Temenos and IDC Financial Insights Survey and Analysis Report

Results from the 2014 Global Corporate Treasurer Survey on ePayments:

Bank payments services at a crossroads

Amanda Gilmour and Jerry Silva

This report reviews the results from the 2014 Global Corporate Treasurer Survey and draws conclusions based on worldwide trends, regional variations, and incorporates industry knowledge from IDC Financial Insights and Temenos. The intent of this document is to shed light on a subject, corporate ePayments, on which there has been little to no recent fieldwork done. For the purposes of this survey and report, ePayments is defined as any payment originating through an electronic channel such as online bill pay, credit card, ACH, wire transfers, etc.

Financial institutions with an established corporate banking customer base can use this report to help guide their own ePayments product and services strategy. It is acknowledged that every institution is different, yet the survey points out significant consistency in attitudes towards ePayments worldwide. Therefore it is a valuable tool in formulating a payments strategy.

IDC Analyze the Future

TEMENOS The Banking Software Company

The approach

In September, 2014, IDC Financial Insights and Temenos Group conducted a global survey to determine the satisfaction levels with ePayments services provided by their banks. Responses to the survey came from 243 corporate treasurers from within the FTSE 500, representing seven global regions; Africa, APAC, Australasia, Europe, Latin America, the Middle East (GCC), and North America, from five industry sectors; Automobile, Manufacturing, Pharmaceuticals, Retail, and Technology, and included companies with a combined market cap of over $1 Trillion.

An analysis of the responses was conducted to find trends, consistencies, variations in the market, and to form opinion and guidance based on the survey responses and industry knowledge from within IDC Financial Insights and Temenos.

The full list of questions in the survey can be found in the appendix to this document.

Contents

Executive Summary

A recent survey conducted by IDC Financial Insights and Temenos, the banking software company, shows the corporate payments industry at an inflection point, poised precipitously between disintermediation and opportunity. The survey was conducted in September, 2014, and solicited opinions from 243 corporate treasurers worldwide on a variety of topics from regulation, to pain points, to satisfaction with the ePayments services they receive from their banks.

The most significant finding from the survey is that, on average, 63% of corporate customers globally are dissatisfied with the ePayments services they currently get from their bank. Some of the respondents' quotes about the challenges they face include: "Lack of transparency in processing times. It is luck whether it takes 3 days or 7", while another mentioned that "there are a handful of things about the way it works that are annoying and slow us down".

Our interpretation of this finding is that the relationship between the bank and the corporate customer, once almost indissoluble, is becoming more tenuous as companies seek to reduce risk by establishing multiple banking relationships, and as alternatives appear in the market, promising to deliver innovative services that legacy bank systems lack. In fact, almost 25% of the treasurers reported that they have been investigating alternative, non-bank ePayments providers.

The sources of the dissatisfaction are manifold, with the two largest pain points reported being:

- A lack of consolidated view of the corporate's payment transactions and unified access to multiple systems
- A lack of control over payments prioritization and traceability

These two themes, transparency and control, are consistent across the entirety of the survey. In order to manage the business, corporate treasurers today need to track and respond to changing market conditions faster than ever. Ease of use and response time have become as critical as any other metric in ensuring the success of the business, and based on the survey results, it doesn't seem like banks are keeping up with their customers' requirements in making that happen.

With net interest margins at historic lows, and heightened sensitivity to fees by the retail consumer base, the corporate customer has become critical to the bank's growth strategy – and thus the corporate client is an important customer to acquire and retain. Wholesale transaction banking, through ePayment products specifically, is a revenue engine that continues to grow in all markets, but significant shortcomings in today's bank product offerings will challenge the institution's ability to keep and grow those revenue streams – and they may stand to lose market share altogether.

The good news is that through this survey, the corporate treasurers have clarified what they want in terms of ePayments functionality, beginning with:

- A universal view of their payments system
- Mobile authorization
- Dynamic changes to payments

Having a universal view in particular offers significant benefit to large (multi-national) corporates, so it was no surprise that this was a top priority for our respondents. A holistic view not only simplifies compliance and operational needs, but allows corporates to see a true picture of their overall business from a payments perspective and beyond. A universal view gives insight on overall liquidity needs, payment needs, payment flows, payments you might want to expedite and payments you want to slow.

In terms of mobile authorization, mobile phones can be used in a variety of different ways by corporates, such as to send timely payment reminders to encourage customers to pay on time; to send immediate confirmations to let customers know that their payments have been received; to get instant traction with delinquent customers by sending shut-off avoidance messages to inform customers when their payments are critically overdue; and to send payment authorization messages in order to process a bill payment. For their payment system to support these types of services it is essential to compete and meet customer expectations today.

In addition, the requirement for corporates to make dynamic changes is also no great surprise. Customers expect immediacy; essentially a real-time experience from their banks and one that is highly integrated into their increasingly digital lives and adapts quickly to their evolving wants and needs. The ability to view information in real-time and make changes instantly is no longer a 'nice to have'. A dynamic view should allow corporates to move money to ensure their accounts remain in credit or perhaps to fund regional deals. New types of payment hubs can also support this approach. For example, a key market opening for banks has been providing finance for early payment of suppliers, which allows companies to extend their payment terms while still allowing suppliers to sustain liquidity. With this level of control now available, corporates should be able to decide when they want their payments to go out, allow them to be processed first or when they require, or enter and store the transactions for a later date.

Providing these aspects of an ePayments infrastructure will create opportunities for banks to strengthen the relationships with their corporate customers, create competitive differentiation by being first-movers, and create consistent revenue streams through value-added ePayments services.

The document that follows details the findings of the 2014 Global Corporate Treasurer Survey and offers guidelines for institutions to use the data from the survey to help determine strategic programmes to attract and retain corporate customers through effective ePayments products and services.

Service Satisfaction levels

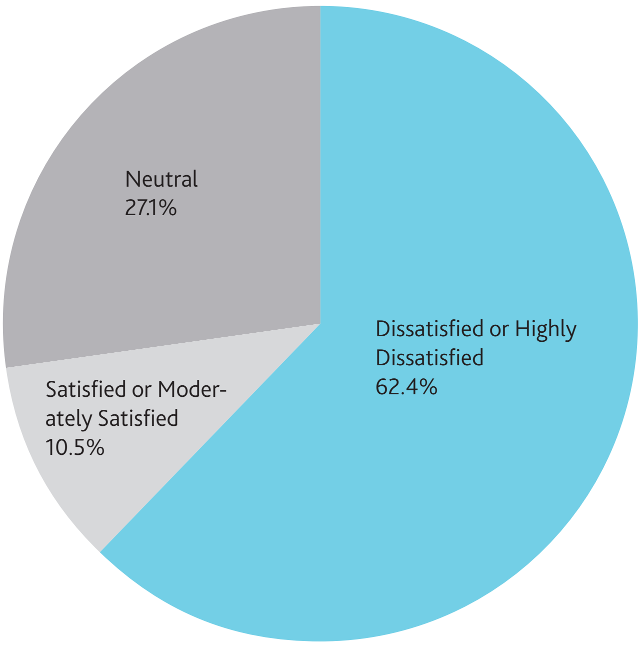
The most significant finding from the survey was the high level of dissatisfaction reported by all of the survey respondents, both in terms of dissatisfaction with the overall services received by the bank (62.4% dissatisfaction) as well dissatisfaction specifically with the ePayments services provided (62.7% dissatisfaction). Figures 1 and 2 break out the three levels of satisfaction aggregated across all regions and industries.

63%
of corporate customers globally are dissatisfied with the ePayments services they get

"Not sure the service is value for money and lacks all sorts of functionality we'd like to see."

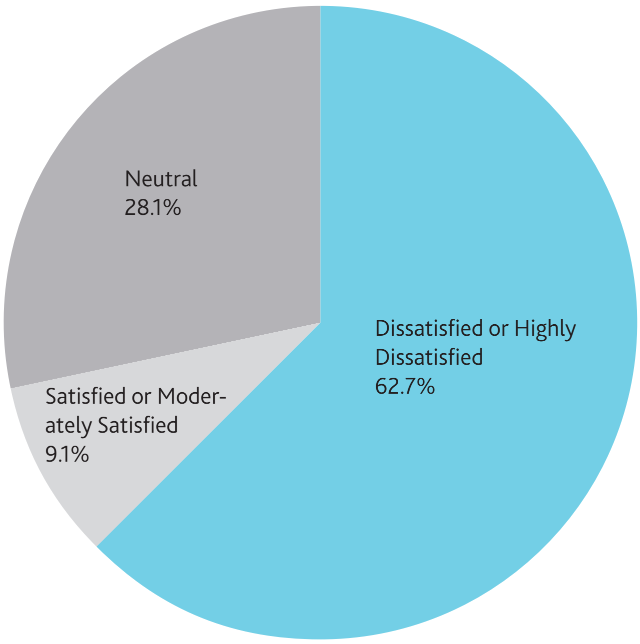
Brazilian manufacturing business

Figure 1: Satisfaction/Dissatisfaction with overall service from bank



Source: IDC Financial Insights, Temenos, 2014 Corporate ePayments Satisfaction Survey

Figure 2: Satisfaction/Dissactisfaction with payments service from bank



Source: IDC Financial Insights, Temenos, 2014 Corporate ePayments Satisfaction Survey

Figure 3 shows a regional breakdown of the corporate dissatisfaction with the current set of ePayments services provided by the bank.

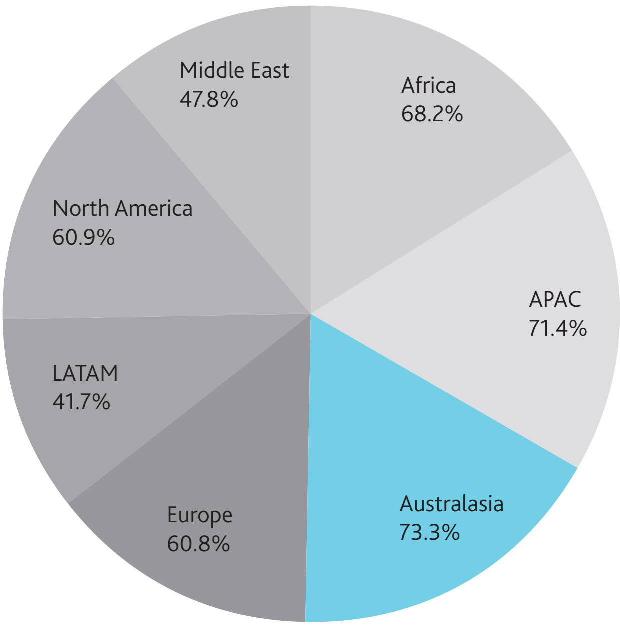
It is interesting to see the differences between the most dissatisfied region, Australasia, and the least dissatisfied region, the Middle East. Based on survey questions that sought to elicit qualitative comments about the pain points, the leading cause of dissatisfaction in Australasia pointed to a lack of controls over payments, whether it was prioritization, deferrals, or traceability. Whereas in the Middle East, the corporates referenced performance and cost issues more often than other causes of dissatisfaction.

To emphasize these survey results, Figure 4 shows the regional variation in corporates' satisfaction rates.

The strongest consensus among participants in regard to their existing ePayments capabilities was that "it works." This sentiment led to a quite large "Neutral" opinion of 28.1% from the global corporates.

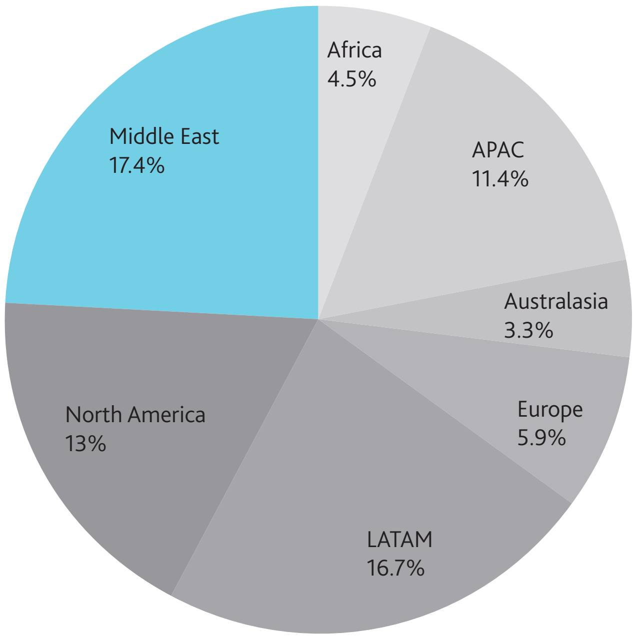
> "Good system but lacks some functionality to track and is a higher price than we are comfortable with."
>
> Austrialian pharmaceuticals business

Figure 3: 'How dissatisfied are corporates with their payment specific services?



Source: IDC Financial Insights, Temenos, 2014 Corporate ePayments Satisfaction Survey

Figure 4: How satisfied are corporates with their payment specific services?



Source: IDC Financial Insights, Temenos, 2014 Corporate ePayments Satisfaction Survey

Lack of a unified view and control of payments is creating dissatisfaction

Although there were some differences in the absolute percentages of corporates reporting dissatisfaction from region to region, the underlying challenges reported by all treasurers were consistent. Analysis of the survey led to the creation of a table of pain points reported by the corporate treasurers.

Figure 5 depicts the challenges facing corporate treasurers when working with their payments services. These factors, rated from 1-least painful, to 5-most painful, are clearly aligned with the dissatisfaction rates reported globally.

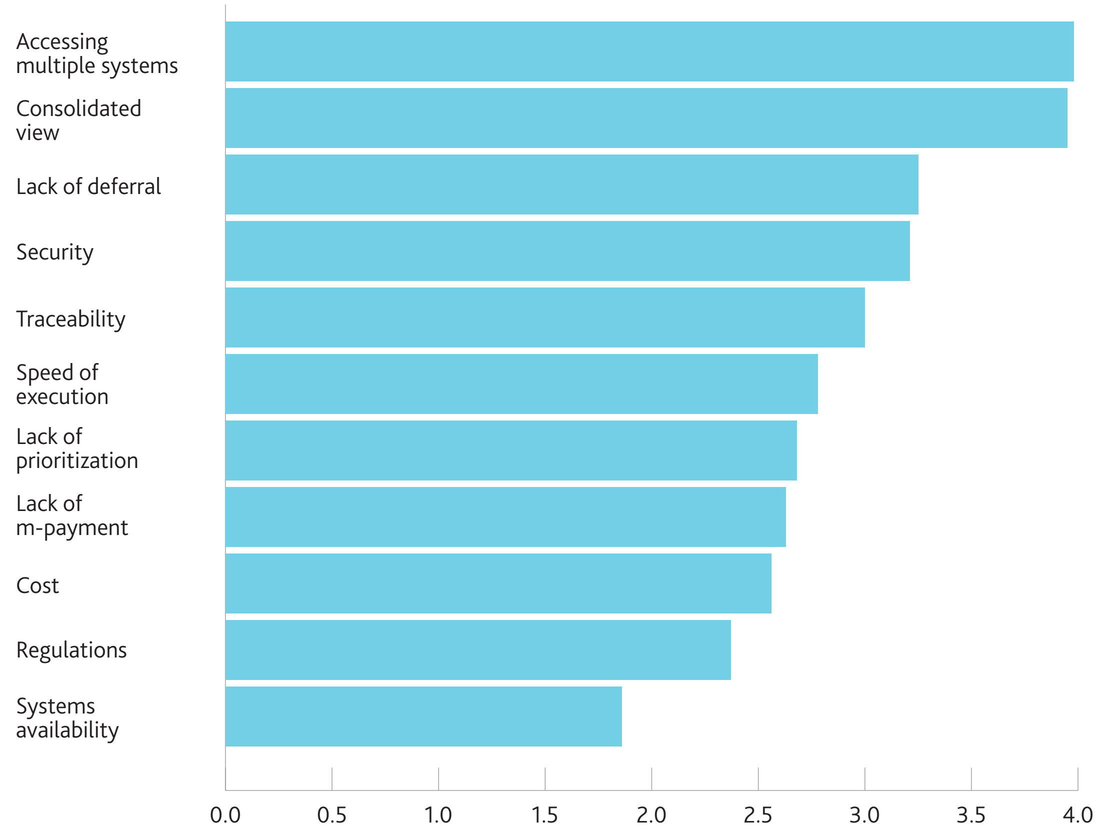
If we further distill these pain points into broader challenges, we can simplify them as:

- Lack of a unified payments capability
- Lack of visibility and control of payments
- Security and regulatory concerns
- Systems performance
- Cost

> "[my current system] lacks flexibility; it can't store payments for the future."

German technology business

Figure 5: What factors are causing your organization the greatest degree of pain where electronic payments are concerned?



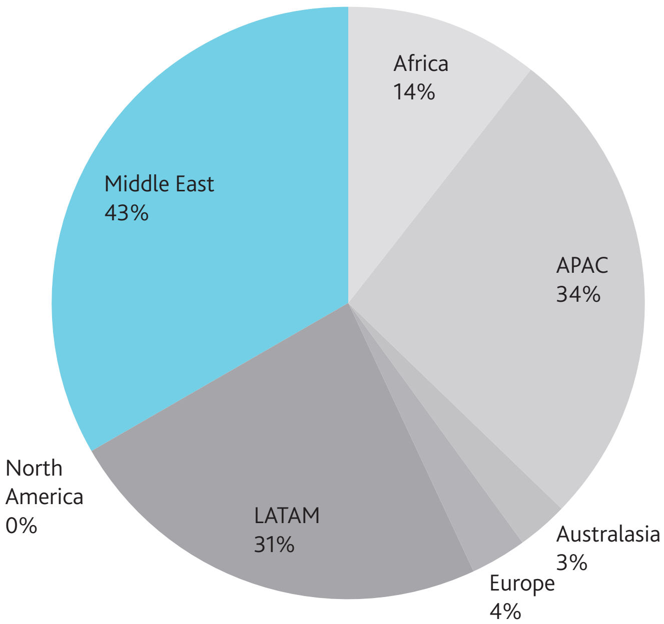
Source: IDC Financial Insights & Temenos Global Corporate Customer ePayments Survey, 2014

Surprisingly, regulatory concerns over ePayments ranked fairly low in the list of pain points experienced by the survey respondents. However, the aggregate finding belies a large variation between the regions with regard to the perceived threat of regulations. Figure 6 shows a regional breakdown of corporates who believe that payments-related regulation will have some or considerable impact on their business.

This breakdown of the threat of payments-related regulatory impact clearly demonstrates the difference between well-established markets like North America, Europe, and Australasia and developing markets like Africa, Latin America, and the Middle East. In the established markets, regulations are a fact of life, and one that the corporates in these regions have learned to manage to the extent that they are somewhat predictable, and thus do not pose an overly-serious threat. In the developing world, the regulatory landscape is less settled, and treasurers must keep a watchful eye over any new regulation that could have a significant impact on their businesses.

The large sense of regulatory trepidation in Asia Pacific – a region which survived the economic crisis in 2008 rather well based on conservative fiscal policies – comes more from the high growth rates in payments, a unique blend of autonomous and technologically advanced markets, and relative lack of standardization in the payments industry. In a real sense, Asia Pacific cannot be reasonably called a single market in this context, and it is the need for common standards that will drive regulation in payments.

Figure 6: What payments related regulations are having, or will have, an impact on our ability to conduct business?



Source: IDC Financial Insights, Temenos, 2014 Corporate ePayments Satisfaction Survey

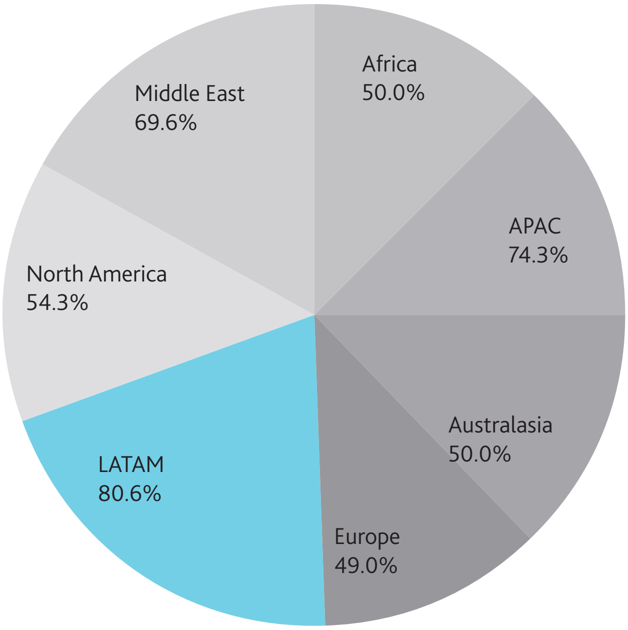
Corporate Treasurers do not view their banks as supportive business partners

Arguably more discouraging than the general dissatisfaction with the ePayments services that the corporate treasurers express, is the general sentiment that corporates don't believe that their banks are agile and innovative enough to support their business. Figure 7 depicts the perception that banks do not support corporate treasurers with relevant and innovative services. In Latin America, the lack of innovation seems to be tied to the user experience, based on qualitative responses from corporates in that region. In Asia Pacific, many of the respondents referred to transaction pricing as their biggest complaint with regards to the support they receive from their banks.

Figure 8 emphasizes that corporate treasurers require more responsiveness from their institutions than they receive today. These two findings, discontent with the levels of relevancy/innovation and a need for more agility than they experience today, underscore the most significant conclusions from this survey - ePayments are a critical part of business operations, corporate treasurers are unhappy with the level of service they get from their banks, and more importantly, they don't regard their banks as supportive business partners.

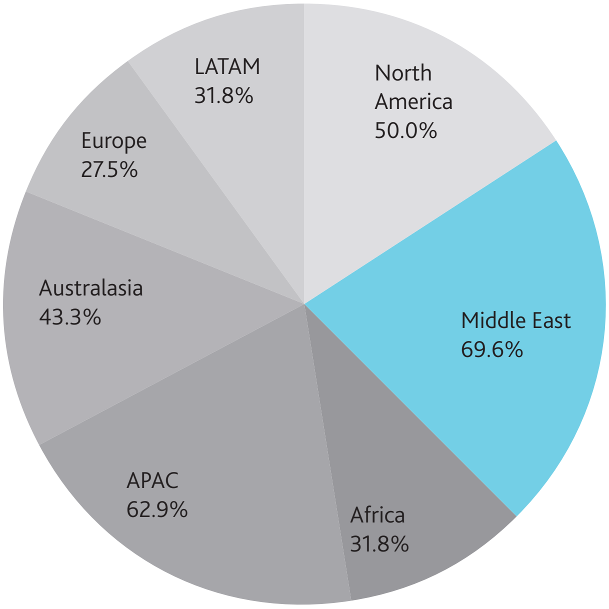
> "[it's] not very innovative. Just seems like an old underinvested system."
>
> French pharmaceuticals business

Figure 7: "My bank suppors my organization's electronic payments requirements by providing relevant and innovative services", percentage that disagree



Source: IDC Financial Insights, Temenos, 2014 Corporate ePayments Satisfaction Survey

Figure 8: "My bank is sufficiently agile to adapt to our changing payment services needs", percentage that disagree



Source: IDC Financial Insights, Temenos, 2014 Corporate ePayments Satisfaction Survey

The implications of a dissatisfied market

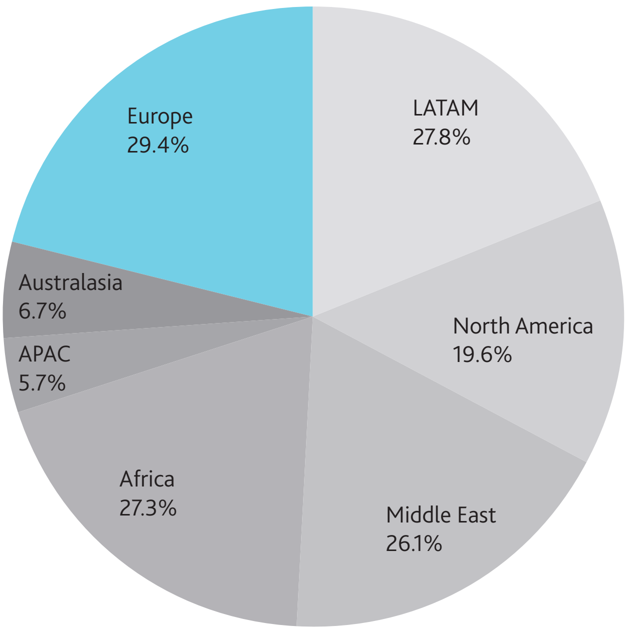
Relationships between corporate entities and their banks have been historically stable and long-lived – although not typically monogamous for larger companies. But the survey indicates that this relationship model may be in danger. Figure 9 shows the percentage of corporate treasurers that intend to increase the number of banking relationships they maintain. We believe that Asia Pacific and Australasia, the two regions that are significantly lower than the other regions in their plans to increase banking relationships, are constrained by the geopolitical difficulties in expanding their financial partnerships for businesses that cross country borders.

Companies will expand their banking relationships for many reasons. The qualitative explanations given in this survey for the increase of banking relationships included expanding geographic markets, reduction of risk by spreading the financial relationships among multiple banks, and seeking out new banking partners to help fulfill functional requirements. It is this last criterion that signals a vulnerability on which financial institutions need to focus. It is becoming more common for corporate treasurers to "shop around" for banks that can adapt to their requirements and changing business needs.

Underscoring this inclination to review and alter their relationships with the bank, Figure 10 demonstrates that a significant number of corporate treasurers have already investigated non-bank providers of ePayments services.

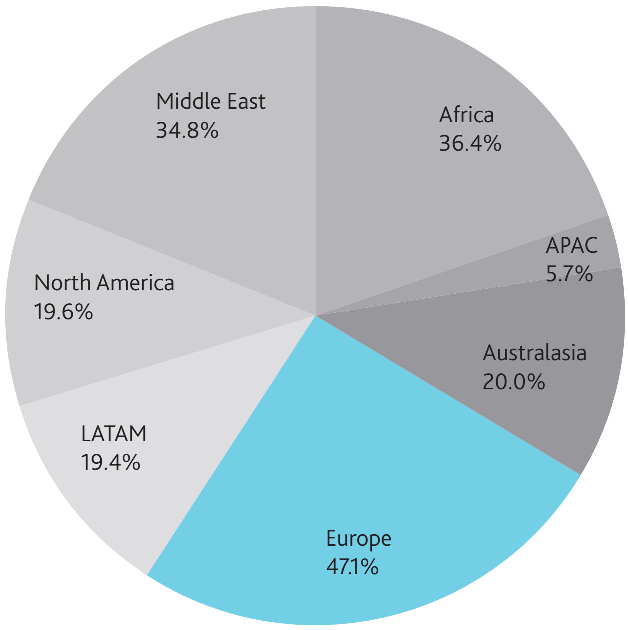
The alternatives to bank-provided ePayments services could be as simple as card-based payment transactions, or as complex as internal payment hub technologies built by the corporates themselves to overcome what they see as limitations forced on them by their banks.

Figure 9: The number of banking relationships will increase in the next 12 months



Source: IDC Financial Insights, Temenos, 2014 Corporate ePayments Satisfaction Survey

Figure 10: % of Corporate Treasurers who have investigated non-bank ePayments Providers



Source: IDC Financial Insights, Temenos, 2014 Corporate ePayments Satisfaction Survey

What corporates really want

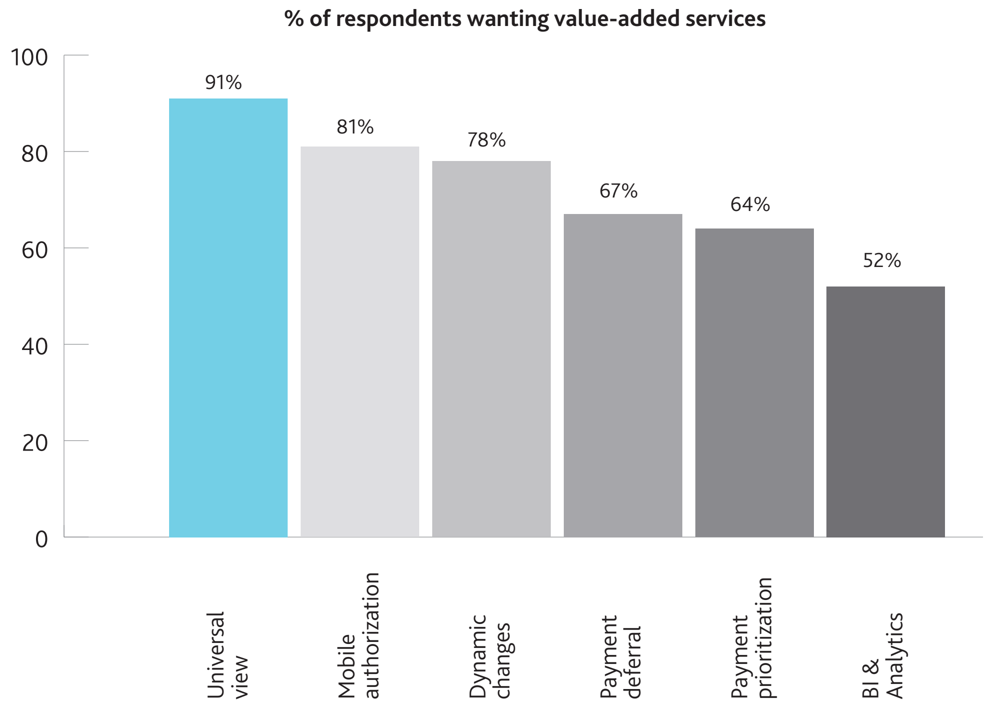
Fundamentally, what this survey articulates is that corporate treasurers are not happy with the visibility, control, and agility of the ePayments services provided by their banks. And additionally, they seem to be more inclined today to seek alternatives to banks to ensure a more agile and operationally effective way to originate and process payments. The "glass half-empty" contingent might look on these findings as the beginning of a death knoll for bank-provided e-Payments services, but we believe that there is reason to take the "glass half-full" approach to a developing a payments strategy that benefits both bank and corporate.

Figure 11 shows the top "wish list" items for e-Payments systems reported by the corporate treasurers in the survey.

Some of these wish list items, like Universal View, are complex in nature to develop. But the fact that 91% of the survey respondents wanted a more unified view of their payments infrastructure sends a clear signal that this requirement drives customer satisfaction, and ultimately retention and revenue. Other items, like Mobile Authorization, represent real revenue opportunities in providing a value-add service that adds convenience and functionality. Lastly, Dynamic Changes, Payment Deferral, and Payment Prioritization all fall in a category of Payment Control – the very basics of payment processing. These demands represent house stakes in that every institution will one day have to provide a greater capability for control if they want to remain competitive.

The final wish list item, Business Intelligence and Analytics, is curiously low on the treasurer's priority list. The best possible explanation for this is that the most basic requirements of a unified view, mobility, and payment control, need to be fulfilled before the corporate can fully leverage a Big Data implementation.

Figure 11: Which value-added payments services should banks provide?



Source: IDC Financial Insights, Temenos, 2014 Corporate ePayments Satisfaction Survey

In perspective

Throughout this document, we have endeavored to provide quantitative information about the pain points experienced by corporate treasurers from the ePayments products and services provided by their banks. We have shown how treasurers prioritize their requirements for a unified view and payment controls, to name an important pair of requirements. Not surprisingly, the technology exists today to address many, if not all, of these requirements. But based on our discussions with banks, organizational models are constraining the bank's ability to connect the technology with the need. In many, if not most, banks, the interface between the treasurer and the bank takes place along many fronts, depending on the product or service. The support staff for wire transfers are typically different than the people that support the corporate with ACH issues. What is needed is a more centralized structure that can support the corporate business and not the individual products. It takes an understanding of what is important to the corporate business to be able to effectively create an ePayments environment in which the corporate can thrive.

At the end of the day, the corporate customer is an important element to the bank's revenue growth. Aligning the bank's ePayment assets with the corporate treasurer's management requirements will ensure that the bank will remain competitive, retain and grow corporate relationships, and generate additional fee revenues from value-added services.

We can look at the dissatisfaction with ePayments and call the glass half-empty and hope that we will continue to retain the corporate business, or we can recognize that the glass is half-full and fill it to the top by creating value in transforming the ePayments infrastructure for the benefit of the corporate client and the bank.

Authors

Amanda Gilmour is an experienced IT and software professional, specialised in the area of Payments, AML and Sanctions compliance for the global financial services industry. She has worked with a number of the world's largest banking groups (ABN, Citigroup, UBS, Barclays to name a few) in implementing technological solutions to meet the changing demands of international regulation. Amanda is the former Chief Operating Officer of Viveo Belgium, and is currently Product Director, Payments at Temenos.

Jerry Silva is Research Director Global Banking for IDC Financial Insights. His research focuses on technology trends and customer expectations and behaviors in retail banking worldwide. He draws upon over 25 years' experience in the financial services industry to cover a variety of topics, from the back office, to customer channels, to governance in the technology shops at financial institutions. Previously, Jerry ran his own technology consulting company, PG Silva Consulting, assisting both vendors and institutions with the development, marketing, acquisition, and deployment of technology solutions in financial services. His banking background includes 16 years of direct experience running technology shops and transformational projects for First Chicago, BayBank, and BankBoston.

About Temenos

Founded in 1993 and listed on the Swiss Stock Exchange (SIX: TEMN), Temenos Group AG is the market leading provider of banking software systems to retail, corporate, universal, private, Islamic, microfinance and community banks, wealth managers, and other financial institutions. Headquartered in Geneva with 56 offices worldwide, Temenos software is proven in over 1,600 customer deployments in more than 150 countries across the world.

Temenos' products provide advanced technology and rich functionality, incorporating best practice processes that leverage Temenos' expertise around the globe. Temenos customers are proven to be more profitable than their peers: in the period 2008-2012, Temenos customers enjoyed on average a 32% higher return on assets, a 42% higher return on equity and an 8.1% lower cost/income ratio than banks running legacy applications.

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide.

For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

Questionnaire: Understanding the payment needs of corporate treasurers

Lead-in questions

Do you have decision-making responsibility on the following?

Category	Yes	No
Your organization's payments activities		
The choice of institution(s) used for your organization's corporate banking activities		

If answer is 'NO' to either of these questions please do not continue with the interview and find a more relevant contact in the institution.

Part 1 – The operating environment

1. Compared to last year, do you feel more confident about your business' prospects in the next year? *(Choose one response only)*
- a. Yes
- b. No
- c. Same

2. Compared to last year, do you feel more confident about global trading conditions in the next year? *(Choose one response only)*
- a. Yes
- b. No
- c. Same

3. Are payments-related regulations having a negative impact on your ability to conduct business? *(Choose one response only)*
- a. Yes, considerable impact
- b. Yes, some impact
- c. Not yet, but impact anticipated
- d. No impact
- e. Unsure
- f.

Part 2 – Existing commercial relationship with corporate banks

4. How satisfied are you with the overall service provided by your primary financial institution? *(Choose one response only)*
- a. Highly satisfied
- b. Moderately satisfied
- c. Neutral
- d. Dissatisfied
- e. Highly dissatisfied

5. In the next 12 months, the number of individual banking relationships my organization has will? *(Choose all that apply)*
- a. Increase
- b. Decrease
- c. Remain unchanged

6. Thinking about the answer you gave to the previous question, what factors are influencing your decision? *(Open question)*

Part 3 – Electronic payment-specific activities

7. How satisfied are you with the electronic payment-specific service(s) provided by your primary financial institution?
- a. Highly satisfied
- b. Moderately satisfied
- c. Neutral
- d. Dissatisfied
- e. Highly dissatisfied

8. Thinking about the answer you gave to the previous question, what factors are influencing your satisfaction level? (Open question)

9. Using a scale of 1 to 5, where 1 is 'Least Painful' and 5 is 'Most Painful', what factors are causing your organization the greatest degree of pain where electronic payments are concerned? *(Choose a rating for each activity)*
- a. Speed of execution (i.e. making payments in real-time)
- b. Single consolidated view of electronic payments for all business areas
- c. Accessing multiple systems
- d. Security
- e. Adapting to new industry regulations
- f. Lack of mobile payments option
- g. Systems availability
- h. Lack of payment prioritization capability
- i. Lack of deferral capability
- j. Other (state)

10. Do you require greater control of your electronic payment capabilities, where changes can be made without the direct involvement of your bank? *(Choose one response only)*
- a. Yes
- b. No

11. Do you require your bank to be more agile in adapting to your organization's changing payments service needs? *(Choose one response only)*
- a. Yes
- b. No

12. Have you investigated alternative providers to banks for making payments? *(Choose one response only)*
- a. Yes
- b. No

13. Do you agree with the following statement: "my bank supports my organization's electronic payments requirements by providing relevant and innovative services"? *(Choose one response only)*
- a. Yes
- b. No

Part 4 – Value-added services

14. Using a 'yes' or 'no' response, which value-added payments services should banks be providing? *(Choose all that apply)*
- a. Payment prioritization
- b. Payment deferral
- c. Mobile authorization
- d. Universal view of payments
- e. BI & Analytics
- f. Ability to perform changes dynamically
- g. Other (state)

15. What one wish would you like to have granted where improving electronic payments is concerned? *(Open question)*

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