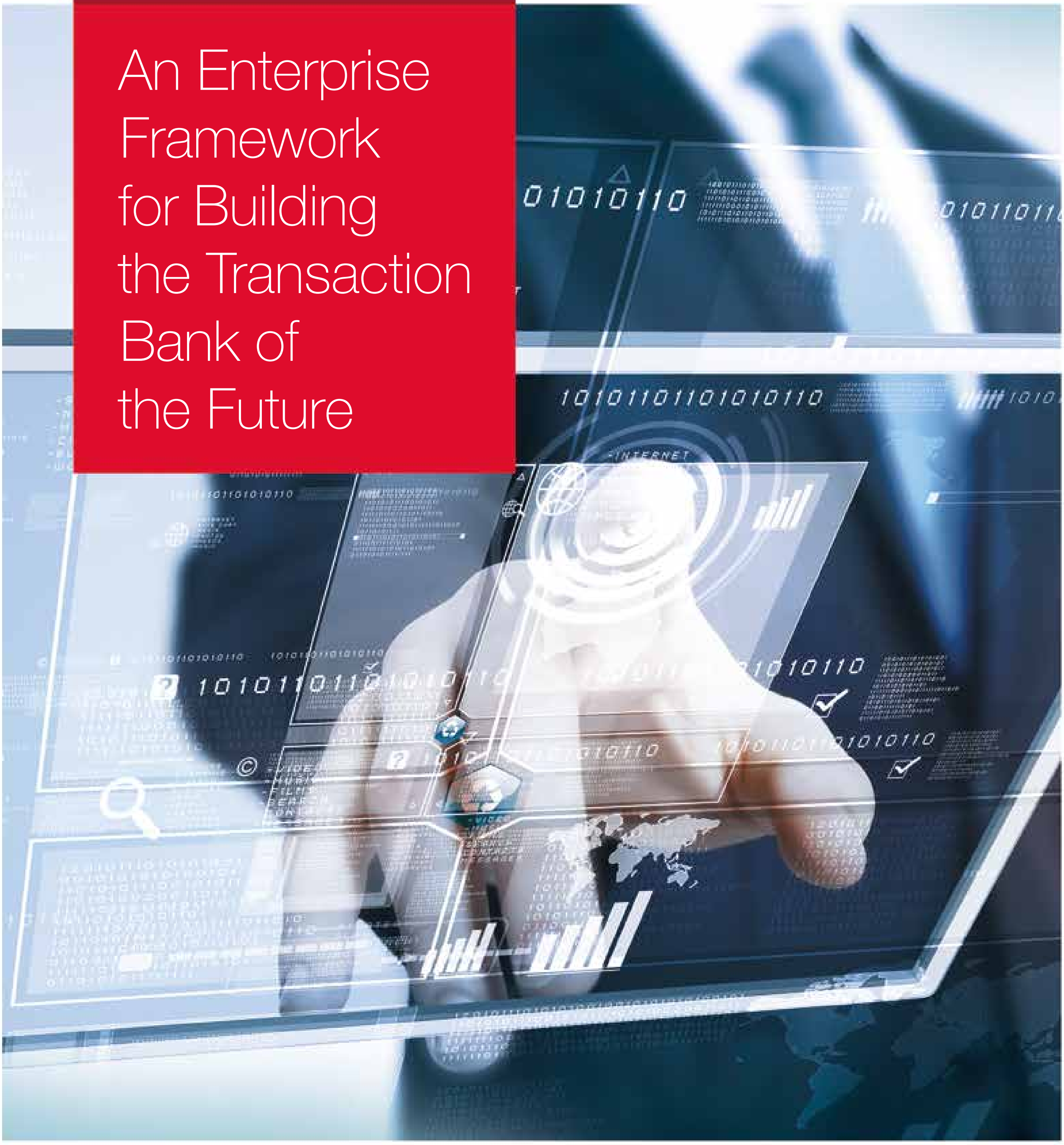
An Enterprise Framework for Building the Transaction Bank of the Future



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Executive summary

Without question, there are profitable growth opportunities for global transaction banks in today's market. Industry analysts are predicting continued expansion of the transaction banking market over the next decade, and the demand for transaction banking services continues to rise with economic growth. Every year, CGI interviews a large number of our banking clients face-to-face, and the overwhelming consensus among them is the need to invest in transaction banking to exploit current and future opportunities.

As more and more universal banks move into transaction banking and expand their transaction banking lines of business, strategy development and business model implementation have never been more important. The competition is intense and predicted only to increase, especially as new players enter the market. Identifying the right strategy and building the right business model are key to driving efficiencies across operations and differentiation in the market.

Based on our work with transaction banking clients across the globe and our nearly four decades of experience in the financial services market, CGI has developed and implemented key strategies for building a successful transaction banking line of business. We have distilled this knowledge into a comprehensive transaction banking maturity framework that outlines essential capabilities to achieve key strategies.

This paper outlines these strategies and their appropriateness based on a bank's strategic objectives and funding. It describes the capabilities that have been proven, based on our experience, to be critical in running an efficient, streamlined and profit-driving transaction banking line of business. Finally, it covers recommended steps for identifying and implementing the best transaction banking strategy and business model.

The future of transaction banking holds great promise, and the time is now for making the right investments to build and grow a successful transaction banking business. We invite you to review our insight, and we welcome an opportunity to discuss your organization's current and future transaction banking roadmap and how we can help drive your transaction banking success.

Penny Hembrow

Global Lead,
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Driving revenue and profitable growth from legacy transaction banking models

Following the 2008 financial crisis and the subsequent recession and bank turmoil, transaction banking divisions of banks have steadily risen in strategic importance. Having scaled back unprofitable geographies, products and distribution networks, banks are investing to build and grow transaction banking lines of business to attract liquidity, reduce capital allocation and improve return on equity. Transaction banking volumes and revenues have increased year over year as the economy has steadily recovered, outperforming other core bank divisions such as mass retail and investment banking.

Contrary to retail banking and with the uncertain impact of digital consumerism, transaction banking is viewed as a more resilient and reliable business, leveraging strong client franchises, peer to peer relationships and deep domain expertise. As a result of the economic upturn, businesses are growing; more goods and services are being manufactured and sold, payment volumes are increasing and merger and acquisition activity is up. The core services of transaction banking—supply chain finance, payments and cash management—are therefore in greater demand. In light of this, transaction banking is viewed as a strong candidate to compensate for the loss of investment banking returns. With transaction banking, banks benefit from more predictable and long-term revenue streams that generate both interest and fee income, making its profits "stickier," especially during low interest rate periods.

Historically, transaction banking has been the poor neglected cousin of banking. Investment spend on market-wide initiatives and within banks has been comparatively low. Straight-through processing rates can be poor and processing services are often outdated, disjointed and costly to both the bank and clients. Transaction banking, in the past, operated based on a quaint, "hand-finished" model, in part due to the complexity of bearing risk across complex supply chains and currencies. This type of legacy business environment eroded the margin ambitions of banks and frustrated clients. Unfortunately, many banks have significantly reduced modernization budgets under the avalanche of regulatory change. Budgets to modernize, streamline, innovate and differentiate are scarce.

There are other legacies from the bank turmoil years. As a result of low risk appetite among banks, many corporate treasurers and CFOs significantly improved internal capabilities, streamlined their organizations and implemented process efficiencies, including adopting treasury management systems. So, whereas banks used to provide basic, as well as value-added services, many corporates now expect even higher levels of service from their banks and are driving the demand for standardization and technologically-led innovation and efficient servicing.

New banking relationships are now formed on the basis of technology, as well as service partnership and product excellence. As banks focused on managing risks and increasing margins by reducing clients, products and geographies, the resulting supply chain evolution means that they are no longer fully servicing the needs of their clients and have allowed in new competitors, especially in the areas of SMEs, FX and payments. As noted in the gtnews 2014 Transaction Banking Survey, corporates have doubled the number of banks they work with, not reduced them. Hence, banks that are relying on transaction banking to drive revenues and profits are now facing a world not just of tougher service expectations but of significant IT led change.

Key transaction banking investment areas

Investment budgets are scarce and allocation competes for three different types of business outcomes: standardization, innovation and modernization. Banks are focused on standardizing transactions to improve efficiencies and straight-through processing, launching new innovative products and services to address client demands, and modernizing their operations and supply chain finance capabilities to drive cost savings. Rarely do business cases support all three outcomes, and the voices around the investment table are focused on addressing different ones.

Client-facing executives, for example, want to respond to client demands for new services, easier service access and increased geographic reach. The product voices are demanding product innovation and streamlining. The technology voices are requesting investment to modernize and lower the cost of ownership, as well as comply with regulations in an increasingly complex regulatory environment.

Standardization

Different and bespoke standards used in transaction banking result in unnecessary overhead for treasurers and banking systems. Often treasurers need to have specialized teams that understand how each of their main banking partners process and report on transactions. Movement towards a common messaging standard, direct interfaces to aid reconciliation, and auto repair all support better and lower end-to-end cost processing.

Early adoption of the new ISO 20022 standards for bank transactions would appear to an obvious investment choice. However, many banks are slow to invest or find the cost of adoption so significant that progress is slow. For multi-national corporates, the inconsistent implementation of standards is driving up their costs and motivating them to think through how to work differently. The risk is the development of multi-bank portals and other services that “disintermediate” a bank from its client.

Innovation

Service innovation is another key investment focus area as transaction banks strive to keep up with increasing competition and customer expectations. Treasurers are seeking a steady stream of new value-added services, especially real-time, analytic-based services. They would like, for example, improved forecasting, product comparisons, faster onboarding and consumer-style access to their transaction banks, especially via mobile and digital channels. To stay ahead, transaction banks must search for the next set of new products and services that will satisfy customer demand while generating new fee- and commission-based revenue streams. The gtnews 2014 Transaction Banking Survey shows treasurers are increasingly satisfied with this type of investment and identified it as a priority.

Modernization

Modernization is also critical to success in today’s transaction banking world. Legacy and “siloed” new services impose added costs, complexities and risks, making it difficult for banks to improve straight-through and real-time processing, maintain security, and drive product and channel innovation. They also complicate compliance with new regulations.

It is a brave bank today that decides to implement in-house new core processing platforms to replace the old. The costs, risks and timeframe to do so deter many, so alternative paths are being looked at. Some are reducing duplication, some are modernizing, and some are moving to SaaS or managed services. Many, however, are challenged in terms of what to do with legacy, high cost platforms.

Despite the increased investment in transaction banking, whether aimed at standardization, innovation or modernization, the result is yet more demands from treasurers and lower wallet share. Investments appear to be misfiring in terms of driving revenue and margin growth. How then should a bank think through its strategies to build tomorrow’s transaction bank and deploy investment dollars to achieve its business goals?

Strategies for building a transaction banking business

Investing in standardization, innovation and modernization at the same time results in small, piecemeal changes across the application landscape. Later changes then become more expensive due to earlier piecemeal ones. How does a transaction bank overcome this complexity?

The first primary question is, "What is your strategy?" There are three potential competitive positions for a transaction bank today: 1) become the lowest cost provider of required services at an acceptable level of quality and change; 2) become the most convenient provider of services, fully integrating into client processes to minimize costs and optimize service usability; and finally 3) become the go-to bank for innovative, bespoke solutions for clients' transaction banking needs. While each of these strategies is not exclusive to the others, which strategy is pursued largely determines how your investment budget should be spent. We call these three strategies the utility strategy, the service strategy, and the innovator strategy.

Utility strategy

The main strategic focus of some transaction banks should be on driving efficiencies. This could involve the divestment of certain business operations or operational consolidation, including the consolidation of processes, applications and infrastructures. It could also involve moving to a new enterprise data model.

Ideally, this strategy should encompass transitioning to a modern, ISO-compliant technology platform.

As part of its transformation program, for example, a well-known global transaction bank recently announced a series of actions to achieve greater efficiency and cost reduction through automation and standardization. The bank will look to consolidate functions, streamline organizational processes and move certain functions to lower-cost locations. It also will be implementing a new platform that will support building a capability once and deploying it across many markets, instead of building individual systems for each market.

Focusing on efficiencies will help transaction banks reduce price points, hold clients to contract, increase quality, improve analytics and respond to new regulations—all of which will result in increased cost savings and profits. It is important to note that this particular strategy can be viewed as an interim strategy, providing a faster route to the next two strategies, i.e., enhancing the customer experience and delivering innovative offerings.

Service strategy

This strategy involves investing in channels and standardization, often at the expense of product development and even efficiencies. By becoming market leaders in ISO 20022 adoption and pioneering new, more convenient modes of access for corporate customers, transaction banks can expect to maintain their footholds and even expand their client base.

In pursuing this strategy, transaction banks should consider mobile (and mobile security) and the advantages of multi-bank portals, multi-bank secure access, and multi-bank data analytics. The focus is on ensuring all standard services are available and comparable to the treasurer in real time and enable client-to-bank integration.

A large German transaction bank has recently taken this approach by developing an app-based client offering that provides clients direct access to the bank's electronic products and services. The bank also provides additional value-add by sharing with its clients award-winning research, analytics and execution tools. The bank's integrated offering is available across many different channels and is advertised as a one-stop-shop for all transaction services.

Innovator strategy

This strategy focuses on innovation and the enrichment of offering portfolios. It would appeal to transaction banks that are prepared to sacrifice efficiencies to dramatically improve services. With this strategy, banks focus resources on augmenting services wherever a significant client appetite is identified. Of necessity, this implies a constant innovation cycle for addressing client demands.

Areas of enrichment would vary widely by transaction bank, but could include:

- Product and supplier comparisons for transaction services
- Streamlined support for bank switching and onboarding and for regional expansion
- Radically improved forecasting
- Analytic insights pertinent to client business and context
- New products, especially across the financial and asset creation supply chain

A further area for enrichment could be know your customer (KYC) activities. Many banks are utilizing KYC technology to facilitate not only faster and more transparent KYC processes but also to improve their clients' banking experience. With easy, simple to navigate interfaces, clients can enjoy quick onboarding, as well as quickly and securely gain access to sensitive data.

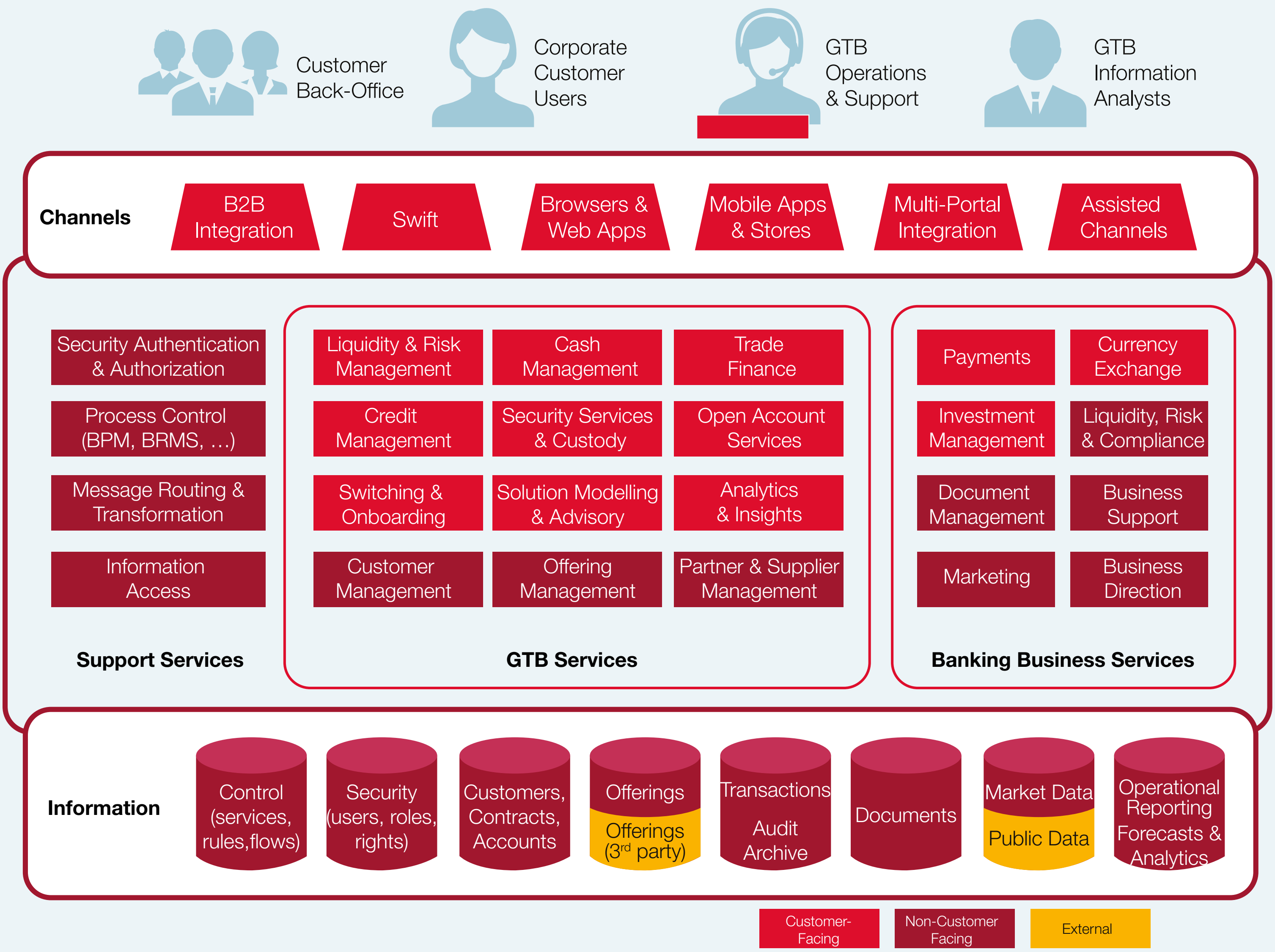
Enterprise capabilities for success

So, depending on a bank's strategic positioning, what enterprise capabilities are needed in order to realize this strategic positioning, as well as unlock massive efficiencies? Based on an IT strategy methodology used to help organizations produce a compelling roadmap of IT investments clearly aligned to business drivers, CGI has created an enterprise business services model for the future transaction bank (**see graphic below**).

In defining the capabilities of this model, CGI relies on standards set forth by the Banking Industry Architecture Network (BIAN). A global, non-profit organization, BIAN's main objective is to facilitate the standardization and integration of bank services and operations using a service-oriented framework to drive operational integration, efficiencies and performance. CGI is a member of BIAN, providing both software solutions and systems integration services in the support of BIAN's mission.

Banks can use this model to assess where they are at today versus the maturity state they want to reach. Such an assessment provides them with an informed view of the path they need to take—exploiting BIAN standards where possible—and identifies any gaps they need to address before pursuing their roadmap for future investment.

The enterprise business services model and the key capabilities that make up this model are depicted in three layers: channels, services and information. This layering is explicit in order to enable orchestration of any channel, function, or data for any type of user in a controlled and agile manner.



Services

Central to the model are the business services needed to support transaction banking. These are split into three types:

1) Transaction banking services
2) General banking services
3) Support services

Transaction banking services are those services that are unique to the transaction banking line of business (see middle row, center). They differ from and are independent of the general banking services that are common to all types of banks. Transaction banking services can be orchestrated through any channel or region, and with any combination of other services, and are supported by customer, product and partner capabilities. These services are separated to allow ease of management across individual services and avoid issues such as contract revenue leakage, as well as to enable better partner and client pricing and profitability.

General banking services are services that are not specific to transaction banking but instead are common to the bank for use across all divisions (see middle row, left). Examples include payments, document management and marketing. Transaction bank divisions should cross-leverage these common services from other lines of business wherever possible rather than maintaining them on their own to reduce run and change costs. Some banks are moving these shared services into central utilities and explicitly recognizing them as shared services for all bank divisions.

Support services enable a bank to modify, orchestrate, control and improve the efficiency of transaction banking and general banking services in an optimum way and to better respond to new requirements. They are abstracted from specific services to enable banks to make changes more quickly and across workflows, channels and services. This is an area where banks can implement new reporting standards, maintain access rights and improve processing.

This representation of services is already significantly different from what banks have today. General banking services are often duplicated across banking divisions and locations, so one change in regulation has to be implemented many times. Support services are usually embedded in specific services, making end-to-end process changes hard, costly and time consuming.

Information

Data today is a big and costly topic, especially if there are multiple sources of the same data on which the application of advanced analysis, controls and new business insight depends. In fact, data access, usage and exploitation are some of the new critical success factors for all enterprises in the digital era. To be able to offer and benefit from the above services, global transaction banks need various types of information and databases, including data related to management processes, security, customers, offerings, transactions, documents, markets, reporting, etc. (see bottom row).

There should be a single source of each type of enterprise data that is independent of both users and functions. With this level of separation and independence, the data can be used in a wide variety of scenarios, some as yet unforeseen, and by any user, function or channel, subject to controls.

Channels

There are many current and potential channels through which business services are consumed by users, such as business-to-business, Swift, Internet, mobile, portal, branch, and call center channels (see top row). In principle, channels should be independent of both users and functions to allow them to be used in a wide variety of business scenarios, some of which may be unforeseen at the present time. Users include customers, back-office staff, and operations staff (business and IT). The above capabilities should be designed with multiple types of users in mind. Any user should be able to use any channel, function or data, subject to controls.

Creating an investment roadmap

The three transaction banking strategies outlined on page four (i.e., driving efficiencies, enhancing the customer experience and delivering innovative offerings) cannot be pursued by most transaction banks at the same time due to limited funds and resources. Therefore, transaction banks need to prioritize these strategies, focusing their investment first on developing capabilities most critical to their growth.

The maturity framework described on page five facilitates this effort by helping banks to identify the capabilities that are most important to them, as well as current gaps and investment priorities. It also helps them to establish reasonable timeframes for implementation.

For example, if a bank wants to drive efficiencies, it should consider developing the efficiency-related capabilities set forth in the model, such as process and information control, operational reporting and the cross-leveraging of transaction banking and general bank services.

If its preferred strategy is improving the customer experience, its focus should be on building customer-centric capabilities such as channel enhancement, tighter security, and improved messaging routing and transformation—offering what customers expect and providing the best customer experience possible. On the other hand, if the bank wants to deliver more innovative offerings, it should invest in capabilities, such as switching and onboarding, solution modeling, customer and market data gathering, and data analytics.

Next steps

For banks interested in pursuing any of the strategies and capabilities outlined above, the best starting point is to find an IT services provider that offers not only end-to-end IT and banking services and solutions but also extensive transaction banking expertise.

This partner should be able to guide the bank through the following:

1) In-depth assessment of the bank's current transaction banking landscape
2) Identification of transaction banking capabilities that are most important to the bank
3) Identification of gaps between existing and desired capabilities
4) Development of a comprehensive maturity roadmap that is aligned with strategic business goals and supports rapid implementation
5) Alignment of IT and business to ensure IT drives and not hinders the achievement of those goals

Close collaboration with such a partner and the right supporting tools and solutions can enable banks to rapidly develop and implement a transaction banking strategy and business model that are aligned with its unique requirements and capable of positioning it for success in the expanding transacting banking market.

About CGI

Founded in 1976, CGI is a global IT and business process services provider delivering high-quality business consulting, systems integration and managed services. With 68,000 professionals in 40 countries, CGI has an industry-leading track record of delivering 95% of projects on time and within budget, aligning our teams with clients' business strategies to achieve top-to-bottom line results.

Within financial services, CGI delivers to 24 of the top 30 banks in the world and 12 of the top 20 global insurers. Our clients span across the retail and consumer finance, capital markets, corporate and transaction banking, property and casualty insurance, and life insurance sectors.

CGI has deep transaction banking expertise. We deliver high-volume payment engines and related services that enable banks to build and run payment service hubs. We also offer a best-in-class trade finance platform, CGI Trade360. In addition, our treasury and asset management software is used by 160+ clients in 10 countries, and our cash management capabilities provide seamless front-to-back processing.

CGI's transaction banking expertise also extends to the development of a comprehensive global transaction banking business model that enables banks to build and run high-performance transaction banking lines of business.

For more information on our transaction banking capabilities and experience, visit www.cgi.com or contact banking.solutions@cgi.com.

With 68,000 professionals operating in 400 offices in 40 countries, CGI fosters local accountability for client success while bringing global delivery capabilities to clients' front doors. Founded in 1976, CGI applies a disciplined delivery approach that has achieved an industry-leading track record of on-time, on-budget projects. Our high-quality business consulting, systems integration and outsourcing services help clients leverage current investments while adopting new technology and business strategies that achieve top and bottom line results. As a demonstration of our commitment, our average client satisfaction score for the past 10 years has measured consistently higher than 9 out of 10.