TREASURY TRENDS

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Transactional Banking Optimisation

Key points

- Transactional banking is evolving quickly. Are you getting a 2018 solution from your bank?
- Bank connectivity and straight-through processing should be a priority.
- Centralisation of payments should be considered.
- Streamline bank account structures for cash efficiency.
- Keep abreast of new banking innovation to reap the rewards of technological innovation.

Transactional banking has seen large changes in the past few years, encouraging businesses to ensure that they are up to speed with these technological opportunities. From a corporate perspective, there are exciting developments ahead, with the likes of Open Banking, faster payments and SWIFT Global Payments Innovation ("gpi") initiatives all heading our way. Australia's highly anticipated New Payments Platform is expected to commence this month.

Notwithstanding where you see your own organisation on the transactional banking innovation spectrum, there are likely areas that need to be modernised and brought up to a 2018 standard. We come across many organisations that have not yet implemented solutions available now which could significantly improve on current transactional banking processes and/or deliver pricing benefits. The sections below outline areas where optimisation is currently being used to reduce corporate costs and improve internal efficiencies, as well as a look to the future and what organisations will need to be mindful of.

Streamlining connectivity

There are multiple ways organisations are connecting to their banks. Connecting via an internet banking platform is still the most popular method according to a recent international survey, followed by host-to-host and SWIFTNet. However, many have not rationalised bank connectivity models, resulting in more complex control environments, high change and maintenance costs and limited opportunities for scalability in transaction processing. As the trend for bigger businesses and multinationals moves towards payment centralisation, others will start to streamline connectivity in conjunction with payments technology and standardisation projects.

For smaller corporates, moving towards a more straight-through processing ("STP") environment is often a key goal. This usually involves connecting the organisation's ERP system directly with the bank for both payments and bank statement downloads through a host-to-host connection. This eliminates the need for manual downloading and uploading of files, reducing potential for fraud and the time taken for these tasks. Comfort must be gained for the authorisation of payments to happen within the ERP system rather than needing a 'final sign-off' within the internet banking platform.

Payment centralisation

For large corporates with multiple finance teams, payment centralisation is viewed as critical for the improvement of overall controls, reduction of costs and rationalisation of payment channels. By centralising data from disparate ERP, A/P and treasury management solutions into a single shared service or payment factory, organisations can gain much greater visibility of cash, unlocking the potential for large working capital benefits. On an international scale, the adoption rates of payment factory solutions that can enable centralisation is increasing and will continue to increase with further globalisation.

Simplification of account structure

In a recent international survey of treasurers, complexity of bank account structures was a common theme. Of the 130 participants surveyed, 57% managed more than 100 bank accounts, with the largest multinationals managing more than 5,000 bank accounts. Counterparty risk concerns, along with the globalisation of organisations of all sizes, means that banking structures are becoming larger and more complex than ever before.

While your own banking requirements may be more modest than these organisations, we believe there is scope for most businesses to look at reducing the number of bank accounts and using the technology capabilities of ERPs and treasury management systems to ensure control of cash rather than requiring 'complex' or legacy bank account structures to do this for you. The ability of your systems to ensure A/R reconciliations are accurate and efficient will be a key factor in determining your business's ability to remove accounts and simplify account structure. This is the reason why banking reorganisation and rationalisation are

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often performed in conjunction with technology improvement and process re-engineering projects.

International payment disruption

International payments have been stuck in the dark ages for a long time. From the perspective of originators, as well as beneficiaries, cross-border payment processing has been something of a *"black box"* — with payments going in but no certainty on when they would be posted in the beneficiary's account, how much would be deducted in fees along the way by intermediary banks, or if remittance information would be delivered intact, or at all.

SWIFTgpi is a new tool that will start to be visible this year in New Zealand and Australia and is part of a global roll out that will take a number of years. The first service, called Customer Credit Transfer, is aimed at business to business payments and offers the following benefits:

- Same day use of funds for corporates in similar time zones
- Full transparency of fees deducted by intermediary banks
- End-to-end tracking of payments for the payer
- Unaltered remittance information transferred with the payment up to 140 characters long.

One of the appealing factors of SWIFTgpi is that the improvements have been built into the existing payments infrastructure and therefore changes from a user perspective are minimal. From a typical corporate's perspective, the main changes will be around how to best use and take advantage of the new functionality.

Open Banking — the basics

Expect to hear a lot more about Open Banking and application programming interfaces ("APIs") in the next 12 months. Open Banking is the term for sharing or allowing access to financial data with other organisations. The ethos behind this global trend is that people's bank data belongs to them, not to the banks, and therefore should be freely available for others to use once permission is given.

Through new Open Banking platforms, customers may securely share their personal transaction data from banks to an ecosystem of fintechs and other companies and service providers, making way for banks and third parties to deliver innovative products and services through APIs. APIs allow these new services to be plugged into the mainstream banking systems.

Although APIs are not new, financial services institutions are increasingly using them to exchange customer data in a simple and secure way as part of the digital transformation of banking around the world. They are a key component of the shift to Open Banking that is already under way in the UK and the European Union. Governments in Australia and New Zealand are also looking at regulation in this area but are pressing banks to embrace the concept before this.

The main Australasian banks have already started working with corporates in this space, but once banks open up there is expected to be a barrage of innovation in both the retail and corporate areas. This is an area worth keeping tabs on.

Conclusion

A decentralised payment process, complexity of account structure and lack of standardised connectivity make it difficult for organisations to improve controls, minimise payment fraud risks, improve visibility of cash, improve efficiencies and reduce costs.

As a minimum, corporates should be keeping good tabs on existing transactional banking processes and costs — do you know what you are being charged and what services those fees relate to? To stay ahead, organisations should be reviewing their transactional processes and doing a gap analysis between current and best practice, and maintaining an eye on new developments happening in this space.

The ultimate goal is the simplification of the payment process, to drive cost and efficiency gains.

If your transactional banking volumes warrant a second glance, let our experts demystify this complex area and help you to take advantage of the technological opportunities now available.

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