Banking Integration: Is Cloud Technology the Answer?

In the highly commoditised world of transaction banking, there are two primary motives for change for corporates: achieving greater financial operational efficiencies and control and creating competitive advantage. Often the key to accomplishing these lies within integration models. Here Citi's Rene Schuurman and Mark Sutton consider the evolution of the corporate-to-bank integration space, including the redefining of competitive boundaries and what cloud technology promises to deliver.

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The evolution of banking integration

As corporates continue to pursue operational excellence, through a combination of reducing operational costs, improving operational efficiencies and optimising the use of cash balances, there is a continued need to refine and even redefine the banking integration model. Initially, driven by the advance of innovations in technology, the focus was on removing paper from the payment process with the use of bank proprietary electronic banking systems. This typically provided a workflow for payment creation-and-approval processes in addition to visibility of balance-and-transaction reporting.

However, this model still required manual intervention, and as corporates improved their own internal architecture through the adoption of enterprise resource planning (ERP) and treasury management (TM) systems like SAP, Oracle and SunGard, the focus moved to achieving greater automation – effectively "straight-through processing". The supporting technological evolution of these systems allowed banks and corporates to adopt a broader range of proprietary online and host-to-host connections. While this technology enabled greater automation, it also introduced different complexities and inefficiencies, and a new focus on reducing operational costs. To address the challenges around proprietary host-to-host connections, banks and corporates turned their attention to the adoption of open standards, which provided the opportunity to remove current complexities in the corporate-to-bank space and provide a more "bank-agnostic" model. These open standards often evolved from local market practices or industry initiatives.

Competitive boundaries have changed

While various standards have been available, many were industry-specific or had limited geographical adaptation. With the birth of global standards, for example in the form of the Internet and HTML generally speaking — and subsequently SWIFTNet for Corporates and ISO 20022 XML messaging specifically — this effectively changed competitive boundaries on a global level. For the multibanked corporate, proprietary banking technology has become far less attractive as the focus now is on establishing a more simplified and standardised bank-agnostic model that can provide the required portability to help manage counterparty risk and banking relationships.

Collaboration drivers

- **A common business process** to improve payment initiation and accounts receivables automation.
- **Common standards** for payment initiation and cash reporting.
- **Common security** wherein individual solutions are proposed in the absence of a common, bank-wide solution.
- **Common connectivity**, this should be agreed between the customer and bank in the absence of a generic cross-industry solution.

Competitive differentiation

- Enabled banks vs. other banks.
- Coverage (countries, payment systems).
- Pricing.
- Service levels (e.g. cutoff).
- Customer service.
- Value-added information services like remittance-advice processing, format-conversion services and reporting solutions to customers.

The table above shows the corporate view on where collaborative and competitive boundaries are placed.

Clearly the considerations above have changed the mindset of the banking community as proprietary connectivity models have become less attractive to the multibanked corporate. As banks look to differentiate their service propositions to ultimately drive deeper wallet shares, investment dollars are now primarily concentrating on the value-added space. Given payments have become a commodity, the goal is to take a more holistic look at cash management to understand the challenges that still exist and determine what opportunities there are for banks to deliver greater value. Moreover, the focus has shifted from primarily pursuing portable or bank-agnostic solutions to realising cost efficiencies. This has been an important development, creating a common interest between corporates and banks, especially as using standards means simpler system architectures, easier maintenance and more agile processes. And that all translates to fewer investments, increased productivity and faster times to market.

So what are the current trends?

As the banking integration model continues to evolve, Citi has noticed a very clear trend as corporates look to achieve greater centralisation, automation and standardisation. Which is creating new business needs. Corporates and banks are responding by implementing best practices that pursue the centralisation, automation and standardisation of business processes to achieve a more visible and efficient cash management model.

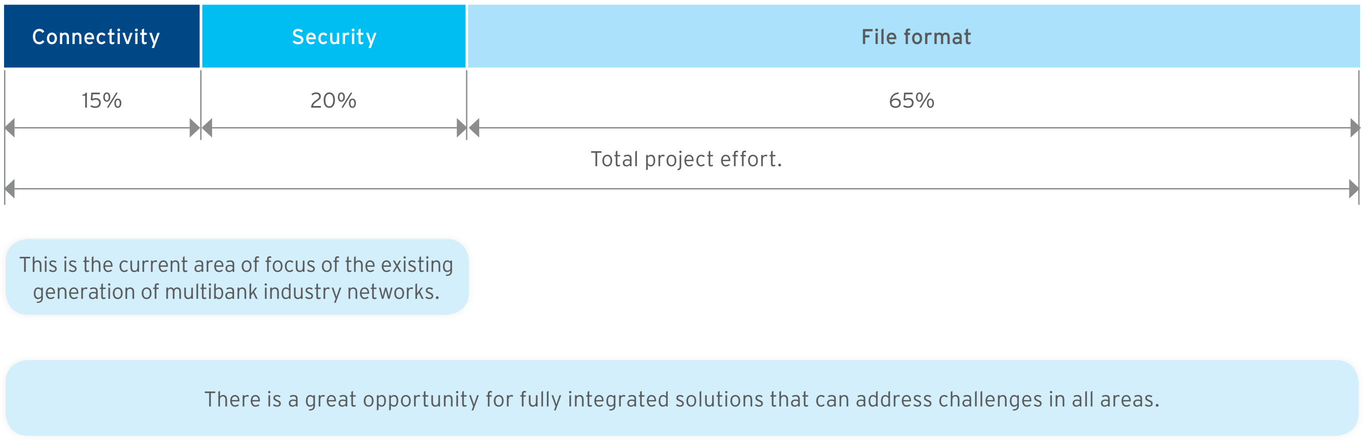
While the adoption of global standards provides the opportunity to simplify and normalise the integration model, corporates are now also looking to reduce their numbers of core cash management banking partners. This rationalisation is often linked to either the creation or the re-engineering of shared service centres or in-house bank set-ups, providing further opportunities to achieve more standardised operating models and reduce complexities.

Though some corporates are rationalising as far down to down from 4 to 6 core regional banking partners, however, the above model still requires development and maintenance as part of the adoption of global standards. If we consider the diagram below, this provides an approximate breakdown of the project effort required concerning three core components in the corporate-to-bank space – connectivity, security and file format.

Considering this in more detail, there is clearly an opportunity to redefine the banking integration model by taking away much of the typical pain that is associated with establishing connectivity, security and file formatting work using a more complete plug-and-play integration model.

The emergence of the cloud

Driven again by innovations in technology, there are now new options to consider when rationalising and optimising the corporate-to-bank integration model. Cloud technology offers interesting opportunities to further optimise the cost



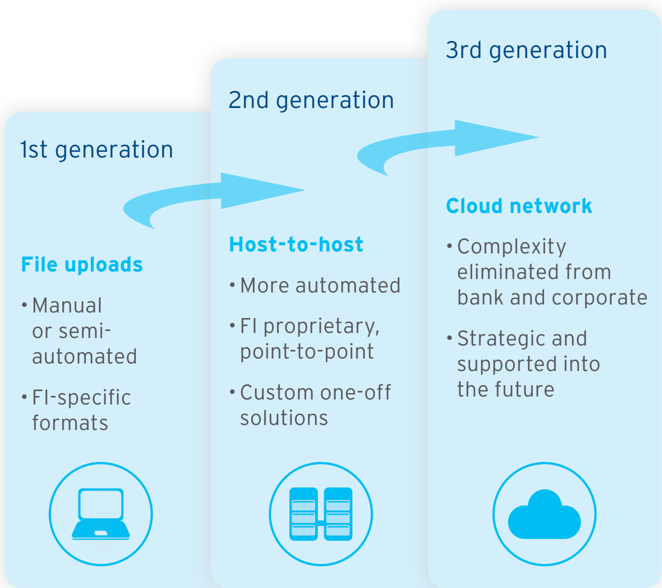
of systems infrastructure. Providers offer solutions and services that allow parts or even complete business processes to be supported using cloud-based solutions. For some, this simply means moving the ERP system into the cloud, maintaining direct connections with their banking partners.

SAP has recognised this opportunity with the introduction of their new Financial Services Network (FSN). Based on cloud technology and initially designed to work with SAP's ERP system, it effectively provides connectivity, security and file formatting as part of an integrated solution. Citi was one of the first banks to recognise the benefits of this new and simplified banking integration model. Given the increasing importance of supporting client choice in the integration space, SAP FSN provides a simplified way that corporates follow to access Citi's world-class solutions from a single interface. As the diagram below shows, this new model provides a more holistic solution, offering faster onboarding with banks joining SAP FSN and improving the monitoring of end-to-end message flows.

What does all this foretell?

While an increasing number of corporates progress with their adoption of global standards and while the competitive boundaries have been changed forever, banks will also need to continue supporting both proprietary and new integration models. Indeed some corporates have adopted solutions that take a more blended approach based on a combination of global standards (viz. SWIFTNet and ISO 20022 XML) in conjunction with retaining proprietary Internet banking platforms. The rationale here is that, while global standards typically support centralised A/P, A/R and treasury flows, there is still a requirement to enable local operating units to make nuisance/ad hoc payments and retain visibility over balance and transaction reporting. Other channels like mobile will also complement existing solutions, providing visibility and control, virtually anytime, anywhere.

What is crystal clear is the banking integration model will continue to evolve. While the diagram above highlights Citi's perspective, both supporting client choice while continuing to deliver value-added solutions globally will be key to maintaining competitive advantage. Although cloud technology is still in its infancy, it has the potential to considerably simplify the integration model. Only time will tell which option will become the dominant model in banking integration. Watch this space.



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