan to add within the next twelve months? (tick all that apply)



Customer connectivity

E-mail is the most frequent customer engagement channel for transaction banks and their customers, outstripping the more immediate interactions achieved through phone calls or meeting in person. Interestingly, it is also used more frequently than the online portals.

Q11: How often do you use the following methods to connect with your customers in the delivery and management of transaction services? (1= most frequently, 5=infrequently)



Payments priorities and areas for investment

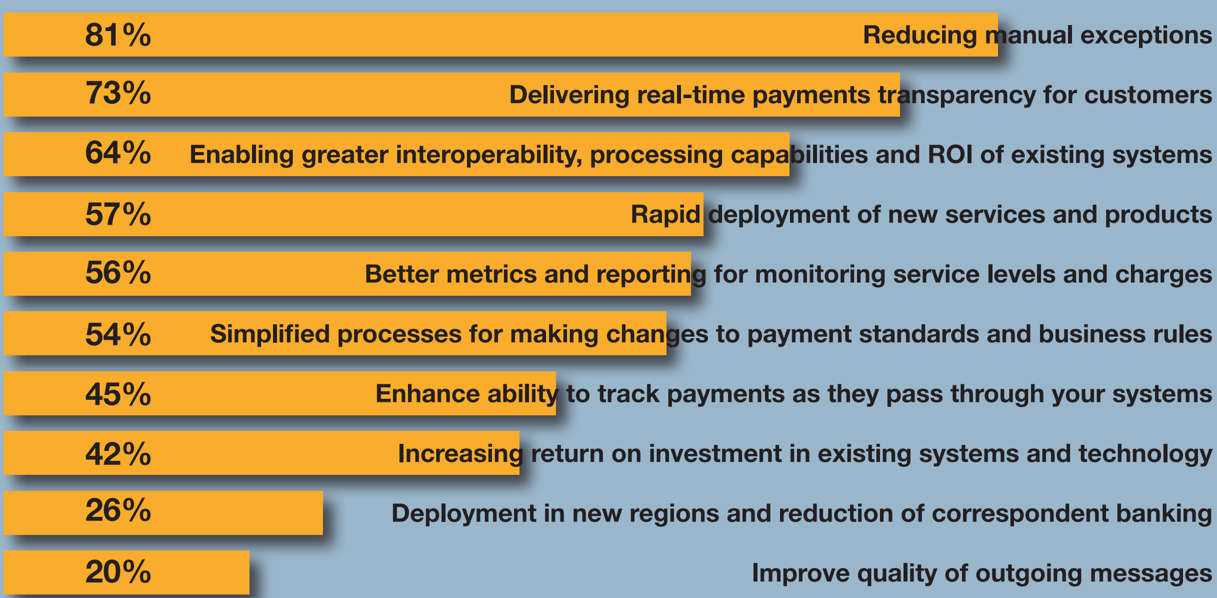
A successful payments operation is a major driver of customer satisfaction. If a bank can make sure the correct message is delivered on time without mistakes, and resolve issues quickly if there are errors or lost messages, it can quickly engender feelings of trust and reliability with a customer. But being able to do this well is quite difficult and expensive for banks with multiple, often legacy, systems.

It is clear that, rather than looking to innovate in their payments business or break into new regions, banks are focusing firstly on improving the quality of their payments operations. 81 per cent of respondents say that reducing manual exceptions is a priority.

Given the high level of investment over the past decade in reconciliation and exception management systems, this may seem surprising. But even if great progress has been made from the days of paper-based reconciliation, pushing further for incremental improvements in straight-through processing can still yield significant cost savings and improved customer satisfaction.

Although only 57 per cent of respondents said that being able to deploy new services and products rapidly was a strategic priority, they are focused on delivering real-time payments transparency for customers. This was not only the second-highest priority for the payments part of the business (at 73 per cent) but was also ranked the most important challenge that needs to be addressed.

Q12: What are the strategic priorities for your payments business? (tick all that apply)



Looking ahead

Taking into account the questions in this survey that specifically asked about priorities and plans for the next 12 months and beyond, as well as the changing responses we've had over the past four years of running this annual survey, we anticipate a number of trends:

- The average number of transaction banking products offered online will increase, as banks react to market opportunities and benefit from their planned investment in payment processing efficiency and trade and supply chain finance capabilities. The big trend for new services in the next year will be cross border and real-time payments offerings and delivery of greater transparency into transactions, cash movement and location.

- Soon nearly all transaction banks will offer an appropriate subset of their online channel products and services via mobile.

- Further development and uptake of banks' supply chain finance services will be driven by increasing ERP system integration with large corporates, solid online collaboration tools and more standardised online delivery and on-boarding capabilities for SMEs and suppliers.

- Banks will increasingly look at how they can offer global transaction services across new regions to grow their business by overcoming the operational hurdles with improved global processing and cross-border payments processing.

- The number of banks capable of offering a BPO service to clients will rise steadily, with a higher proportion being banks operating in Asia. By 2015 well over half of transaction banks active in trade finance will offer BPO services, but expectations of uptake will be realistic and the BPO will only truly take off when corporates of all sizes see the true value and the BPO is seen as a facilitator in a more open four-corner model for supply chain finance.

Q13: How important will it be for your business to address the following challenges in the next 2 years: (1= very important and 5=not important)