

2017 Transaction Banking Survey

Challenges & Imperatives of Real-Time Payments & Liquidity

Foreword

A year since our last payments and transaction banking survey and we see how the world has moved on. The payments market is undergoing revolutionary change, which is helping to drive change in transaction banking. Real-time payments, digital, AI, Open Banking etc. are all the buzz (and we have focused on the need for these services from a corporate banking perspective within this survey); the importance of a corporate bank servicing its clientele with what they need has never been greater.

A staggeringly 80% of corporates are willing to change their banks for those that offer better servicing and products. Banks are listening but slow to change. Ageing legacy platforms and so called best of breed single solution systems that only communicate to other systems because of an interface that passes the minimum of data, make that change difficult. But, if it doesn't happen customers will move to banks who have made that leap to a best of breed integrated solution accessing real real-time payment solutions (cited as the most valuable service enhancement for corporates), and making data access (cited as a most valued service), product development and regulation exponentially easier, cheaper and faster to achieve. The results in this survey not only serve to reinforce the opportunity that real-time payments and liquidity management solutions offer but give real insight to be able to create a robust business case for services to support changing business and client.

Key findings

- **Real-time payments is the most valued service enhancement for corporates:** 64% of corporate treasurers (without real-time payments) say that the ability to make real-time payments is one of the top three service/account enhancements they'd find most valuable.
- **Real-time payments has added value to corporate in a number of key areas:** 80% of corporates say real-time payments has improved risk management, 77% say it has improved liquidity management, and 76% say it has improved cash visibility.
- **After data access and availability, access to real-time payments is the biggest need for corporates:** real time payments is the second biggest overall top 3 priority, cited by 49% of corporates. This only falls to 43% in the RTP countries.
- **Moving to real-time payment infrastructures poses increased financial crime risks for banks, preparation is key:** 69% said that KYC risks are increased, rising to 80% among Tier 1 banks.
- **Corporates are increasingly willing to change service provider:** in countries without real-time payment infrastructures, 80% have considered moving main banking relations in the past year. This figure falls to 75% in other countries, in contrast to 52% in 2016.
- **Corporates concern with accessing bank data for decision making is growing:** Respondents citing this as their top challenge rose from 1% in 2016 to 13% in 2017.
- **Managing multiple relationships is a growing concern for corporate treasurers:** 18% of respondents say this is their top challenge, up from 12% in 2016.
- **Virtual accounts are high on banks agenda:** 53% plan to provide virtual accounts in the next 12-18 months, rising to 57% among banks from countries with real-time payments.
- **Corporate banks are positive about the impact of open banking:** despite initial reservations and inherent conservatism, 57% say that they are working with trusted third parties (TTPs) to improve their services to clients.

Darryl Proctor

Product Director – Transaction Banking
Temenos

Introduction

The banking services corporate treasurers require in the modern business environment are changing rapidly – more rapidly than banks are responding. Over the next few years this will change further as the major economies of the US and the European Union implement real-time payment (RTP) infrastructures, and open banking through API access to accounts is rapidly adopted. Real-time payments provide a clear opportunity for banks to enhance their service offering to corporates, both directly through enhanced payment-related services, but also as a platform upon which to layer additional value-adding propositions.

To more clearly understand the role that real-time payments in particular can play in helping corporate banks to address the operational issues facing today's corporate treasurer, Ovum and Temenos partnered to undertake a major research project in Q2 2017, looking at the different priorities, perceptions and plans of both corporates and banks in countries that have implemented real-time payments and those that have yet to do so.

A key part of this research is Ovum's 2017 Transaction Banking Survey. In field through Q3 2017, Ovum interviewed 100 corporate treasurers globally to understand the current dynamics and pain points of their role in 2017/18 as well as their requirements around new services from their bank partners.

In parallel, and to understand the degree to which corporate banks understand and are aligned with these needs, Ovum also surveyed 100 corporate banks to gain insight into their own investment and product development roadmaps.

This report by Ovum and Temenos, provides insight into the priorities and attitudes of today's corporate treasurer and shows where the banks that service them need to invest in order to satisfy their needs – both now and into the future.

Corporates face a number of challenges, several exacerbated by gaps in bank services

Managing multiple accounts and obtaining easy access to transaction data remain key issues

Corporate treasurers face a host of challenges by the nature of their role, from foreign exchange volatility to geopolitical factors to dealing with multiple relationships with customers, suppliers and intermediaries.

Managing this complexity is an accepted part of life for them, but it need not be exacerbated by their bankers – yet having multiple banking relationships is cited by 18% as the single biggest challenge their treasury departments face (Figure 1), closely followed by the difficulty in obtaining an up-to-date view on the cash position.

Figure 1: Challenges facing corporate treasurers in 2017/18



Source: Ovum 2017 Transaction Banking Survey

Overall 42% of corporates sampled have relationships with more than six banks, rising to 53% for those corporates with revenues larger than \$5bn. This latter group also has an average of eight accounts per bank – giving them at least 42 accounts to manage across different providers. Aside from the inevitable challenges this poses to effective liquidity management, this necessarily involves manual steps and complex work-arounds to obtain the minimum level of intra-day balance oversight which is likely further complicated by the lack of real time payments and or systems in operation at some of their banks partners.

Banks should see this an opportunity to leverage API's like those proposed by PSD2 to consolidate information and become the trusted source of information for the corporate.

Equally frustrating for the treasurers interviewed for Ovum's Corporate Treasurer survey is the difficulty of obtaining up to date views on cash, which remains core problems for 39% of corporates, who say they are hampered by a lack of access to or non-availability of real-time information.

The more time treasurers and their teams are freed from wrestling with manual reconciliation and intra-day balances, the more they have to focus on value-adding activities, and this is a prime area for banks with the necessary competences to differentiate themselves though enhanced services.

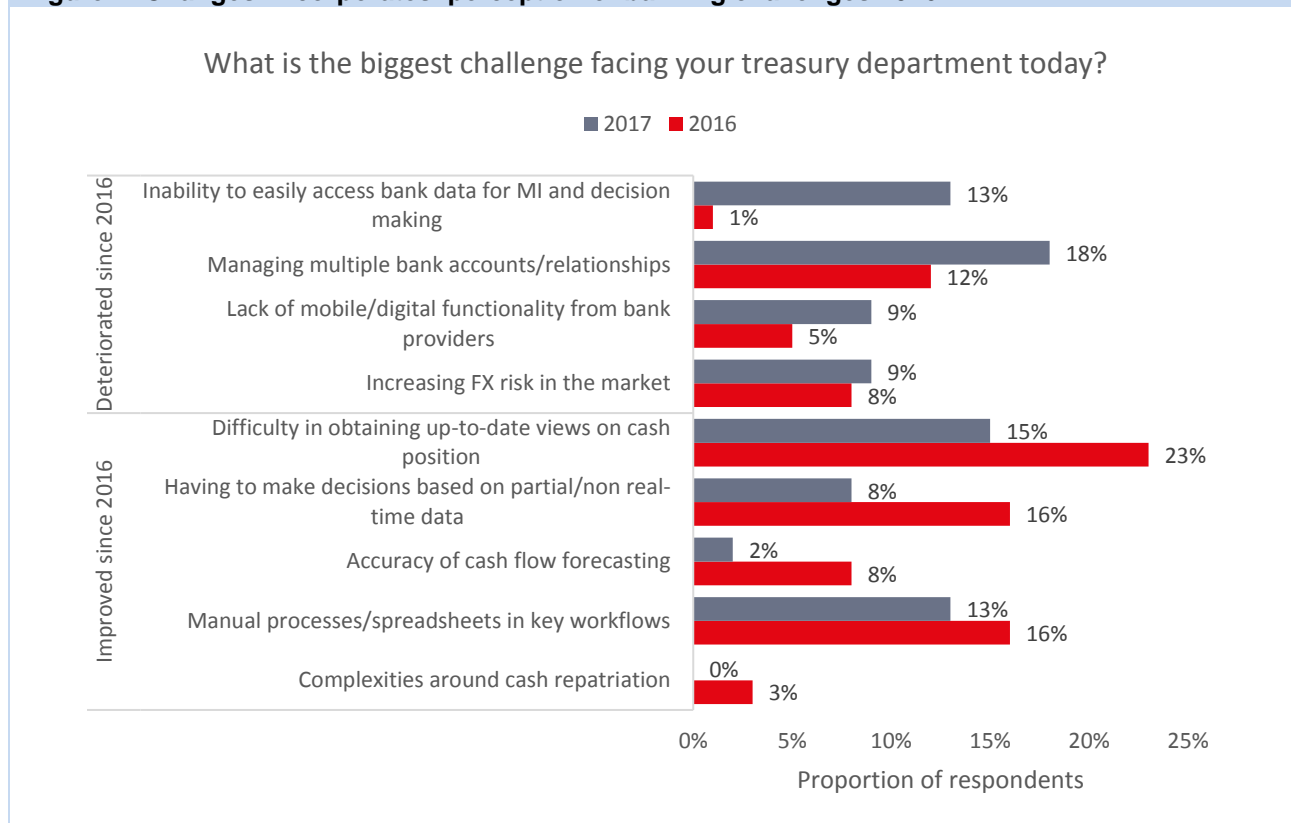
Several areas highlighted by treasurers in 2016 have yet to be addressed by banks

Comparing this to the results from Ovum's 2016 survey of corporate treasurers shows how the needs of corporates continue to evolve; in many areas, it also demonstrates where some banks have delivered enhancements to their overall service proposition.

As shown in Figure 2 (below) it is clear that the management of multiple banking relationships is a growing concern, cited by 18% for the corporate treasurers as their single biggest operational challenge, as compared to 12% in 2016.

Perhaps most interesting is the focus around access to data. Driven by a growing awareness (and in some cases, direct experience) of open banking initiatives, the proportion of corporates that view the inability to easily access their transaction data as their most important operational challenge has increased from 1% in 2016 to 13% in 2017. To address this, corporate banks should focus on initiatives and development of their solutions around APIs/direct connections, particularly as part of wider projects enabled by real-time payments.

Figure 2: Changes in corporates' perception of banking challenges 2016-17



Source: Ovum Corporate Treasurer Survey, 2016/ Ovum 2017 Transaction Banking Survey

Many banks do not have a clear picture of corporate needs, particularly around real-time information

Banks do not seem to have grasped that it is really the access to data – or the manual processes needed to fudge around the multiple bank problem – that are the problem. Complexity and risk are the core issues, which are not addressed by real-time payments. Crucially, banks are not seeing and acting on this.

At a macro level, bank and corporates are in agreement that there are gaps in servicing the corporates, but a comparison of the corporate view against what the corporate banks believe are the issues facing their clients shows that only in a few areas does the banks' view match up to the view of corporates themselves (Figure 3). Though banks come close to accurately assessing the degree to which corporates rate the importance of some issues, they fall very short on understanding worries about FX risk (24% of banks against 43% of corporates) or accessing bank data for management information and decision making (18% of banks against 38% of corporates).

Banks also considerably over-estimate the importance corporates place on the difficulty of making decisions based on partial or non-real-time data, with 40% of banks citing it against 24% of corporates. Having had to manage for many years with this situation, the majority of treasurers have found solutions. However, this does not mean that it's not a core area for institutions to develop enhanced offerings and indeed could be a differentiator once they have that capability.

Figure 3: Complexity and risk are the core issues – not what corporate banks believe



Source: Ovum 2017 Transaction Banking Survey

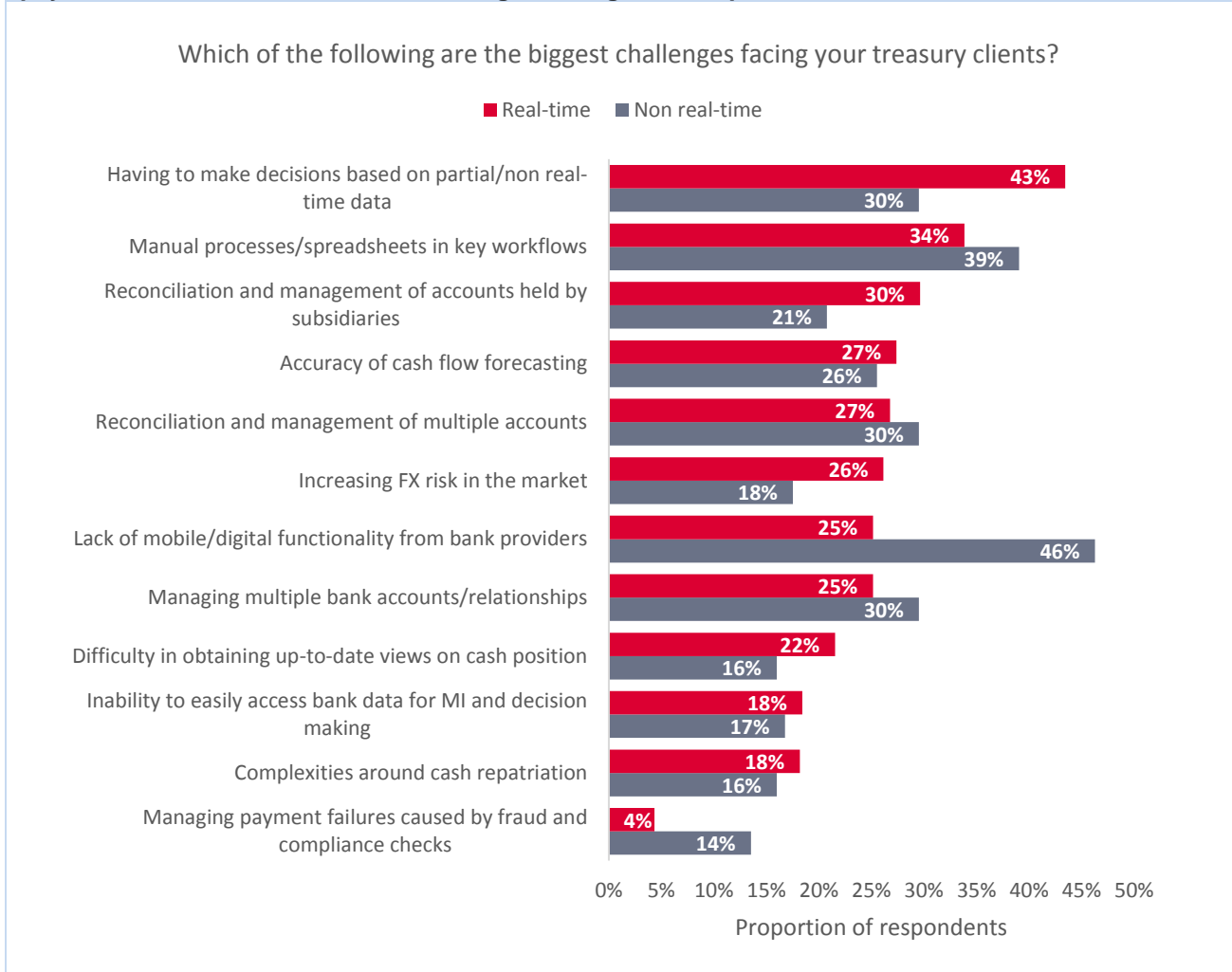
Interestingly, those banks operating in countries that have implemented RTP infrastructures have a different understanding of the issues relating to data incompleteness and the lack of real-time data in decision-making processes and place a higher importance on the issue: in RTP countries, 43% of banks say the biggest challenge facing their client is having to make decisions based on partial or no real-time data, compared to 30% in countries that have yet to implement RTP. The misunderstanding banks in RT countries seem to make is that real-time balances alone address the challenges facing treasurers. This is not so: the root cause is multiple bank complexity.

The likely explanation for this is in the consumer banking roots of real-time payments in countries like the UK: prior to the introduction of Faster Payments, business and corporate account holders had a view on their accounts through dedicated portals (for which they were charged a premium). Widespread consumer use of RTP turns that on its head, and in many cases currently it is possible that a business account holder will be paying for a banking service that is less capable than they are used to receiving from the personal banking app on their smartphone.

In other areas, it is clear that banks in non-RTP countries see other challenges as more important to their corporate clients, notably the 46% see the lack of mobile/digital bank services as the top issue (Figure 4).

Again, the consumer experience suggests that mobile banking and real-time payments go hand-in-hand, and it is impossible to have a rich customer experience (either as a personal or business users) with a smartphone or tablet app that is not getting up to date account information.

Figure 4: There are clear differences between how banks in markets with and without real-time payment infrastructure view the challenges facing their corporate clients



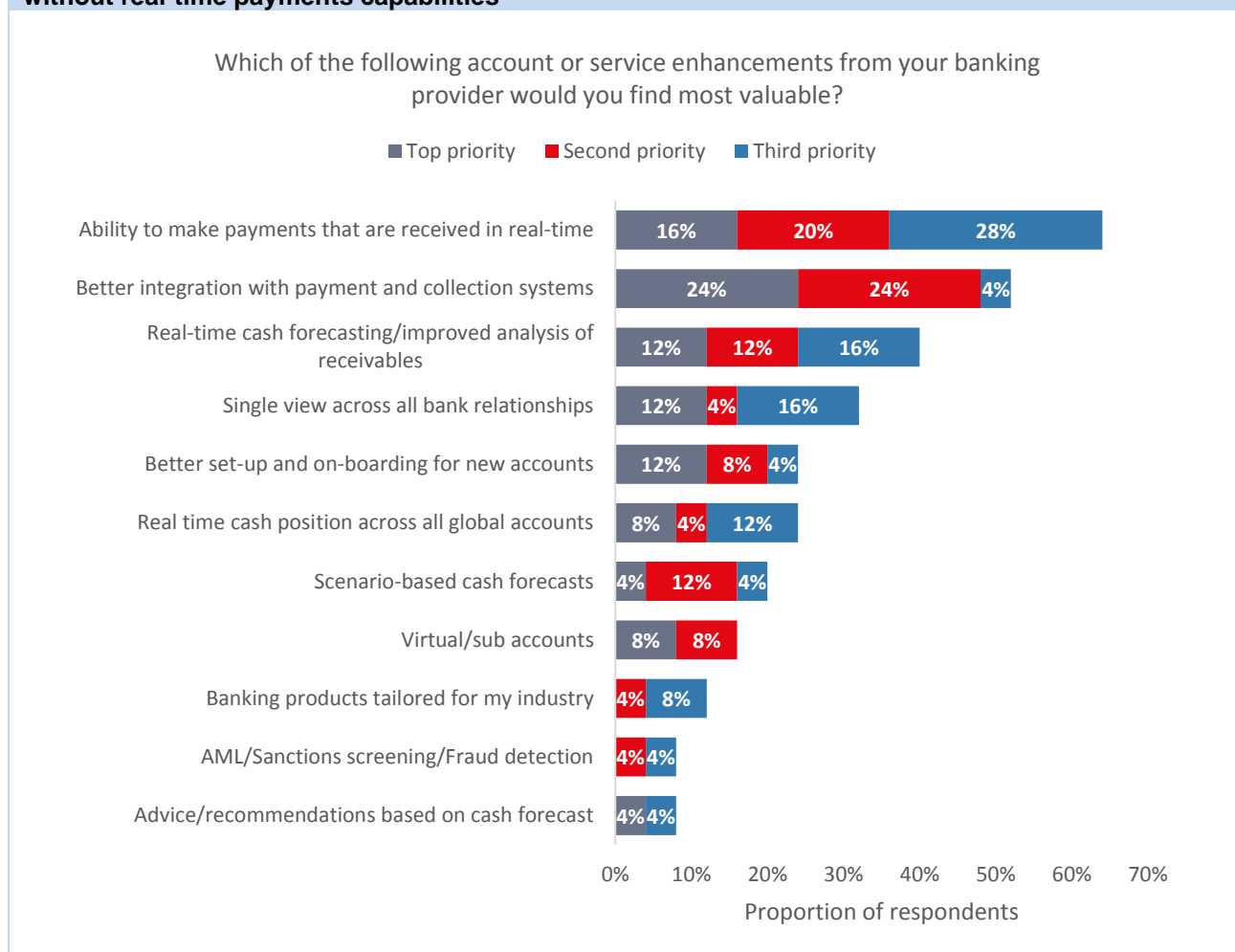
Source: Ovum 2017 Transaction Banking Survey

Real-time payments should be a platform for wholesale enhancements to corporate services

Access to real-time payments increases the expectations corporates have of their bank partners

At a global level, the most-valued services corporates would like their lead bank partners to provide are in areas related to data access and availability. Looking specifically at the needs of those in markets without access to real-time payment infrastructure, real time payment capabilities are the biggest overall top 3 priority, cited by 64% of corporates. That number – surprisingly and perhaps slightly alarmingly – only falls to 43% in those countries with real-time payments; while this may point to the frustrations of treasurers who can only access real-time in some of their trading markets, it also suggests some important gaps around both access and corporate bank positioning.

Figure 5: The ability to make real-time payments is the top priority for corporates based in markets without real-time payments capabilities



Source: Ovum 2017 Transaction Banking Survey

While real-time payment capability allows banks to address some of the immediate challenges facing corporates, the availability of real-time payments and balance information raises the expectations that corporates have around their wider banking experience. Perhaps unsurprisingly, once corporate treasurers

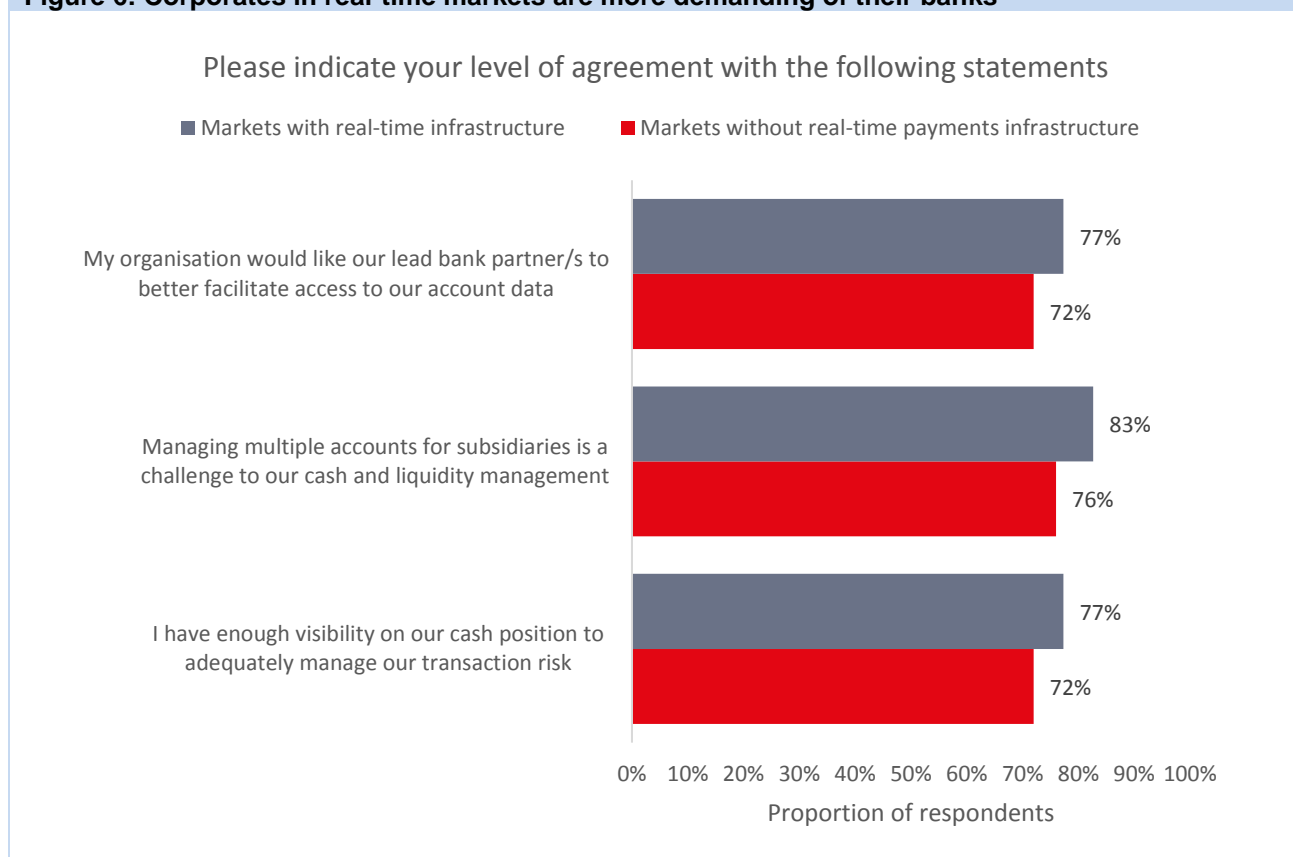
see enhancements in some areas of their banking services, they expect (or at least hope) to see their challenges in other areas also addressed.

Most interestingly, the pain felt as a result of the complexity of managing multiple accounts increases once real-time payments shows what is possible. At a global level, 83% of corporates in RTP countries cite this as a challenge, compared to 76% in non-RTP countries (Figure 6).

Interestingly, there are signs that some of the largest banks are addressing this through the introduction of account aggregation capabilities using APIs, in which Bank A will allow its corporate customers to import account data held at Banks B to Z into their Bank A internet or mobile banking service.

At the same time, demand for easy access to account data also increases. The proportion of treasurers who would like better access to their transaction information is 77% in markets with real-time infrastructure, compared to 72% in other markets. While this is clearly a critical issue for treasurers everywhere, it's clear that banks need to do more than simply put real-time in place, they need to invest in additional services on top of the infrastructure in order to address the core needs of corporate customers by renovating their systems to offer true front to back seamless platforms.

Figure 6: Corporates in real-time markets are more demanding of their banks



Source: Ovum 2017 Transaction Banking Survey

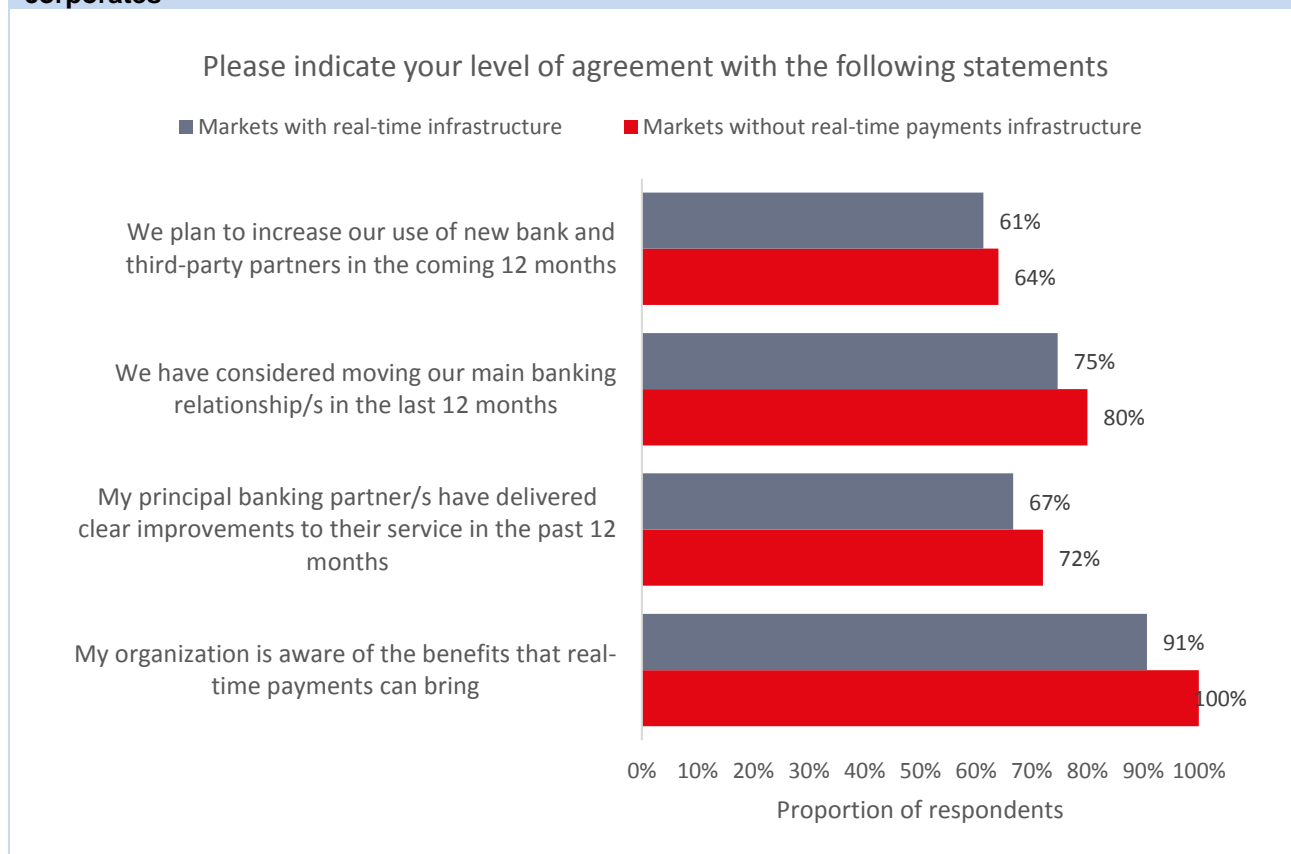
The benefits of real-time payments alone do not make a meaningful difference to corporate satisfaction

In the 2017 Ovum Corporate Treasurer Survey, corporates expressed significantly greater willingness to change service provider than when Ovum ran this survey in 2016. Worryingly for at least some in the industry, in countries that have yet to implement real-time payment infrastructures, 80% said that they have considered moving their main banking relations in the past year.

This figure falls to 75% in countries that have real-time payments, but both are considerably higher than the 52% that gave the same response in 2016. Indeed, this shows only a moderate improvement in customer retention and satisfaction among corporates as a result of the availability of real-time payments (Figure 7).

The important point to be drawn from this is that real-time payments alone do not address the needs of corporates – further investment in services and functionality built on top of the new rails will have to be made or procuring systems which already offer real time services across the board.

Figure 7: Real-time payments alone makes only a small difference to the satisfaction levels of corporates



Source: Ovum 2017 Transaction Banking Survey

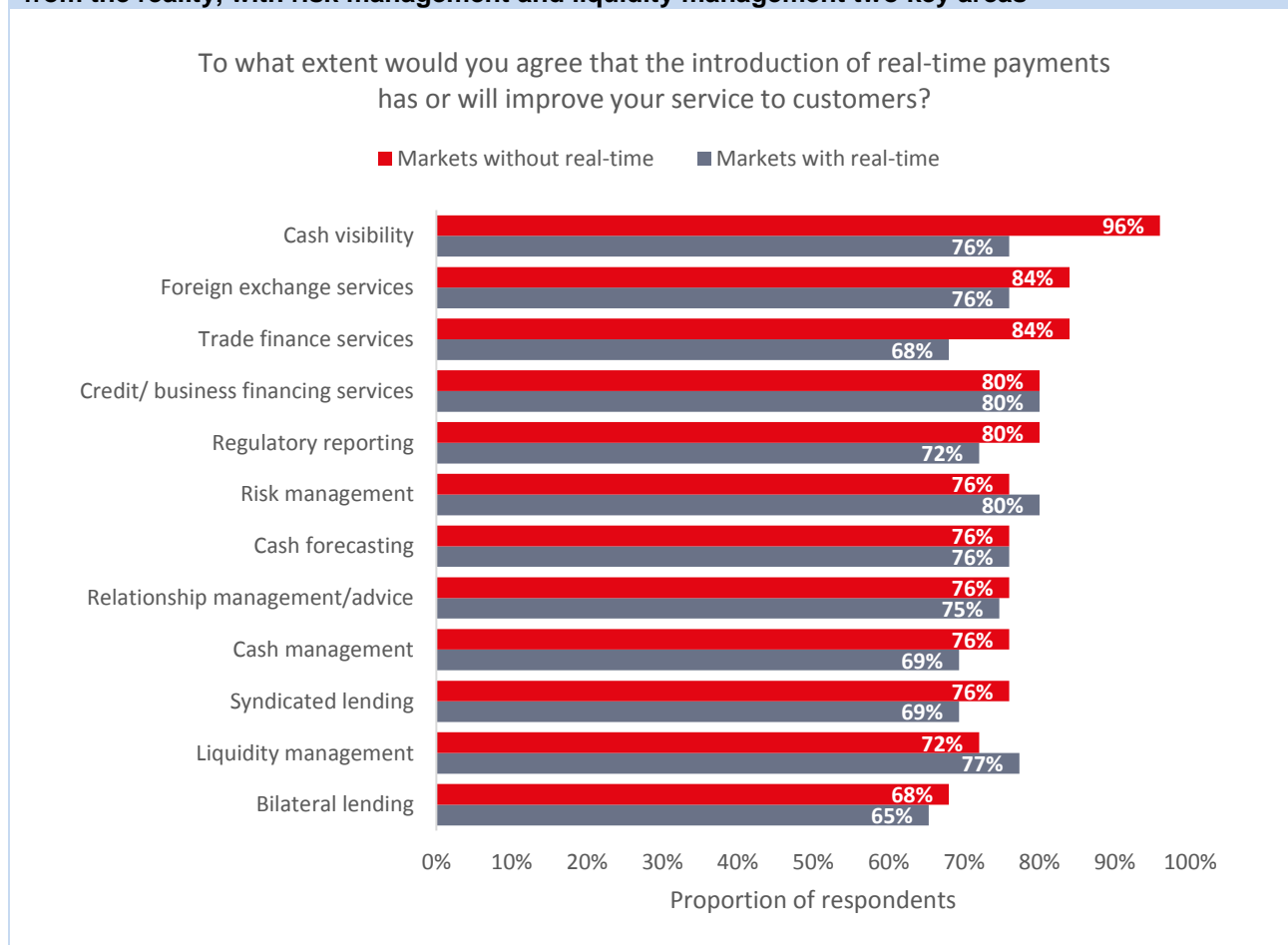
Real-time enables immediate enhancements to several areas of the corporate banking proposition

Those banks (and corporate treasurers) operating in countries yet to implement RTP infrastructures can learn from the experience of those that have been through it. Many corporate banks are recognizing that the new capabilities RTP brings will allow them to make considerable improvements in their service offering, particularly in areas such as cash visibility, where 76% of respondents in countries with real-time infrastructures report benefits, with the same number citing improvements in FX, and 80% around risk. (Figure 8).

In general, banks in markets without domestic real-time infrastructures have a more optimistic view of where they will see improvements, notably in cash visibility, where 96% (perhaps justifiably) expect to see an improvement, against the 76% of banks in RTP countries who said that this has happened in their experience. While there is a difference of expectation vs reality, the percentages are still high, meaning RTP significantly benefits cash visibility. Their expectations of improvements in foreign exchange and trade finance are also ahead of the experience of those operating in RTP countries.

Conversely, banks in these non-RTP countries underestimate the potential for improvements in liquidity management (72% against 77%) and risk management (76% against 80%); in both cases, the availability of real-time domestic payments – coupled with the benefits from the systems enhancements required to deliver this – has meant that banks have been able to enhance their offerings to corporate customers.

Figure 8: Expectations over the service improvements resulting from real-time payments differ from the reality, with risk management and liquidity management two key areas



Source: Ovum 2017 Transaction Banking Survey

An additional benefit of real-time is that investments in reducing financial crime risk can also solve a clear corporate pain-point

Unsurprisingly in the current operating environment, corporates report a clear need for new services from their bank partners to assist them in combating financial crime risk, especially in areas where they feel banks are better placed to address these. This is a common theme across all markets, but particularly among those with real-time payment infrastructure. With the majority of banks investing in upgrades to reduce their own financial crime risks as part of the move to real-time, this is a further additional benefit that banks can derive from their wider investments in real-time payments.

Concern over AML is greatest in markets with real-time payments infrastructure, and 85% of corporate treasurers would like to see their lead banking partners do more to support them here. Given concerns over issues such as invoice fraud in some markets, this will be a particularly sensitive topic for many corporates. This is not just an issue for banks in markets with real-time infrastructure either, as 64% of corporates in other markets would like to see their bank partners provide support here.

Interestingly, the greatest demand in non-real-time payment markets is for support around internal fraud detection, which is an issue for 92% of treasurers.

Figure 9: Corporates in markets with real-time payment infrastructure want banks to help them address AML in particular, while internal fraud support is needed in non-real-time markets



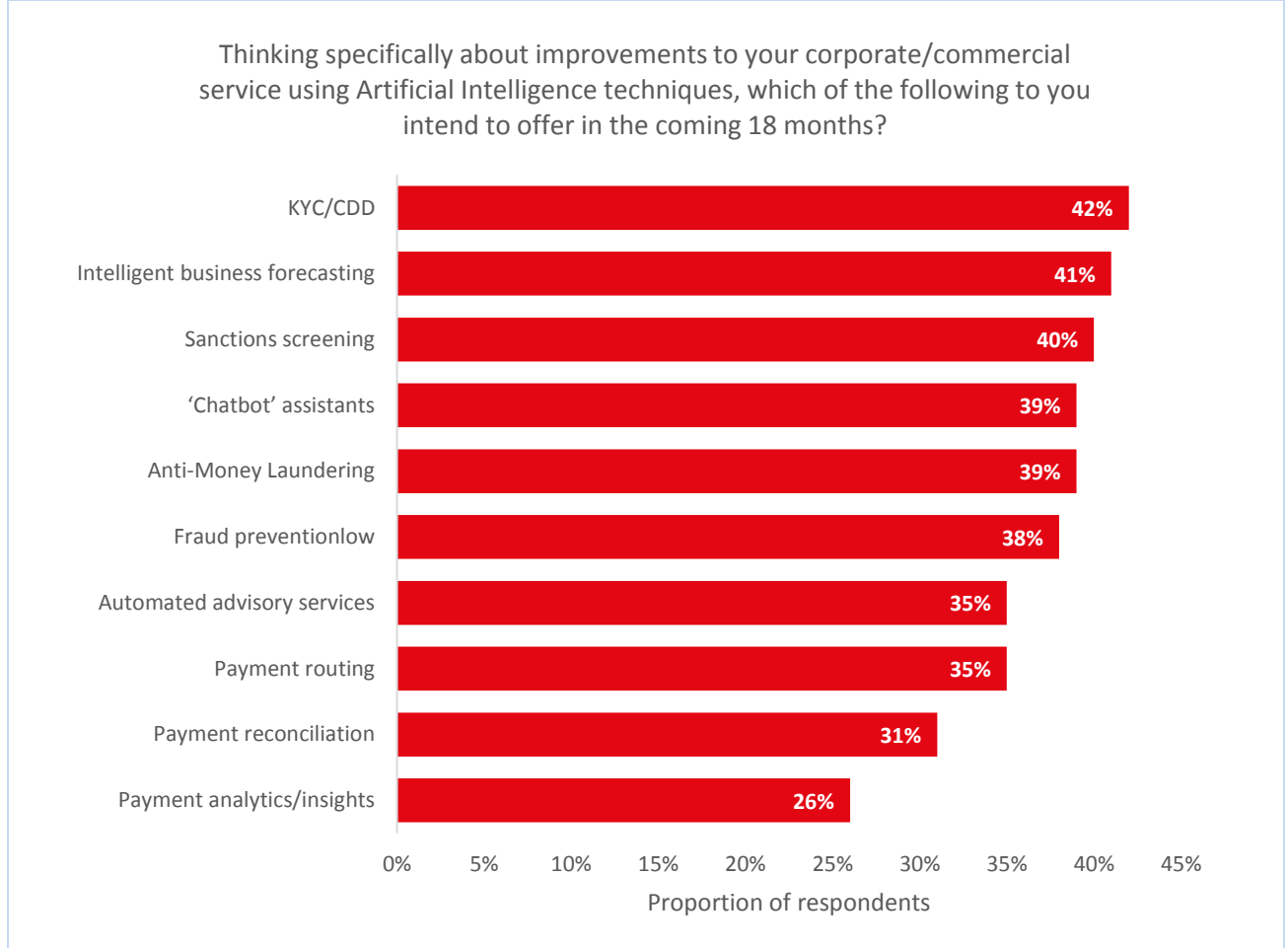
Source: Ovum 2017 Transaction Banking Survey

Banks see artificial intelligence (AI) techniques addressing some parts of the financial crime issues, as a route to better compliance and process (Figure 10). Enhancements to KYC are a priority, with sanctions screening and AML, unsurprisingly, high up the list. Only 9% say AI is not part of their immediate plans, with 49% reckoning they already use AI (though given the hype in this area that may reflect a confusion with advanced analytics).

Interestingly, the figure is lower (39%) in the real-time markets, but that's probably because they've already had to make improvements. In the markets with no RT, 52% are going to invest in AI-based KYC solutions in 2018.

AI is also seen a route to providing intelligent business forecasting by 42% of respondents, addressing another strong need of corporate clients.

Figure 10: AI features strongly in corporate banks' plans to address financial crime



Source: Ovum 2017 Transaction Banking Survey

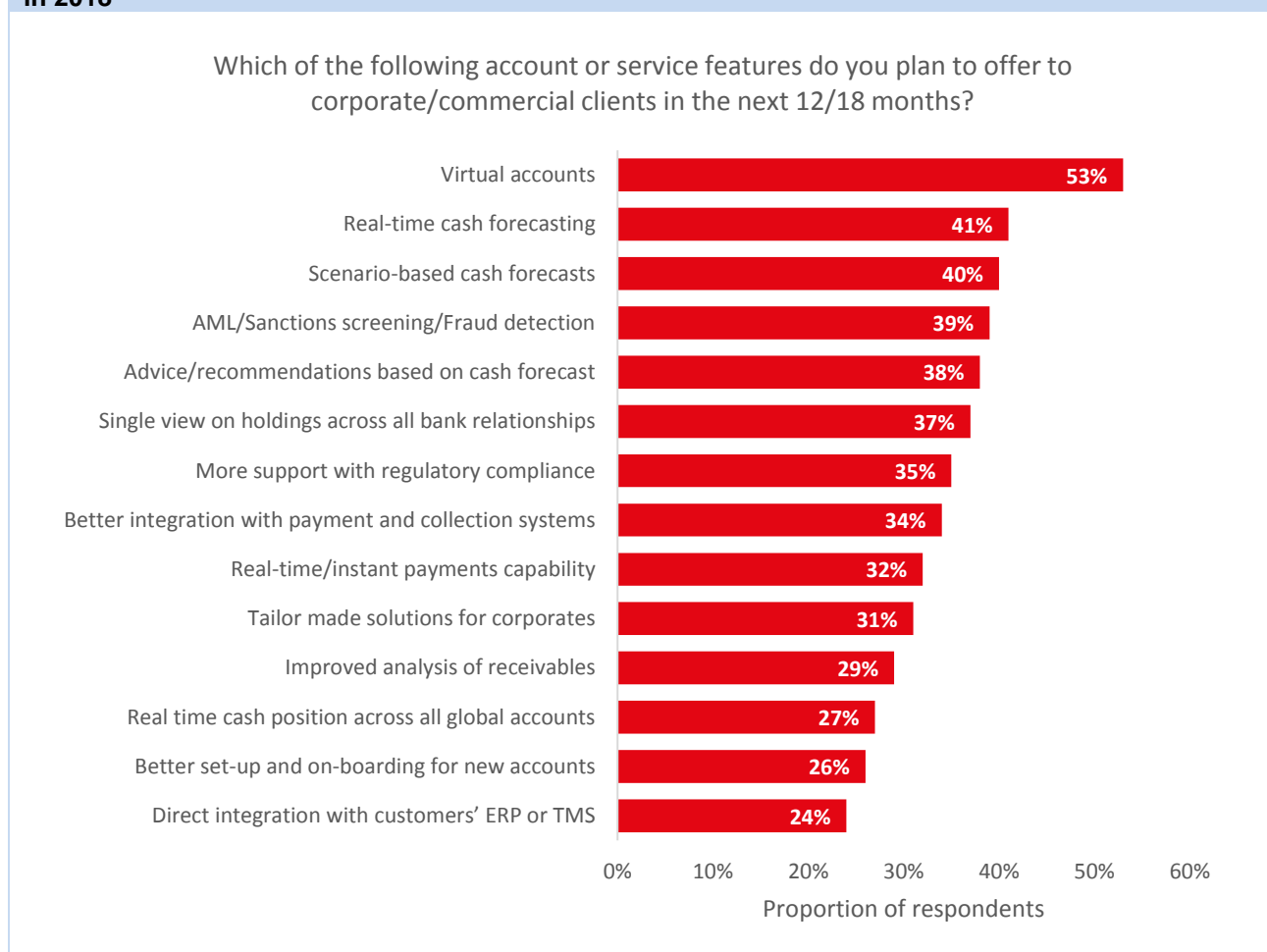
Ultimately, it is investments on top of real-time that will allow banks to address future corporate needs

Virtual accounts and transaction data analytics are high on the development agenda for banks with real-time capabilities

Not surprisingly, the ability to introduce new services is greatly dependent on the functionality of underlying platforms. Indeed, while there is broad agreement on the priority areas on which to focus from the corporate need perspective, some of the more advanced developments are set to occur in countries with real-time payment infrastructure in place.

Overall, the introduction of virtual accounts tops the list of new services planned among corporate banks, with 53% of respondents globally citing it as a top three enhancement area, ahead of real-time cash forecasting (41%) and scenario based forecasting (40%). Essentially the use of virtual accounts eliminates the need for local bank accounts for multiple legal entities in the same group, therefore simplifying corporates' banking relationships and account management processes. There has been much discussion around virtual accounts in the industry over the past 12 months, with many viewing this as a solution to some of the challenges facing treasurers around liquidity management in particular.

Figure 11: Virtual accounts tops the list of planned account or service features for corporate banks in 2018



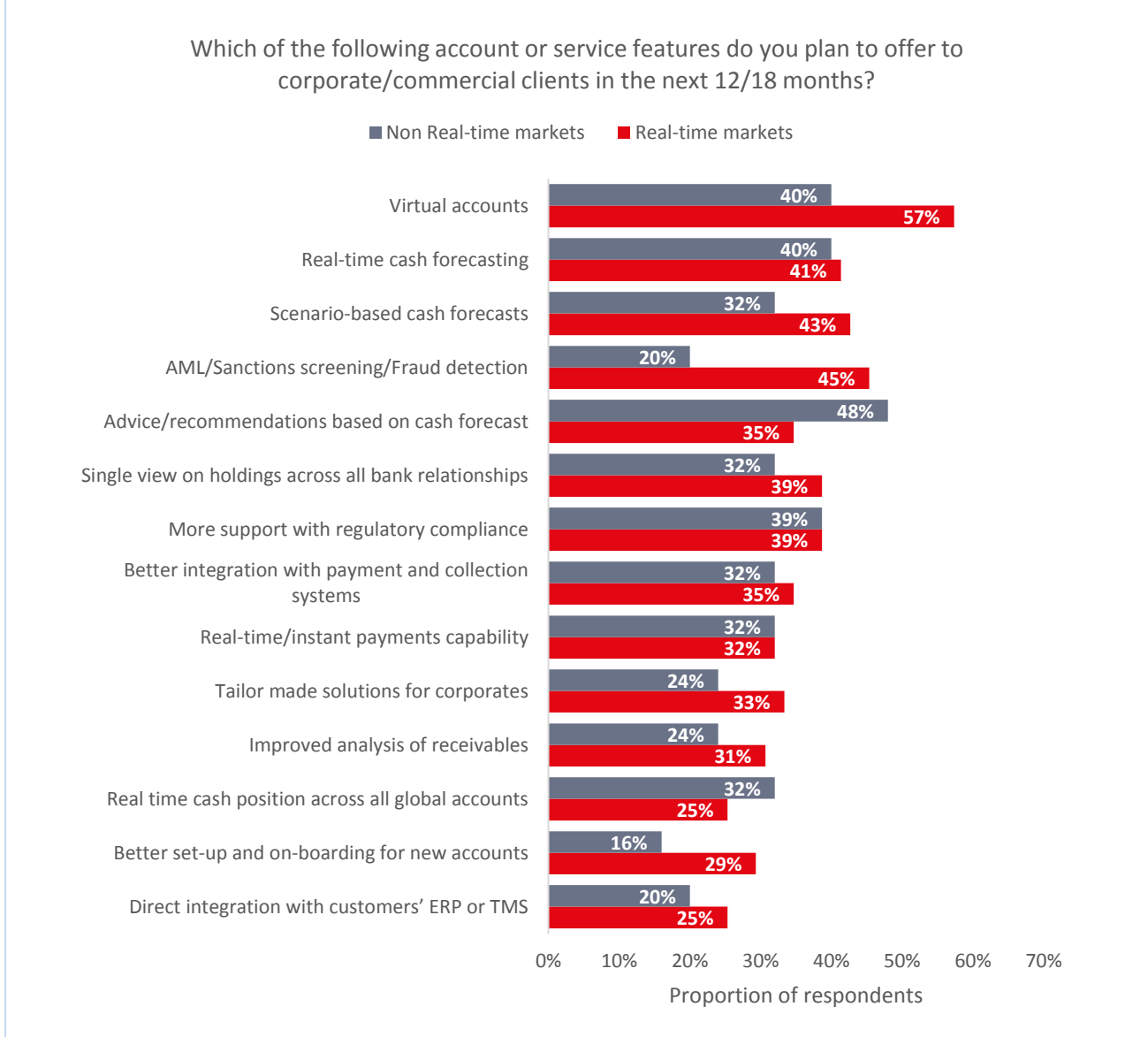
Source: Ovum 2017 Transaction Banking Survey

Real-time payment infrastructures are a significant driver of this, with the dominance of virtual accounts in the overall figure is driven largely by banks in RTP countries, where the number of banks planning to offer

the service is nearly half as much again as those in non-RTP countries (Figure 12: 57% as opposed to 40%).

As in a number of other areas, the systems upgrade and enhancement investment needed to deliver real-time payments to corporate clients can be (at least partly) leveraged to offer virtual accounts.

Figure 12: The focus on virtual accounts is greatest in those markets with real-time payment infrastructure, along with increased focus around AML, sanctions screening and fraud



Source: Ovum 2017 Transaction Banking Survey

The combination of real-time and open banking initiatives will enable further improvements for banks

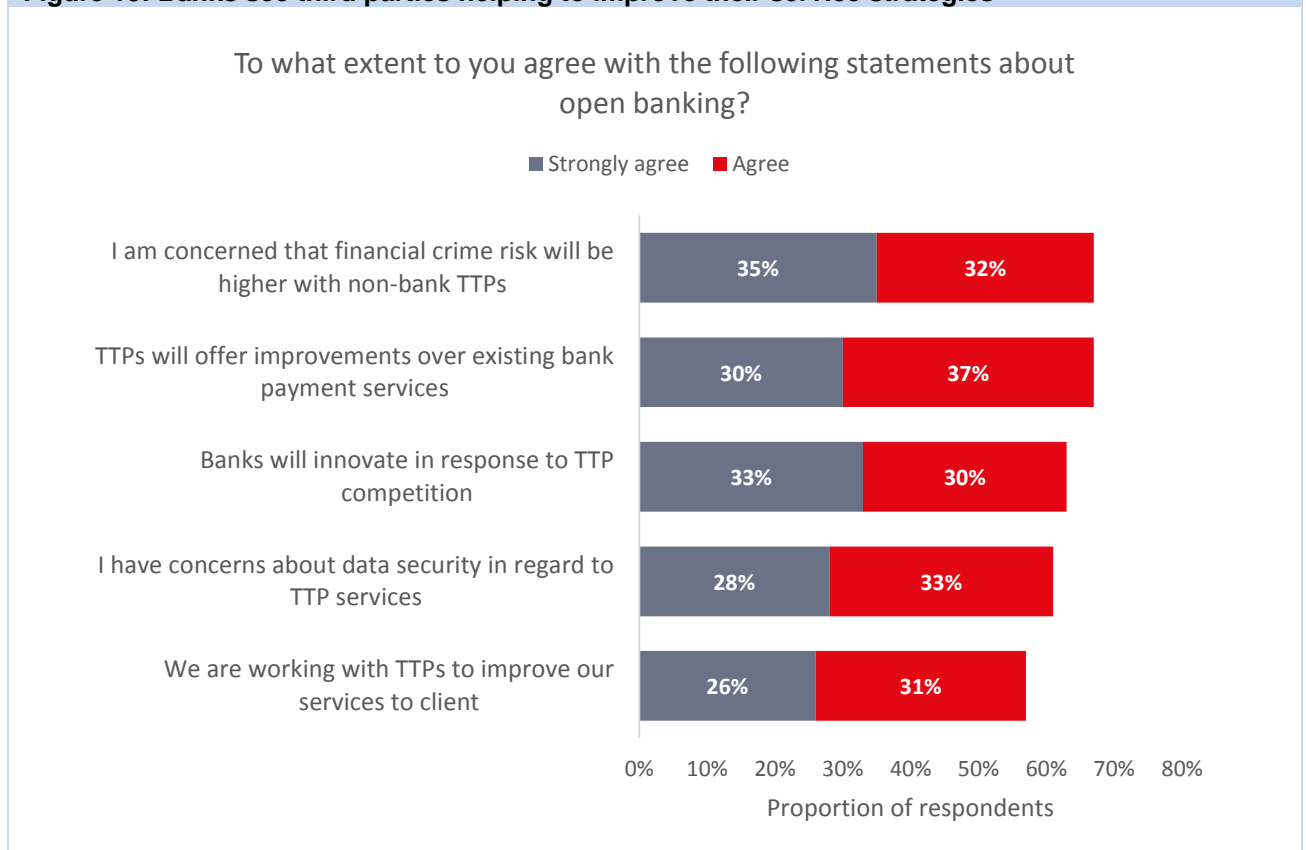
With the move to real-time underway in all of the world's major economies, it is important that banks continue – or in some cases, start – to consider their development plans in the light of other shifts that are taking place. This is particularly true of open banking, which will rely heavily on both retail and corporate banks' ability to process in real-time.

Despite initial reservations and inherent conservatism, corporate banks are positive about the benefits that open banking will bring, with 57% saying that they are working with trusted third parties (TTPs) to improve their services to clients.

A large majority of banks (67% – as opposed to 55% of corporates) – see TTPs offering improvements over bank services, and 63% of banks believe that TTPs will drive bank innovation, though they register far greater concerns about data security and financial crime risk than corporates.

Interestingly, despite the increasing willingness of corporates to turn to TTP for specific functionality – notably data aggregation across multiple accounts – they are less confident that TTPs will improve services across the board. Again this indicates a major opportunity for banks to re-engage with customers and exploit the trust that still exists in corporate banking relationships.

Figure 13: Banks see third parties helping to improve their service strategies



Source: Ovum 2017 Transaction Banking Survey

Summary

Corporate banks *are* responding to the ever-changing landscape of banking and the move from batch to real-time but they are still, mostly, driven by regulation, and are still grappling with the issues of ageing legacy systems and a tangle of bolted-together in-house developments.

Addressing the move to real-time by leveraging the latest end-to-end digital software, which requires little integration with up/down stream systems will allow banks to create *real* real-time services in a single platform, allowing them to see market opportunities beyond regulatory compliance.

In addressing these opportunities, they must ensure that they address the issues voiced by customers and create enhanced products and services which can drive increased revenue through improved customer satisfaction and retention.

Appendix

Methodology

Developed in partnership with Temenos, Ovum’s conducted two surveys (one to corporate banks and one to corporate treasurers). The 2017 Transaction Banking Surveys were conducted in order to gain a detailed and comparative view across the market, with the ability to compare the needs, challenges and successes of real-time payment users vs those that are yet to implement.

These two surveys formed a global study designed to understand how well banks are meeting the needs of their corporate clients, as well as to gain insight into exactly what role a series of new regulatory and technological initiatives – led by real-time payments – will play in shaping the leading offerings in the market in 2018.

The surveys were conducted between July and September 2017, and further demographic information is shown below.

| | Corporate banks | | Corporate treasurers | |
|--|-----------------|---------------------|-----------------------|--|
| Total respondents | 100 | | 100 | |
| Respondents by region | | | | |
| <i>Americas</i> | 17 | | 20 | |
| <i>Asia Pacific</i> | 17 | | 22 | |
| <i>Europe</i> | 45 | | 40 | |
| <i>MEA</i> | 21 | | 18 | |
| <i>With domestic real-time payments</i> | 75 | | 75 | |
| <i>Without domestic real-time payments</i> | 25 | | 25 | |
| | | | | |
| | Size (assets) | | Size (annual revenue) | |
| <i>Up to \$1billion</i> | 2 | <i>\$500m-\$1bn</i> | 16 | |
| <i>\$1billion – \$9 billion</i> | 15 | <i>\$1bn-\$5bn</i> | 28 | |
| <i>\$10 billion-\$49 billion</i> | 25 | <i>\$5bn-10bn</i> | 13 | |
| <i>\$50 billion - \$99 billion</i> | 13 | <i>\$10-15bn</i> | 12 | |
| <i>\$100 billion+</i> | 45 | <i>\$15bn+</i> | 31 | |

Author

David Bannister, Principal Analyst

david.bannister@ovum.com

Ovum Consulting

We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Ovum's consulting team may be able to help you. For more information about Ovum's consulting capabilities, please contact us directly at consulting@ovum.com.

Copyright notice and disclaimer

The contents of this product are protected by international copyright laws, database rights and other intellectual property rights. The owner of these rights is Informa Telecoms and Media Limited, our affiliates or other third party licensors. All product and company names and logos contained within or appearing on this product are the trademarks, service marks or trading names of their respective owners, including Informa Telecoms and Media Limited. This product may not be copied, reproduced, distributed or transmitted in any form or by any means without the prior permission of Informa Telecoms and Media Limited.

Whilst reasonable efforts have been made to ensure that the information and content of this product was correct as at the date of first publication, neither Informa Telecoms and Media Limited nor any person engaged or employed by Informa Telecoms and Media Limited accepts any liability for any errors, omissions or other inaccuracies. Readers should independently verify any facts and figures as no liability can be accepted in this regard - readers assume full responsibility and risk accordingly for their use of such information and content.

Any views and/or opinions expressed in this product by individual authors or contributors are their personal views and/or opinions and do not necessarily reflect the views and/or opinions of Informa Telecoms and Media Limited.

CONTACT US

www.ovum.com

askananalyst@ovum.com

INTERNATIONAL OFFICES

Beijing

Dubai

Hong Kong

Hyderabad

Johannesburg

London

Melbourne

New York

San Francisco

Sao Paulo

Tokyo

