



# **Standing out from the crowd:**

*Challenges in Transaction Banking*





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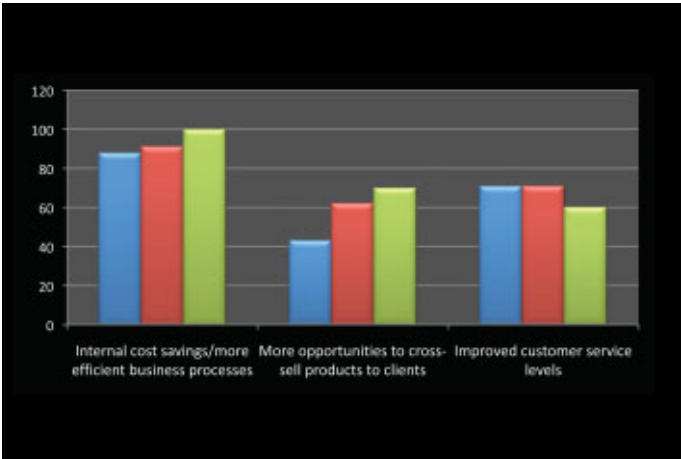
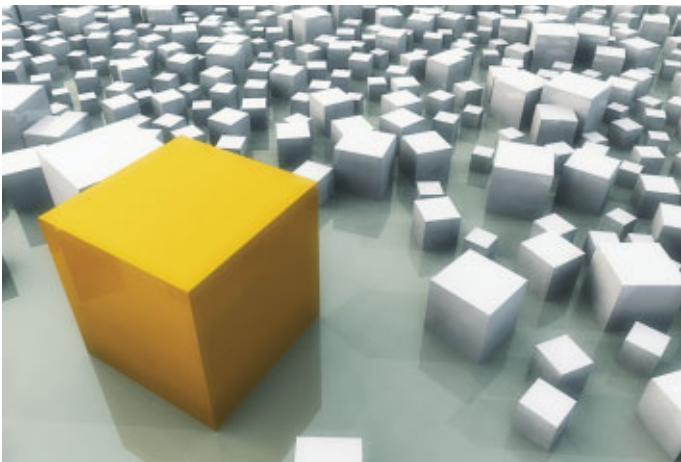
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**Challenges in Transaction Banking**

**Quote:** "There are four imperatives across various systems to provide innovation in claims, or a challenge. It will take a huge amount of investment to bring this together, and there are challenges that banks face."

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# Standing out from the crowd

## Survey shows bankers aim to improve customer service by simplifying their payment environments

Fifteen percent of respondents to *Banking Technology's* 2009 Transaction Banking Survey believe their customers would rate their payment processing service as 'average' or 'below-average'. With bank customers increasingly focused on value for money and with banks increasingly focused on increasing revenue from transaction services such as payment processing, banks cannot afford to slip behind their competitors.

The *Banking Technology* survey also reveals where banks believe they must improve their payment processing systems. With 60% reporting that their payment environment is fragmented across multiple core processing systems, the top priority was not surprising: 65% want a simplified process for making changes to payment standards and payment rules across these multiple systems. Centralising these payment processes through a payment hub is an efficient and cost-effective way to achieve this.

The second highest priority for banks, selected by 55% of respondents, was the ability to track payments as they pass through these systems. As with implementing updates to multiple, discreet systems, monitoring payment flows across various systems involves more work and higher risk of errors

than if the payment flows were routed through a central hub.

Banks also prioritised gaining better metrics for monitoring service levels and charges (50% of respondents) and improving the quality of their outgoing messages (45% of respondents). Both these goals are easier to achieve with a payment hub, something only 10% of respondents reported having.

## The trend towards bringing together transaction services continues

Over half the bankers we surveyed worked in banks that had consolidated payments, cash management, and trade services into a single Transaction Banking division, with a further 15% working for banks that planned to do so in the near future.

This represents a continuing trend among banks wishing to offer their corporate customers a more joined-up set of transaction services. There are a range of related benefits to such consolidation, but by far the most significant noted by our respondents was the opportunity to achieve internal cost savings and efficiency gains (90% of respondents). This was closely followed by the improvement to customer service levels that is delivered by merging these

related businesses (70% of respondents) and the increased opportunities to sell a broader range of banking products and services to their customers (65% of respondents).

There was a clear difference in priorities among those who have already made the move to have a single Transaction Banking Division and those who have no plans to do so.

One of the greatest differences shown up was that 89% of those with a single Transaction Banking Division see increased focus on improved operational efficiency as their biggest internal priority – although those who have not realigned also rated this as their highest priority, it registered just 65%.

Similarly, the second internal priority of the Transaction Banks was an increased focus on increasing account balances, chosen by 67% of the respondents – among those banks who have no plans to establish a single transaction banking division, this was the lowest rated priority, with 35% of respondents selecting it.

On the topic of improved payment processing, there was again a striking difference in outlook between those with Transaction Banking Divisions and the others. Asked about priorities for improving their payment processing environments, 80% of the former group cited simplified processes for making changes to payments standards and rules across all systems, against just 43% in the other group. For those with Transaction Banking Divisions, the second concern is with developing an enhanced ability to track payments as they pass through the systems.

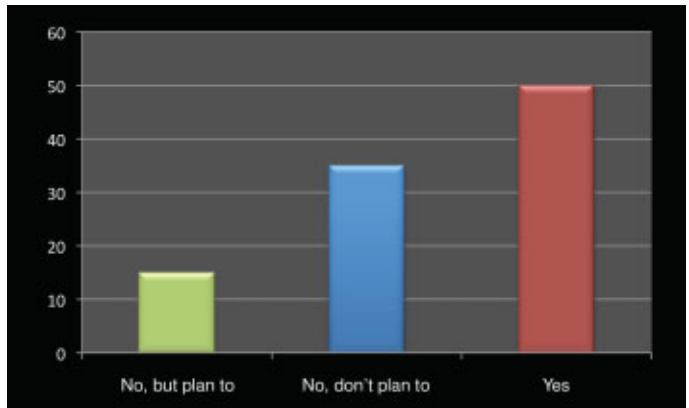
### Impact of the financial crisis – banks are rising to the challenge

One year on from the start of the troubles in financial markets, banks are increasing their focus on customer service, operational efficiency, and above all, winning new business. Reflecting an increasingly competitive business environment, a staggering 68% reported an increased focus on winning new business – in contrast to claims that banks have lost confidence and are withdrawing from new business to focus on their existing clients.

Banks are also reaffirming their strong commitment to serving international business despite the uncertainties of the past year, with only 15% reporting a reduction in their banks' focus on international business.

### Financial crisis brings banks closer to the supply chain

The financial crisis appears to have slowed two recent and related trends dominating the provision of Trade Services – increasing disintermediation of banks in the financial supply chain and the declining use of Letters of Credit.



**Has your bank combined transaction banking services into a single Transaction Banking business unit?**

No, but plan to	15%
No: don't plan to	35%
Yes	50%

Over the past year, nearly two-thirds of our respondents report an increase in their banks' involvement in their customers' trade business. The financial crisis has made risk mitigation (90% of respondents) and transaction visibility between customers and suppliers (53% of respondents) more important to banks involved in the financial supply chain.

The trend towards open account transactions appears to be slowing, with only 25% of bankers reporting that it is increasing its share of trade business, compared with 40% reporting that traditional trade was taking a greater share than before the crisis. This reflects a more cautious approach by corporate customers in a less predictable economic environment.

### Conclusion

Overall, the themes that emerged most strongly were the need to improve operational efficiency and boost customer satisfaction levels, which may go hand in hand.

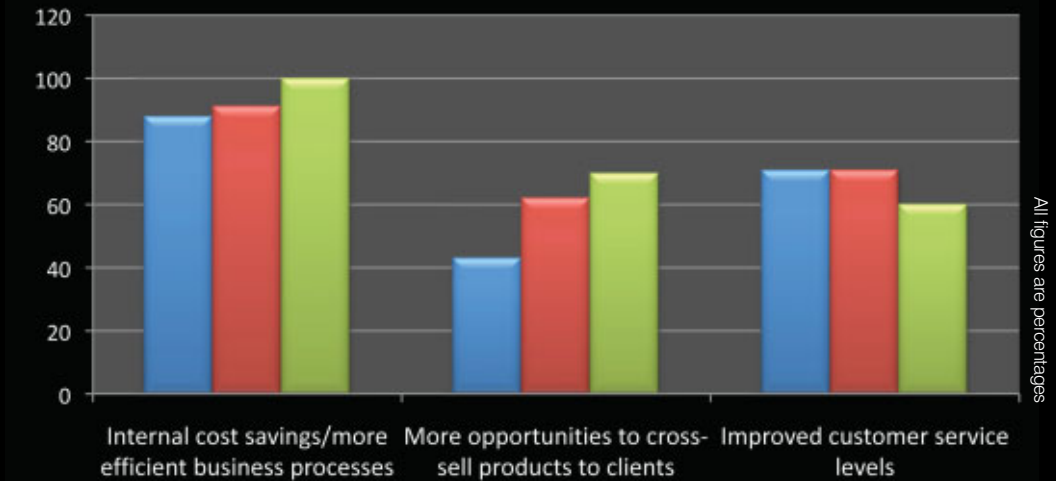
There was also evidence of a desire to “future-proof” systems by ensuring that they are flexible enough to cope with changes to emerging payment types and agile enough to do this rapidly in a fast-changing environment.

There is an inherent conundrum for banks here: as they strive for greater efficiency, they will inevitably move to a greater level of commoditisation, making it harder to present a distinctive face to the market.

With so many banks already adopting the single Transaction Banking Division model, and more following in their wake, it is clear that the provision of outstanding customer service is going to be a key battleground.

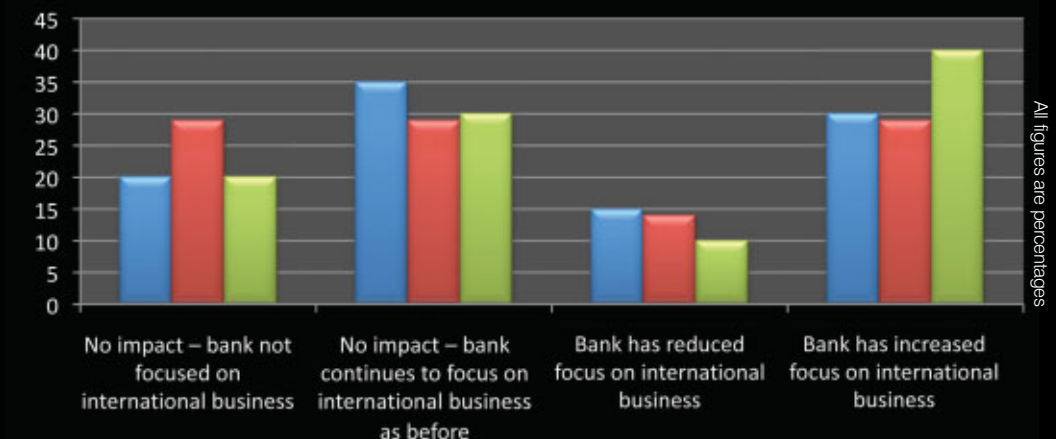
# Cost of service

Improved efficiencies and greater customer service are among the key priorities of banks surveyed by *Banking Technology*.



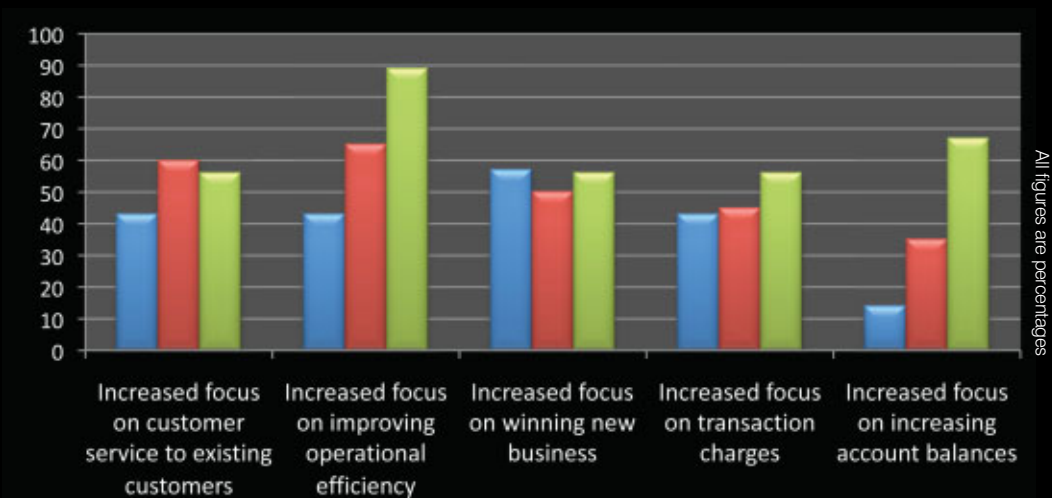
## What benefits do you perceive in combining transaction banking services in this way?

Internal cost savings/more efficient business processes	88	91	100
More opportunities to cross-sell products to clients	43	62	70
Improved customer service levels	43	71	60



## How has your bank's international business been affected by the current economic environment?

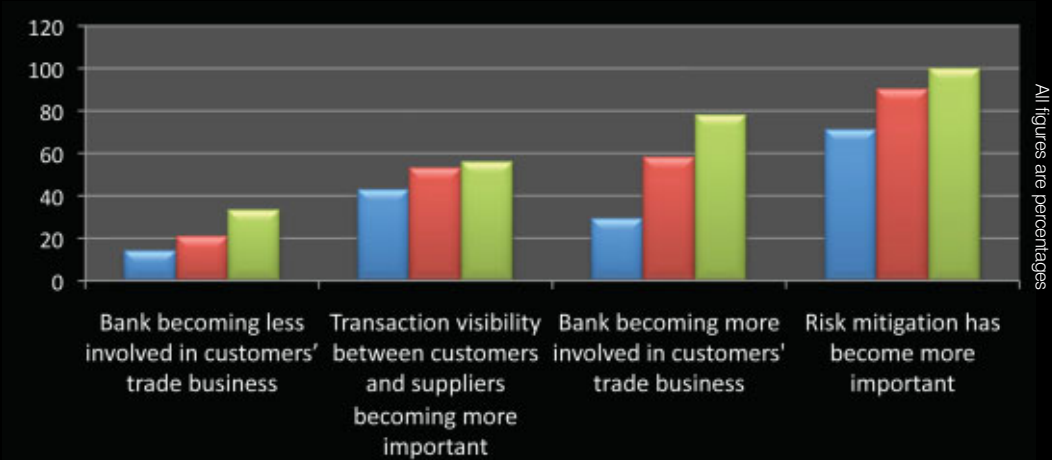
No impact – bank not focused on international business	29	20	20
No impact – bank continues to focus on international business as before	29	35	30
Bank has reduced focus on international business	14	15	10
Bank has increased focus on international business	29	30	40



All figures are percentages

**How has your bank's internal priorities been affected by the current economic environment?**

Increased focus on customer service to existing customers	43	60	56
Increased focus on improving operational efficiency	43	65	89
Increased focus on winning new business	57	50	56
Increased focus on transaction charges	43	45	56
Increased focus on increasing account balances	14	35	67



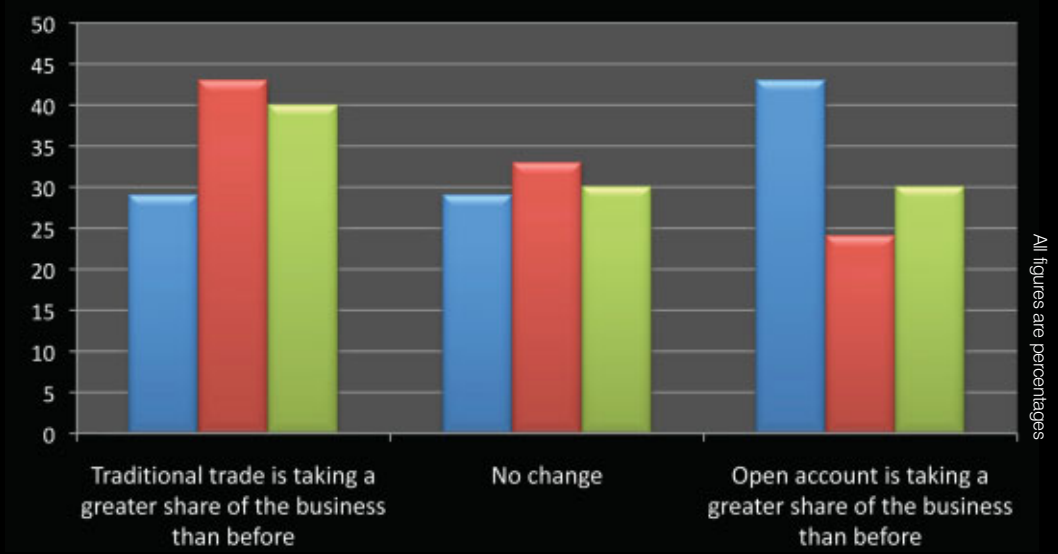
All figures are percentages

**How is the current economic environment affecting your bank's trade finance business?**

Bank becoming less involved in customers' trade business	14	21	33
Transaction visibility between customers and suppliers becoming more important	43	53	56
Bank becoming more involved in customers' trade business	29	58	78
Risk mitigation has become more important	71	90	100

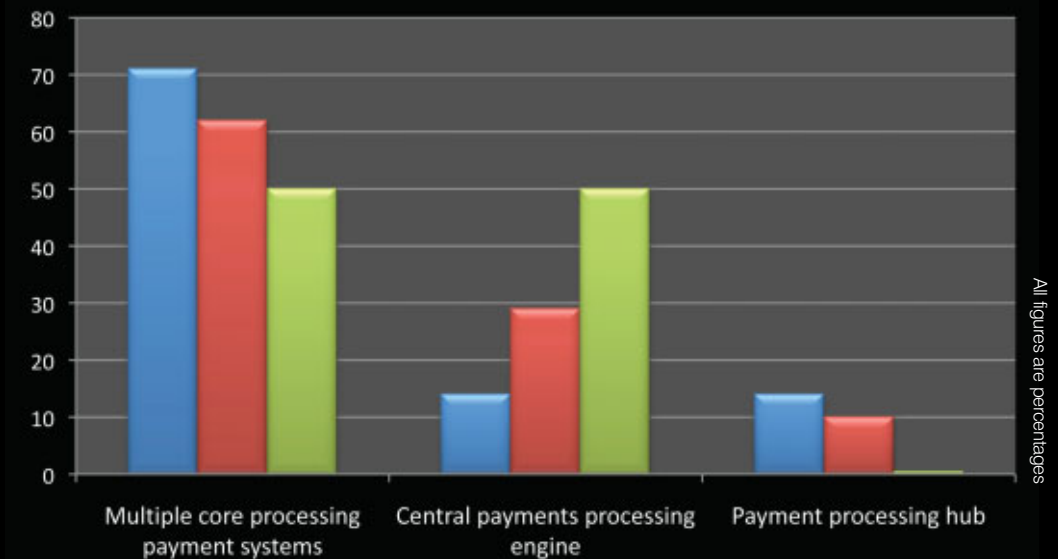
- No plans for transaction division
- All respondents
- Already have transaction division

## SURVEY RESULTS



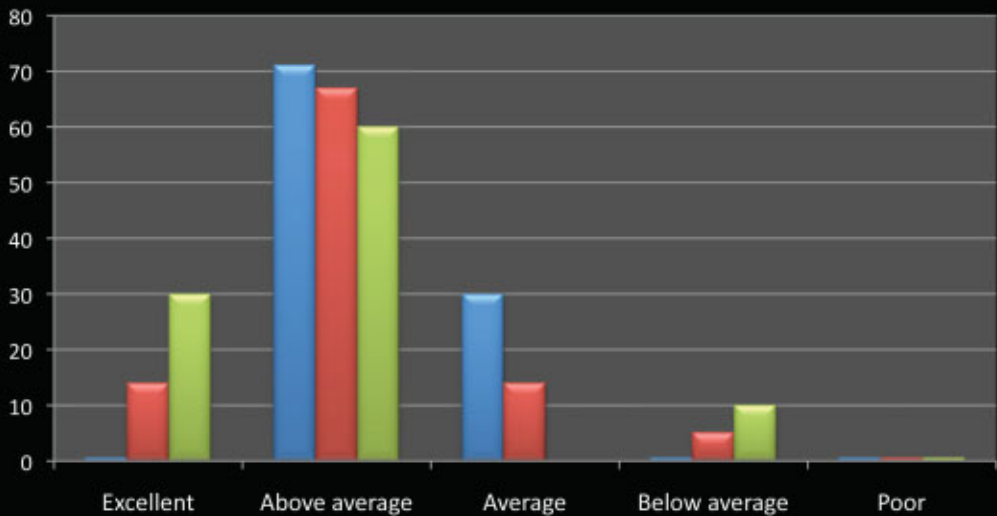
### **How has the ratio of traditional trade, e.g. letters of credit versus open account transactions, changed over the past twelve months?**

Traditional trade is taking a greater share of the business than before	29	43	40
No change	29	33	30
Open account is taking a greater share of the business than before	43	24	30



### **How would you describe your payment processing infrastructure?**

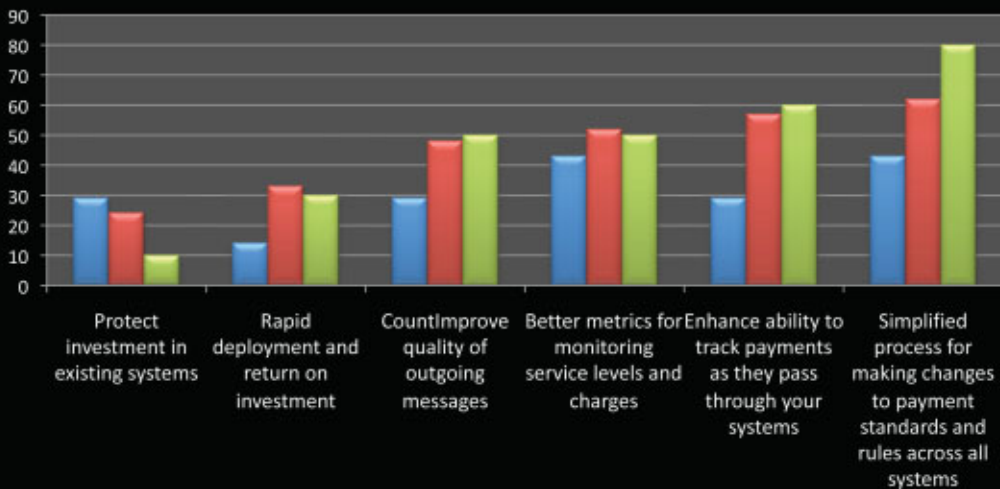
Multiple core processing payment systems	71	62	50
Central payments processing engine	14	29	50
Payment processing hub	14	10	0



All figures are percentages

**How would your customers rate your payment processing service levels?**

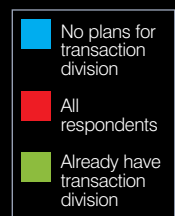
Excellent	0	14	30
Above average	71	67	60
Average	30	14	0
Below average	0.5	5	10
Poor	0	0	0



All figures are percentages

**What are your priorities for improving your payment processing environment?**

Protect investment in existing systems	29	24	10
Rapid deployment and return on investment	14	33	30
CountImprove quality of outgoing messages	29	48	50
Better metrics for monitoring service levels and charges	43	52	50
Enhance ability to track payments as they pass through your systems	29	57	60
Simplified process for making changes to payment standards and rules across all systems	43	62	80



# Challenges in Transaction Banking

## PARTICIPANTS

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Scotland, Global Transaction Services

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Global Transaction Services, DBS Bank.

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## BANKING TECHNOLOGY

**David Bannister:**  
Editor,  
Banking Technology

**Banking Technology:** *What we want to do is to examine approaches to transaction banking. Is it part of an institution's differential, or is it the same job for everyone?*

**Olivier Berthier:** What we call transaction banking, within Misys, is trade finance, cash management, payments ... and the relationship between the client and the bank.

**Navider Duggal:** From our perspective, the lines between trade and cash management are increasingly blurred,

**Pravin Advani:** Trade and cash are typically quite specialised in their offerings to their clients, but increasingly clients are looking at cash flow, so how do you link the trade finance solutions into cash management? That is something that we are looking at now, and in fact we globally have a joint head for all businesses from the product management side, so I think we are taking the first steps to combine and start looking at synergies, and it will percolate down through the organisation.

**Banking Technology:** *So, if this is a common thread, what are the issues holding institutions back from going along these lines? Are there equally common obstacles?*

**Schone:** If you look at the way we at Standard Bank have gone about creating the group we are now, going into the different countries in Africa, there are always going to be legacy systems problems; you have to make sure that you have a common system throughout in terms of trade finance, payments, *et cetera*, so that you can start creating the hub and spoke that the really big global players have. That is the key to making sure you have the efficiency. For us, that is the road we are on – to create efficiency by making sure that we have the same systems on a buy-once, use-many approach. It's what the big mature banks already have in place.

**Banking Technology:** *In this area, with a history from correspondent banking, is there not a case for commoditising some applications, or creating some sort of industry utility for a great deal of those common systems?*

**Masahiro Goda:** That is an issue that we are always picking up on, and talking about how we can help each other. In trade finance it is a very important issue, because of the settlement contracts between banks and how we link those.

**Havander:** I think Swift can have a huge role to play, especially looking at medium-sized banks. We are strongly advocating for standards in the supply chain and hope that Swift takes the first moves here. I agree about trade finance and cash management coming together, but we consider that the supply chain is the third leg in this. These three are all coming together in this space now – it is a hugely interesting time.

**Berthier:** We are also looking at that, trying to look across payments and trade finance so that they run on the same infrastructure, and have done that with correspondent banking. Historically, the relationships have been pretty simple, but correspondent banking is changing and





Photos: Tom Groenfeldt

more complex – are you setting up a bilateral agreement for a vendor financing programme, for instance? This makes it much deeper, and something that requires a lot more effort from a regulatory standpoint ...

**Sarjan:** ... it is complex, and you have to add in the FX contract element too. So how we link transactions across various systems to provide information to clients is a challenge: it will take a huge amount of investment to bring this together. These are challenges that banks face, because someone else in the market will address it and then you are facing strong competition

**Schone:** We were lucky in that we did a slight reorganisation at the end of 1998 and what that brought together was all of the transactional banking areas: we brought together our cash/liquidity management for clients, we brought together our trade products, we brought together our payments area, our product development hubs, our channel services ... by bringing that together you start to get the synergies, you get a momentum that says 'this is what we are working for' and it become much more client-focussed when you start working in a consolidated way like that.

**Banking Technology: So the underlying infrastructure can have products and service layered onto it?**

**Schone:** Exactly.

**Havander:** So does that mean you have one sales force at the customer interface?

**“How we link transactions across various systems to provide information to clients is a challenge: it will take a huge amount of investment to bring this together, and these are challenges that banks face.”**

**Schone:** Yes, it is part of the structure: in that channel environment you enable the team to go out to the client, do the training, and make sure they can sign in and so on

**Advani:** We have taken a similar approach in some ways. What we have done is to set up a specialist advisory unit at the regional level, so we have experts in liquidity management and so on, so that if there are complicated transaction that the sales force can't progress – structured transactions or complicated in some way – they can involve the advisory unit who then handhold them through and supply expertise. It is similar to what RBS has done in Europe and other regions.

**Havander:** There are conflicts in that the corporates are not organised that way: there is some education to be done before we can reap the benefits to some extent.

**Advani:** Yes, if it is a large corporate you are right, but in a mid-sized corporate then there is probably one treasurer.

**Havander:** I have a feeling that we are in the same position that we were in 10 or 15 years ago, when we were trying to



# Challenges in Transaction Banking

give corporate treasurers global mandates: the need to bring everything under one umbrella in order to get the benefits.

**Berthier:** Is getting the same unified organisation on the corporate side something that banks are struggling with?

**Havander:** Some corporates are in the forefront, but I would say that the thinking in the banks is ahead of the corporates, in general, and that is where there is an educational need. Just as a for instance, I would say that trade finance must be linked into working capital. That has a huge potential.

**Berthier:** Given that we have different regions around the table, are there differences there?

**Advani:** Certainly in Asia people are attending conferences and there is a lot of discussion going on. Clients want to work with their banker, and indeed it involves the whole ecosystem.

**Banking Technology:** *It seems to be that there is a convergence on a common set of issues, but there are surely differences in the clients?*

**Sarjan:** I would say that there are two: the buyers and the suppliers. Both sides will have different operations and behaviours – on the supply side you might want to extend terms, for instance. There are a host of ways that they differ and we have to adjust our products to address that.

**Havander:** When you say product, what do you mean?

**Sarjan:** It's really about having a product and solution set: it could be technology, it could be financing terms ...

**Advani:** ... yes, it's not just about product: clients are not looking for a product; they are looking for a solution. How do you take care of all their working capital needs, in terms of providing a line of credit, a liquidity solution, supporting their suppliers, and so on.

Corporates want more than a Letter of Credit facility, so you have to look at it holistically: they all want to improve working capital, and at the end of the day it is all about cash flow for these customers.

**Duggal:** You do have to look at the regional issues. In Asia things are made more complex by the languages – Korea, China, Japan ... and secondly there is the regulatory point of view. Certainly when it comes to moving funds, in terms of regional liquidity solutions it is much more difficult compared to Western countries. Asia remains a much more complex region compared to Europe or the US.

**Banking Technology:** *Who is driving banks as they address these challenges? The business side, or is technology creating new opportunities? How do you strike that balance?*



*“Some corporates are in the forefront, but I would say that the thinking in the banks is ahead of the corporates, in general, and that is where there is an educational need.”*

**Havander:** It's a very interesting point, and I question it myself: who is driving this? I'm not totally convinced that it is corporates that are driving it. It has to become more transparent.

**Berthier:** It's apparent in some of our conversations with banks: they want to know how to re-intermediate themselves with clients, how to make themselves relevant to the client – and that has a huge impact on the systems we are asked to provide.

**Banking Technology:** *There are a lot of discontinuities in the supply chain: how do you address those?*

**Goda:** Looking away from payments ... Japan is traditionally an exporting country but manufacturing is shifting to overseas – so production is overseas and they are exporting back to Japan, perhaps through a third country. But the parent company in Japan still wants to control its cash flow, so some of the very big corporates are moving to have regional offices in Singapore or Hong Kong – the settlement chain and the cash flow is changing.

**Banking Technology: Doesn't this all come back to being efficient – which means different things to different people – and having that holistic approach we talked about?**

**Schone:** It's that single system, at the end of the day. Efficiency is about having a single system that can do everything for you: if you don't have that, if you have a break-up of your operational processes, it costs you more money, and that is one thing that you can't afford.

**Advani:** That's true, automation and STP is a challenge for all banks, but it is also about convincing the client who is used to sending paper to move to an electronic system. If we are able to automate at both the client end and the bank end then we will be able to move to STP, which at the end of the day will mean lower costs that we can pass back to the client.

**Havander:** Let me get this straight: a single system for the trade finance products, the cash management products, the supply chain management products?

**Schone:** Yes, that's what you have to aim for.

**Berthier:** The functions, from a systems point of view, can vary quite a lot, but there are a lot of similarities between trade finance processing and payments processing: even for a good old-fashioned trade, there is a payment somewhere. So you can have these things on the same system.

**Banking Technology: But there are legacy issues for most banks, other than in a green field, surely? They will have to use existing infrastructures ...**

**Berthier:** For trade finance, yes, we are seeing global unified trade finance programmes. It is different in payments – you can pretty much find payment functions everywhere. Typically, we have three discreet types of system: the true integrated back-office, which is primarily around trade finance, including payments; another breed of systems is more a payments hub, which is in middleware; and then we have the cash sweeping, cash pooling systems. It is not one piece of code with a single user interface; we still see these as three discrete systems.

**Schone:** From a client perspective, surely what you want to deliver is a single interface? You want the client to have a single sign-on and a menu that allows them to look at the LCs, or the cash flows.

**Berthier:** Yes – I meant from an internal, back-office point of view; in the channels it's about unifying these things online.

**Havander:** Some of the clients will not be unified though – they will have multiple people looking at the bank.

**Berthier:** Yes, so the systems have to be granular enough to deal with different clients' expectations: a regional treasurer might want a unified view across trades and accounts, but the guy who is doing the LCs should only see the LCs.

**Havander:** One of the big challenges is getting the information back to the corporate at the reporting level, giving the client the information they require at the CFO level.

**Advani:** Taking that a bit further, banking is all about managing risk, and often credit has been typically handled in silos. In the financial supply chain, credit managers have a visibility in the transactions and so credit can be integrated into the process, creating efficiencies for the bank and enabling them to be more confident about their lines. That is a very important area where the single customer view and STP are coming together.

**Sarjan:** Yes, it is not just hung together: we are bringing all these things together for the client so that they can see it all on a single dashboard, by giving them a portal through which they can enter the bank.

**Havander:** Another problem that has been highlighted by the credit crunch is that corporates have to bring more ancillary business to the banks just to get credit facilities, but they don't want to have all their business at one bank, under one umbrella. How do you build systems to allow them to hook up all the portals?

**Sarjan:** I agree, for large corporates it is hard to imagine that they would be dealing with just one bank – they are more likely to be dealing with four or five. There has to be a multi-bank approach.

**Berthier:** On the cash management front, having a global view of all your accounts across all your banks is something that the single bank portal, or the preferred bank portal, can →





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actually address. Behind the scenes you have all the flows of your 940s and 950s [Swift customer statement messages] and can consolidate your reporting in one bank.

What is new is the demand to have a single view on the trade finance front – to have a consolidated view of all the outstanding LC facilities for instance. That is new and doesn't yet have an infrastructure on the bank side to support it, so there is a bit more to a multi-bank portal on the trade finance front. The thing we've seen in the past year is really corporates coming to us and saying that they are quite familiar with cash management and Bank A's portal, but asking for the same for trade finance.

**Advani:** Trade is a more complex issue than cash, which in the end comes down to balances, because there is an issue of confidentiality.

**Berthier:** That's totally right. We have been asked to do this by several banks, and there is a level of requirement for a much more detailed view of the business, and their lines, and the neutral party in this has to be Swift and the Swift network.

**Havander:** Just for my understanding, where does Bolero come into all of this? Is that a complete system?

**Advani:** At RBS we have the capability, and do have clients who are integrated through Bolero with our front-end.

**Berthier:** As a transport though, Swift is the way – if you want the right reach for a true integrated multi-bank service you need to go through Swift. It has now reached the maturity to offer this, and for trade too. For the business applications and the value-added services that go on top of it, it could be any of a number of people – we are one of them, but it could be a system that evolves among the corporates, or it could be a system that is provided by one bank – but the underlying transport is going to be Swift, not a proprietary third-party network.

**Banking Technology: How does the Trade Services Utility fit in?**

**Berthier:** The TSU was never intended for corporate-to-bank messaging, it's just a bank-to-bank utility.

**Havander:** Coming back to what we were saying earlier about it being an assembly process, when we at SEB as a medium sized bank look at delivering the whole supply chain – regulatory, Swift connections, and all the components – it is a great challenge to bring this all together. We are more and more moving to the idea that we don't have to do everything ourselves, so we are talking to Swift, asking how they can take over parts of it. We just want to deliver results to our corporates.

**Advani:** The challenge is certainly greater for the mid-sized or regional banks, but there are so many solutions out there



**“Most banks are really quite conservative and don't want to be at the leading edge: models have to establish themselves and make sense for the customers and the banks. We don't have to be in a big hurry.”**

– Bolero, TSU, banks' third party services and so on – and there are domestic solutions in most markets. Our view is to work with the technology providers to adopt models that are more cost-effective. Most banks are really quite conservative and don't want to be at the leading edge: models have to establish themselves and make sense for the customers and the banks. We don't have to be in a big hurry – we have to understand the business case for adoption before we step in.

**Banking Technology: Will industry utilities emerge from this, as they have in the cards industry?**

**Advani:** it depends on the scale – if you have the scale, then it is better to do it in-house, but a small or medium-sized player is certainly going to want to outsource to a third-party that has the scale to reduce costs, because at the end of the day it is all about being competitive in the market.



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