



Bank Focus on Payments to Improve Customer Relationships

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Banks must take a closer look at their payments business in order to gain a better understanding of the e-payments process. By taking advantage of this, and striving towards improved automation, banks will be well positioned to focus on customer relationships and provide integration options to their clients.

Most banks grapple with multiple payment systems, many of which are proprietary and use different formats (e.g. one for each payment vehicle, one for high-value and one for low-value, several for cross-border). Consequently, payment processing tends to consume a greater proportion of operating costs than its share of revenues (at some banks nearly a third more).

These pressures have led numerous banks to examine their payment-related businesses and take a defensive posture, rationalizing those that generate low or no profits and/or are subscale. For example, many banks have chosen to exit certain businesses completely (e.g. retail lockbox and trade finance) and offer them through a white labelled provider. Leading treasury banks have also taken an offensive posture, undertaking massive IT restructuring projects (e.g. building a single payment platform) and exploring new business opportunities along the financial supply chain.

Banks have not traditionally explored opportunities along the financial supply chain beyond the payment piece. Today, with the advent of web-based protocols, service-oriented architecture and attendant integration and communication possibilities, they can extend their reach and add significant value. Many organizations are focused on achieving straight-through processing (STP) in their payments operations.

The banking industry has some road to cover before reaching the STP pinnacle. Many banks are still riddled with numerous, fragmented legacy systems that may get the job done, but at a cost. These systems are expensive to maintain and contribute to a lack of automation, integration with processes, and optimization of the financial supply chain. Additionally, these inefficiencies hinder the ability to respond to the requirements of increasingly demanding corporate clients.

Challenges Facing Corporate Treasurers

What started out several decades ago as business services from banks to help their customers make payments and manage cash flow, has evolved into cash management and today matured into treasury management. To extend product lifecycles in a maturing industry, treasury management businesses must identify and capitalize on new revenue opportunities. Leading corporate treasury organizations will need to leverage technology to become collaborative solution generators.

Today's corporate treasurer faces many challenges. Market globalization makes centralizing and disbursing cash across an organization a logistical challenge. Limited resources and cost cutting measures are forcing treasury organizations to focus on improving efficiency and identifying core competencies in their organization. External pressures from investors and regulators are adding to the complexity of the corporate treasurer's job. Greater investor expectations and information disclosure put pressure on corporate treasurers to maximize returns on all assets, including available cash. Legislation and new regulations are placing an emphasis on tighter controls and improved auditing capabilities.

Tighter capital and credit markets also force corporate treasurers to improve forecasting to better manage liquidity and risk. Corporate treasurers find themselves caught in a vice: rising commoditization of their payment businesses, attendant fee erosion and increasing infrastructure costs. In fact, corporates ranked reduction in bank fees as a relatively high priority in a Federal Reserve Bank of New York survey. Compounding the treasurer's situation is the cost albatross of their payment infrastructure. Solving the inefficiencies in the financial and physical supply chain can drive improvements in the payments infrastructure and therefore reduce costs.

Inefficiencies in the Supply Chain

Inefficiencies in the financial and physical supply chains need to be optimized and resolved as STP is about much more than back-office automation. Numerous opportunities exist for automation along the financial supply chain. From order to payment, inefficiencies exist along this supply chain - banks have a lot of work to do in cleaning up their payments shop and pushing towards STP. When a bank achieves STP it enables them to get to the next level - integrating into treasury workstations and ERP systems. In order for the adoption of electronic payments to increase, and for the achievement of true STP, an additional step is also required. Banks and technology providers need to band together to examine potential opportunities. Additionally, corporates are exerting influence over e-payments development like never before. These large corporates are not sitting back and allowing financial service providers to control progress.

To meet the challenges discussed in this article, corporate treasurers must re-evaluate their technology strategy and create integrated treasury management systems to automate daily risks, improve integration, and support strategic activities, such as forecasting.

In order for banks to smoothly adapt to the shifts taking place in the payments business, a variety of elements must move forward. Banks must take a deeper look into their payments business in order to gain a better understanding of the e-payments process. By taking advantage of this and striving towards improved automation, banks will be well positioned to approach the next level - focusing on growing and nurturing customer relationships as well as providing rich information and integration options to a host of clients.