

Achieving Revenue Growth and Competitive Advantage Using an Integrated Cash Management System



Table of Contents

The Marketplace Today	2
Addressing Critical B2B Financial Integration Challenges	4
The Power of Axway	7
Generating Business Value	9
Domestic/International Wires: An Axway Use Case	10
Conclusion	11

The Marketplace Today

Regional and super-regional banks in North America¹ currently face a serious threat to their treasury and cash management services line-of-business for commercial customers. In recent years, cash management has been steadily climbing the list of priorities for corporate treasurers,² and the major money center banks have responded aggressively by making substantial investments in technology, talent and training programs designed to improve the customer experience and help clients more efficiently manage cash flows.³ Due to these investments, a gap is emerging between these large firms and the rest of the banking industry in terms of the quality of service they are delivering to customers.⁴ This gap is further illustrated by an Ernst & Young report which shows that the delivery of cash management services is strongly concentrated among the largest players, with the top five banks in North America collectively holding a 62% share of the market.⁵ The threat to regional banks is clear: Unless they act strategically and quickly, they are at risk of losing existing cash management clients and not being able to compete for new ones.

A deeper look into the North America business and industry drivers for cash management further highlights the reasons for the rising demand from corporate treasurers for value-added services, an excellent customer experience (ease of doing business), and competitive pricing. It also provides a more comprehensive view into why large banks have become increasingly competitive in offering cash management services.

Corporate treasurers in North America are under continued pressure to reduce costs, not simply through “one-off” projects but by transforming processes across the financial supply chain. Treasurers are aware that cash management has become increasingly technology-driven, and they want systems that enable them to streamline payments operations, improve internal controls, better manage liquidity, and greatly improve the integration between each element of their financial supply chain.⁶ On the other hand, the large banks are competing more strongly for cash management business not only to meet this increased demand from their

1 Generally defined as commercial bank holding companies with assets ranging from \$20B-\$200B

2 Treasury Management International Report, September 2013

3 Greenwich Associates Corporate Finance and Transaction Services Report, Q4 2013

4 Ibid

5 Ernst & Young 28th Annual Cash Management Survey

6 Treasury Management International Report, September 2013



clients but also because it has become a high-growth strategic priority for them. Cash management services are a major source of revenue, and to keep margins high and prevent commoditization, banks must continue to provide higher value-added services. Moreover, with the arrival of Basel III and the subsequent margin contraction in other banking, trading, and investment banking business lines, these banks see cash management services as providing steady revenues and decent returns — especially in managing international payments.⁷

The net result of all these dynamics is that regional banks are at a distinct competitive disadvantage in providing cash management services relative to the largest banks in North America. This disadvantage manifests itself in several ways:

- Existing treasury management relationships are potentially at risk as the bank may no longer be viewed by the client as a leading provider of services
- Clients are demanding automation and integration between their accounting systems and the bank's payment systems, but banks have limited technical resources to implement such a solution
- Banks may not be able to bid on services RFPs because of solution gaps or lack of value-added services compared to the larger banks
- Higher costs are incurred for manual processes performed for payments, reconciliation of accounting systems to deposit accounts, etc.

To retain and grow their cash management business in this new and highly competitive environment, the heads of treasury lines of business at North American regional banks should conduct a comprehensive assessment of their existing services/capabilities, and develop a business strategy for becoming more competitive across all of their cash management services. Strategy aimed at helping a regional bank become an industry innovator, get ahead of the competitive curve, and increase market share should consider the following important factors:

- Define the key business drivers for the initiative. Examples of key drivers could be:
 - Increased customer satisfaction by providing additional services and not competing on price alone
 - Provide improved personalized services based on specific client needs
 - Grow market share
 - React faster to market demands
 - Drive revenue/reduce costs

⁷ Greenwich Associates Corporate Finance and Transaction Services Report, Q4 2013

- Recognize that implementing this business strategy will have a much broader impact than simply a new product rollout. It may require significant changes in corporate culture, business processes, approaches to IT modernization and infrastructure, and technology vendor selection criteria.
- Identify the key gaps in existing service offerings and define the roadmap for future value-added services that will enable you to leapfrog the large banks with highly differentiated offerings.
- Map the technology architecture decisions related to this roadmap back to the business drivers to ensure these investments will deliver the desired business benefits.

One area that especially needs such strategic analysis is corporate payables and receivables integration and management. This capability involves outsourcing of payments and collections by the clients to the banks via integration between their respective business systems, and is a core part of treasury and cash management services offered by banks. In order to win the competitive race in cash management services, banks need to address and solve the necessary integration challenges head-on, and with strategic purpose.

Addressing Critical B2B Financial Integration Challenges

While B2B financial/payments integration between regional banks and their clients presents key challenges that need to be solved for successful cash management offerings, it also presents an opportunity for banks to create new and innovative ways of interacting with their customers. Hence, regional banks need to develop a holistic payments integration strategy that will result in the creation of a single agile solution for integrated payables and receivables processing by the bank for its clients.

There are two primary opposing factors that create this challenge and must be addressed:

1. Bank clients use a wide range of accounting and financial systems that generate information in different file formats (for instance, accounting applications from vendors such as Oracle, SAP, Sage, Infor, NetSuite and many others). Despite these variations, however, when clients look to their bank for payments integration services, they expect their bank to be easy to do business with and to provide automated and seamless data connectivity and integration with upstream bank payment processing systems.
2. At the same time, most bank payment processing systems are vendor-supplied and rigid to one degree or another. Many banking applications have very well-defined and mature interfaces that the banks cannot easily change, and the application vendors are typically reluctant to create flexibility around those interfaces, or they charge inordinately high professional services fees to do so.



The dilemma is clear: Clients want agility, flexibility, efficiency and automation in sending payment files to their banks for processing, while traditional banking systems have not been designed to provide such agility and often require clients to conform their data to the bank's application requirements. Regional banks are realizing that offering flexible payments integration capabilities is a way to grow cash management market share by attracting clients who need such capabilities but are not receiving them from their existing banks.

In order to become more competitive in cash management services, regional banks need to assess their existing payment systems (in-house; legacy; packaged applications; etc.) for the following limitations/problems with respect to client payments integration:

- Can only support a limited number of payment file formats or communication protocols
- Are non-scalable, pose security risks, or incur high maintenance costs
- Offer limited to no capabilities to support global payment standards
- Lack end-to-end visibility and self-service monitoring
- Can support only a small number of clients
- Lengthy time to on-board new clients due to numerous manual process steps
- Not configurable or extensible enough to enable future services or capabilities

If such an assessment shows that the bank needs to modernize its payments integration structure, then it's time to create a well-defined vision for the new solution, and to commit to investing in a solution that solves not only immediate needs but takes an enterprise-wide approach that can adapt to customer requirements and changes over time. This will enable the bank to develop innovative treasury management products and stay ahead of competitors in bringing them to market.

So, what is a bank's best approach for creating a robust, next-generation payments integration infrastructure?

First and foremost, a Treasury Services line-of-business for regional banks contemplating payments integration modernization must go beyond off-the-shelf integrated payables solutions and instead pursue an application-oriented approach.

Key capabilities/benefits that corporate clients are demanding and which the new infrastructure must provide include:

- **Greater efficiency and lower operational costs using straight-through processing (STP) from client to bank and back again:** This is accomplished through seamless connectivity and integration between a bank's cash management and payment

systems and the client's internal business and financial applications. Clients want the ability to create an extract from their internal financial systems and send it directly to the bank for conversion to payables or receivables transactions. Commercial clients expect their banks to be able to accommodate whatever data formats and file types they output from their internal systems — they don't want to spend their own technical resources to perform transformations just to do business with the bank. Additionally, efficient, automated new client on-boarding is needed in order to significantly reduce the time, cost and errors involved with managing this process manually.

- **Support for all required payment channel standards and financial multi-channel management:** Not only do clients expect banks to accept their payment files regardless of file type, they also expect the payment transactions in these files to be properly converted and executed via all required payment channels, both domestic and international. For North America this would especially include both wire and ACH payments. Additionally, choosing the optimal payment channel depends on numerous criteria including the frequency of payments, cost control, customer requirements and so forth. Support for this kind of multi-channel management requires intelligent control, routing and integration capabilities
- **Leverage client investments in their own technologies:** Many bank clients have made significant investments in their own accounting, ERP, and treasury management systems. To further capitalize on these investments, these clients want a loose but efficient coupling with their bank's upstream payment processing systems for greater automation, lower error rates, fewer exceptions and a higher percentage of payments being processed as straight-through processing.
- **Benefit from value-added offerings provided by the bank:** Examples of value-added offerings are client self-service, real-time integration, payments initiation and reporting, and operational intelligence. The latter is especially important, since it enables clients to receive proactive delivery of cash management services from their banks, and to gain visibility into critical metrics such as daily payment processing performance, high-care client visibility, threshold and crisis alerting, and exception handling.

Examples of bank business drivers that must be satisfied include:

- **Deliver an excellent customer experience:** Fundamental payments processing is a commodity business and banks need to be flexible and agile with regards to how they consume payment origination files and present payments received. The more smoothly and quickly banks can do this, and the more efficient they enable their customers to be, the more positive an experience the customer will have. This level of increased customer satisfaction can only be achieved when banks are innovative in how they provide interfaces and integration with client business and financial systems.
- **Drive incremental revenue:** This benefit can be achieved by generating value-added services that enable the bank to penetrate larger corporate clients.

Delivery of value-added services requires a menu of entitlements, and a modern payables integration infrastructure needs to provide the ability to charge for those entitlements and quickly enable customers to access them without major IT development effort.

- **React faster to market demands:** The new solution should be based on an agile technology stack that is flexible and extensible. This will ensure that both current and future customer requirements are met, and enable the bank to continue adding new transaction types without having to spend money on development.
- **Lower the cost of ownership:** Banks need to be able to control their infrastructure configuration with little or no development and roll out its capabilities in phased deployments. The new solution should also be easy for other lines of business in the bank to leverage (outside of treasury services), and should integrate extremely well with existing systems. All of these factors will ensure that costs are manageable, and that margins in the cash management business are not eroded.

To satisfy all of the above requirements, banks need a configurable, open-architecture system for corporate payables, receivables, and integration with commercial customer systems, including robust reporting capabilities. A contemporary system will address the cash management needs of regional North American banks and support a fragmented set of standards and back-end financial systems. A proper cash management system infrastructure allows banks to accept whatever formats their clients can provide and then easily map those formats to the proper payment channel standards, according to channel management rules. This approach gives clients a great first impression and lays the foundation for winning new business.

The Power of Axway

Govern the flow of financial and payments data

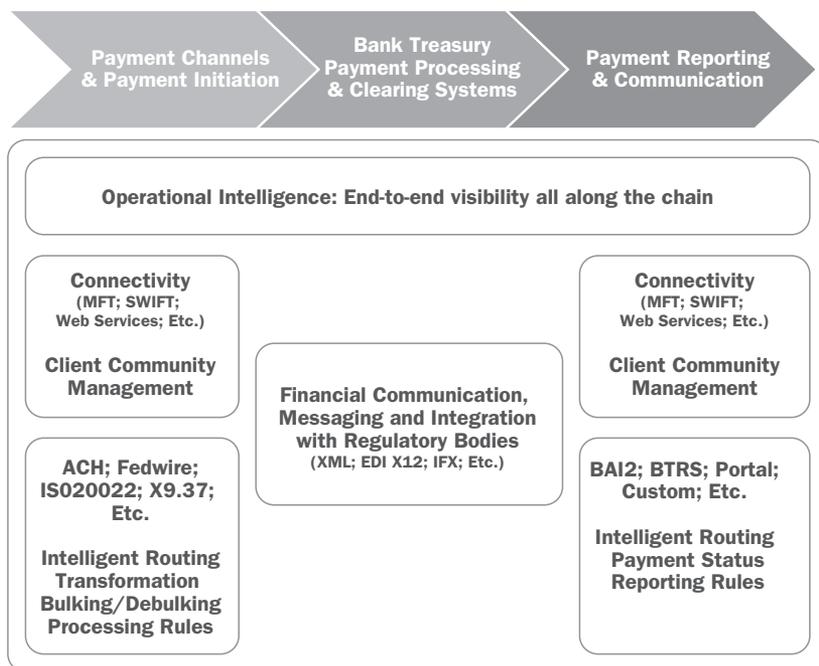
Axway's financial integration solution is a highly flexible offering that provides best-in-class financial flow management capabilities not available in pre-packaged payments management applications. Implementation is fast, cost effective, and enables quick achievement of ROI. Additionally, the Axway solution enables banks to build-in the elasticity they will need to meet their unique payables integration and processing requirements.

Axway financial integration can be implemented in phases, with testing and training provided every step of the way to ensure that bank personnel are knowledgeable and ready for customer on-boarding. This phased approach enables a more cost-effective iterative process for rolling out new services over time. In addition to customer payables and receivables integration, a bank's internal groups, such as treasury operations and others, can also leverage the Axway solution for various payment transfers.

The “power” of the Axway solution lies in its comprehensive and strategic approach to governing the flows of financial and payments data. This approach is based on four essential and highly differentiated solution elements:

- **Comprehensive B2B connectivity and integration capabilities:** Leveraging Axway’s proven leadership and heritage in file transfer solutions, Axway financial integration includes a robust set of B2B and EDI protocols, built-in managed file transfer, full security, and a rich library of financial industry payment formats for comprehensive payment channels processing. Another truly innovative capability of the solution is to provide banks and clients the option to perform either real-time transaction processing via web services, or batch processing via traditional file transfer delivery.
- **Client community management and administration:** New clients can begin receiving payments integration services quickly and easily using Axway’s self-service provisioning and on-boarding features; and can be managed easily via a repository for holding client profiles and threshold limits and a user interface for managing client entitlements.
- **Flexible and extensible architecture, financial messaging, data mapping/transformation, and multi-channel management:** The Axway solution is highly configurable and scalable and provides powerful parsing and data mapping capabilities, enabling banks to consume any payment file format from clients and map/transform it to the correct payment channel standard, according to the corresponding multi-channel management rules. It also performs content validation of information being transmitted, supports numerous financial messaging and reporting standards, and offers multiple deployment options (on-premise, cloud, etc.). Banks can also easily extend the architecture over time to accommodate new transaction types, integrate with newly deployed client systems, and support an ever-increasing catalog of value-added services.
- **Operational Intelligence:** Operational intelligence provides real-time operational performance monitoring and visibility of all payment integration and processing flows, from a distinctively business perspective. This capability delivers situational awareness, predictive insight and actionable intelligence about payment business processes, so that operations personnel can be more proactive and make faster same-day decisions.

Using this differentiated and distinctive approach, Axway enables banks to deploy customized, highly competitive offerings without investing in additional software development or feature-enhancement requests back to Axway. Many banks have already implemented this solution at an affordable cost, ensuring that their new cash management services deliver the desired margins. For regional banks seeking to enhance their competitiveness, especially in integrated payments offerings, Axway’s payment-flow orientation solution enables them to create highly customized service offerings at an affordable cost.



Axway Financial Integration Solution provides automated payment flows governance between clients and banks.

Generating Business Value

The Axway Financial Integration solution helps banks generate more revenue, deliver better customer service and achieve higher profit margins by enabling them to:

- Offer payments integration services to clients at different levels of sophistication
- Deliver value-added services to clients
- Create smarter billing metrics that enable them to charge clients a premium for certain services based on metered usage of the solution by the client

Let's look at the value of each of these capabilities in more detail.

Payments integration services for clients at any level of technological sophistication

Increasing levels of revenue can be generated relative to the degree of sophistication and complexity of the payments integration service provided. The most basic level is traditional banking integration, which includes payment instructions, banking information and communications between the customer and the bank (for payables, receivables and information reporting). Using Axway's mapping component to convert file formats from a client's accounting or ERP

systems to the specific format needed by a bank's payment processing systems, our solution enables banks to provide enterprise-level integration even for customers who can't support industry-standard payment file formats. The next level of integration applies to banks using the Axway solution to work directly with business software application vendors to develop technology partnerships that assist customers who lack the ability to integrate technologies on their own. And finally, the most sophisticated level of integration is the ability to select the optimal channel to use depending on specific payments criteria via Axway's intelligent control, routing and integration capabilities.

Delivery of value-added services to clients

The Axway solution has enabled bank wholesale treasury teams to sell value-added, differentiated B2B services to their corporate client communities. For example, using Axway financial integration, their customers can now originate different payment instruments (domestic/international wire; ACH; SWIFT; EBICS; etc.) via real-time web services directly from their accounting systems. Additionally, banks have enabled their clients to consume data on payments received via real-time web services that integrate directly back into their accounting systems. This is a significant service for corporations that generate hundreds of time-sensitive wire payments each day because they can do so at high speed and eliminate costs and errors from manual data entry and reconciliations. Banks that have deployed the Axway solution have also created a catalog of chargeable value add services. Examples of these services include accepting custom, non-standard payment formats (flat files; excel spreadsheets; etc.), premium processing windows, and controls to define limits on high-value payments.

Services like these can quickly add up to significant amounts of incremental revenue. If a bank were to charge a \$1 premium for all value-added services for every wire payment enabled, a volume of 1000 wires processed per day would result in incremental revenue of \$1K each business day. If that same premium were also applied to checks, ACH and other payments (where the overall daily volumes are much higher than wires), the bank could easily earn closer to \$1M of incremental revenue each year.

Create smarter billing metrics

The third value-generating capability enabled by the Axway solution is the opportunity for banks to create smarter billing metrics based on the solution's ability to provide access to all customer utilization data. Based on this data, a bank might, for instance, decide to charge additional fees for things such as over-utilization of wire payment services, extra security with payment limit checks, and payments submitted too close to end-of-day cut-off windows. In other words, using this data, banks can charge premiums for certain activities that would otherwise be considered simply part of the fundamental payments processing services.

Domestic/International Wires: An Axway Use Case

One particular regional bank in North America had several customers in the “Insurance Title” business who were generating many thousands of wire payments each day. Before deployment of the Axway solution, the bank’s method for wires was to provide the customer with a web portal and then have the customer manually create each wire instruction. This process created many challenges for the customer, because it was both labor intensive and risky. Additionally, the bank did not have any controls in place to detect anomalies that could potentially cause major issues for both the bank and the customer — such as transmission of incorrect wire amounts.

After implementing Axway financial integration, an API (application programming interface) was created, which enabled the customer IT team to tightly integrate their accounting system with the bank’s payment processing system. With this ability in place, the wires are now fulfilled directly from within the client accounting system and there is no need to log on manually to the bank portal. In addition to reducing risk of payment errors and manual data entry costs, this capability also has given the bank the ability to create a menu of entitlements for things such as implementation of cut-off windows, and detecting payment anomalies (for instance, if payment amounts exceed \$X, payment must be held by the bank until the customer approves it for execution).

Additionally, the API can be modified easily so that it can be consumed by many different customers. With this level of flexibility, the bank can extend these services to numerous additional clients, and generate increasing service-fee revenue streams as more customers come on board.

Conclusion

In summary, regional banks in North America should consider investing in the Axway financial integration solution for their cash management lines of business, in order to solve the numerous business challenges they presently face while positioning them optimally for competitiveness and longevity moving forward. Using the Axway solution, banks can be confident that they will be able to:

1. Grow revenue by retaining existing clients (and up-sell as their needs for payment integration grow); attract new corporate clients; and become much more competitive versus the largest providers with deep wallets.
2. Enhance their brands as leading-edge providers of cash management services while investing in an extensible solution that supports broader client integration initiatives for a lower total cost of ownership.

3. Provide value-added services beyond payables file integration, including offerings such as web services initiation of outgoing Fedwire requests, real-time reporting of incoming wires back to client systems, an approval/release web interface for payables files, and receivables reporting directly back to client systems.

Axway has leveraged its global expertise in banking and payments connectivity and integration (14 of top 15 global banks are Axway customers) and developed a financial integration solution tailored specifically for the integrated cash management needs of regional banks. Key characteristics that make it ideal for these banks are:

- The Axway solution provides a wide variety of technical capabilities that meet the needs of the vast majority of North American regional banks.
- Overall solution costs are affordable and well within the means of most banks' business-case justification requirements.
- Axway provides the flexibility and configurability to meet bank parameters for specific current and future business and technical requirements.
- The Axway solution integrates extremely well with existing systems, especially any other Axway technologies the bank may already deploy, including gateways and security services.

With Axway, banks can add critical technology to their payment and cash management infrastructure, enabling them to offer a broad spectrum of new products and services to commercial clients. The Axway solution gives regional banks leverage by enabling them to provide new and highly competitive services, and to increase revenue by charging a premium for certain services.

The voices of our customers say it best:

"The Axway Solution paid for itself after 6 months of being live."

"We now have a seat at the table with this technology. We have all the resources to make things happen, and to discover new ways to help our customers be efficient and effective. We have a great relationship with Axway, and we look forward to continuing it into the future."

To learn more about how Axway can help you grow revenue and become more competitive in your cash management business, contact us at www.axway.com to engage with one of our payment integration experts.