HSBC View

Welcome

As the payments landscape continues to evolve, there has been an increasing emphasis on developing digital channels that simplify and safeguard processes.

This is true for businesses of all types and sizes regardless of how complex their payments processes happen to be. But, are they all looking for a similar digital experience?

To explore this and other key industry issues, HSBC has partnered with Celent – a leading research and advisory firm specialising in Financial Services – to produce a series of reports. The second report in our series takes a deeper look into what today’s corporates want and need from their digital channels.

The research considers small and medium sized enterprises, middle market companies and large multinationals that may use one channel or several for bank connectivity – whether online, host-to-host, SWIFT or mobile. The report also examines how external forces such as competition, regulation, security and emerging technologies will influence the continued evolution of digital channels.

In addition to Celent’s findings, Nadya Hijazi, HSBC’s Global Head of eCommerce in Payments and Cash Management, shares her insights on what corporates expect from their banks in terms of innovation.

The findings are interesting and underpin the way many in the financial services industry approach account management. While corporates in general are working toward the same goals – to simplify process and enhance efficiency – it’s clear that not one digital channel alone fits into each organisation. The research clearly reinforces that businesses are unique in their operations, strategies and objectives.

We understand how important it is to continue evolving our digital channels to provide innovative technologies that offer consistency of service combined with flexibility to meet the diverse needs of our clients. Through this series, our objective is to continue a dialogue with you to better understand your unique goals and challenges.

Diane S. Reyes
Group General Manager and Global Head of Payments and Cash Management, HSBC

Although the ultimate goal is the same – there is no “one size fits all” when it comes to digital delivery channels.
In today’s increasingly complex economy, the focus for many corporates is on simplifying operations as much as possible.

In HSBC’s experience, this one tenet holds true no matter the size or global reach of the company. Yet simplicity in terms of banking varies from organisation to organisation – ranging from streamlining processes, to centralising views of companywide cash positions, to accessing business information quickly and more. With this, there has been an increasing focus among our clients and within the banking industry on how digital delivery channels can help achieve these goals effectively and securely.

Consistency versus Customisation
Consistency of service is certainly a key consideration for our customers. However, at HSBC we’ve found most corporates are really looking for us to help customise their experience by giving them various digital channel options that offer both standardisation and flexibility. That’s because while there may be similarities in the way companies conduct their business – no two will operate in exactly the same way. As a result, there really is no “one size fits all” approach.

Each organisation, and even individual business units or departments within the same organisation, are looking for different outcomes. For example, the central office typically wants a browser-based experience that gives them fast and easy access information. From a shared service perspective, a single pipeline into the bank that facilitates sending volumes and sharing information in real time is the primary aim. And then for busy executives responsible for authorising large value transactions who are not always in one place, a robust mobile solution is essential.

For HSBC, then, it’s really about our teams taking the time to really understand how each company does business. This allows us to implement a channel solution that not only adapts to their particular structure and needs, but also delivers consistency of service across the various stakeholders.

The Role of Innovation
Innovation is critical to our customers in many ways where banking channels are concerned, but with a particular emphasis on maximising efficiency while also protecting their accounts and information. In terms of efficiency, our corporate clients tell us they are looking to:

- View balances and transactions for local and international accounts in real time
- Initiate domestic and cross-border transactions quickly and easily
- Receive alerts and notifications when a transaction needs authorising or has been processed
- Centralise reconciliation and reporting for a better understanding of day-to-day cash flows

The security of the platforms they are working on is also imperative. Internally, global organisations need to have the necessary controls in place to manage everything from who has access to the system, to who has view-only privileges and who can sign off on transactions, to establishing maker/checker processes and limits on how much one person can see or do. They expect the level of security to be the same whether the system is accessed via host-to-host, online or mobile channels. And of course, they rely on their banks for added protection against the cybersecurity threats so prevalent in today’s digital environment.

Essentially, what we’ve heard from our corporate customers is this:

- They are looking for the right solution that fits their needs, their business and their purpose today
- They need connectivity solutions that are highly scalable and can be adapted quickly and easily as they grow and evolve
- They want a banking partner who is always pushing forward to enhance channels and better solve day-to-day problems

More than anything, HSBC corporate clients want global channels that give them a single point-of-access and visibility into everything they do with us. This includes streamlined account opening and on-boarding, as well as a greater ability to solve problems on their own with self-serve tools. From there, they’re also looking for us to innovate in ways that further enhance efficiency and help make cash more digital to better meet long-term strategic goals.
This report was commissioned by HSBC Bank Plc. ("HSBC") at whose request Celent developed this research. The analysis, conclusions, and opinions are Celent’s alone, and HSBC had no editorial control over the report contents.
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EXECUTIVE SUMMARY

Celent believes that digital in banking is much more than just launching a new app or supporting a new device, but rather requires a fundamental change in attitude towards service delivery by financial institutions. A consistent financial institution brand experience irrespective of delivery channel, often called “omnichannel” in the retail banking space, is even more critical to the corporate banking customer segment.

Serving the corporate client segment brings additional complexity to designing an omnichannel approach for digital channels. Each client has a unique set of business and technology requirements based on their corporate treasury organisational structure, geographic footprint, and treasury technology sophistication. A consistent financial institution brand experience is important to corporate clients, but the experience needs to be tailored to each client segment’s unique needs. For the largest, most complex organisations, an even more bespoke and customised experience is critical.

The pace of innovation in financial services continues to grow. Banks are investing increasing amounts of capital in technology incubators and accelerators for access to promising emerging technologies through venture operations. For corporate clients, innovation isn’t about incubators, accelerators, or hackathons. Innovation is about simplification — increasing usability, straight-through processing, and digitisation. A number of external forces (competition, regulation, the economy, and technology) are shaping the evolution of corporate digital channels, but emerging technologies will have the largest impact.

This report discusses the need to tailor digital services for corporate clients by exploring three key research questions.

KEY RESEARCH QUESTIONS

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Increasing corporate treasury scope and sophistication are changing treasury technology requirements. Corporates maximising the efficiency and transparency of digital channels today are preparing themselves to take advantage of emerging technologies in the future.
Celent believes that digital in banking is much more than just launching a new app or supporting a new device, but rather requires a fundamental change in attitude toward service delivery by financial institutions in order to meet customer needs. As part of the digital experience, Celent feels (and others agree) it is important that banks deliver an omnichannel customer experience, but the term means different things to different people. As outlined in Celent’s *Defining a Digital Financial Institution* (December 2014), the concept of omnichannel lacks a clear consensus across financial institutions, with survey respondents agreeing to a varying degree with four definitions (Figure 1).

**Figure 1: Defining “omnichannel” remains a challenging task**

Q. To what extent do you agree with the following statement?

- Omnichannel is about ensuring customers have a consistent experience of our brand irrespective of the channel they use (63% agree, 23% disagree).
- Omnichannel is about channel integration and seamless customer transition between channels (55% agree, 28% disagree).
- Omnichannel means delivering the same capabilities/functionality across all channels (36% agree, 32% disagree).
- Mobile and online channels serve different customer needs and warrant customer experience accordingly (17% agree, 36% disagree).

Source: Celent NA Retail & Business Banking Technology Survey 2014, n=154

Celent believes that omnichannel is about delivering a customised but consistent financial institution brand experience to customers across all channels and points of interaction. In this context, omnichannel for corporate channels means the following:

- **“Zero drop rate” channel integration.** The client should be able to move seamlessly between different channels, initiating a wire transfer through the banking portal and approving it on a mobile device, or transmitting a host-to-host integrated payables file and receiving an acknowledgement on a tablet.

- **Optimising a cross-channel experience by building on individual channel strengths.** We recognise that each channel is different. For example, the way a client engages with mobile is very different from using an online cash management portal. As a result, we don’t think that all channels must offer the same functionality or...
even access all of the same information. Instead, we believe customer experience via an individual channel should be tailored to the strengths of that channel. For example, a treasurer may want the ability to approve a high value payment on his mobile device, but prefers his staff to validate and verify high volume, low value payment batches generated by Accounts Payable on their desktops.

- **Mutually reinforcing channels.** Uniformity across digital and physical channels is an essential component of the corporate customer experience. Corporate clients often use multiple channels concurrently, such as looking at positive pay exceptions online while talking to a customer service rep on the phone. This highlights the importance of real time information and consistency of data across channels.

Regardless of channel, corporates are looking for a consistent but tailored experience, especially with respect to available information.

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A consistent financial institution brand experience is important to corporate clients, but the experience needs to be tailored to each client’s unique needs. For the largest, most complex organisations, an even more bespoke and customised experience is critical.

Delivering a customised but consistent experience to corporate customers is especially challenging, because one size doesn’t fit all. Most banks segment their business customers based on revenue size. For example, Figure 2 outlines one approach to customer segmentation based on annual revenues (receipts) and number of employees.
Many companies, even multinationals, work with only a handful of primary banks for their core, domestic transaction needs. But these companies require operating accounts at regional and local banks for foreign exchange, currency services, employee payroll, and vendor payments. A recent AFP survey found that 33% of the largest global firms work with 11 or more banks, and 64% have more than 150 bank accounts. Even the smallest businesses generally partner with more than one bank. Only 2% of respondents reported doing business with a single bank (Figure 3).
But while company size is a major driver, the number of banking relationships is also influenced by factors such as treasury structure, geographic presence, industry segment, and company strategy. Going hand in hand with the number of banking partners is the number of banking accounts needed to effectively manage cash flow and working capital.
DIGITAL CHANNELS: TAILORED BUT UNIFIED

Depending on the size and maturity of the business, corporates’ banking requirements differ widely, particularly with respect to use of digital channels. Figure 4 depicts various stages in a business’s economic lifecycle and their use of digital channels for bank account information, cash management services, payments initiation, and international services.

Figure 4: Customers’ increasing sophistication and banking needs

Many of the largest banks strive to provide a single, integrated product set across global digital delivery channels. However, many geographies have regional nuances such as the proliferation of checks in the United States, electronic billing (boleto) requirements in Brazil, and renminbi invoicing in APAC, which requires corporates to seek tailored online, mobile, and file channel solutions.

Companies use a number of channels for bank connectivity — web-based bank portals, treasury workstations, host-to-host, SWIFT for Corporates, mobile/tablet banking, and paper-based/fax. Figure 5, also from the AFP survey, shows the percentage of corporate practitioners using various channels to connect to their banking partners.
All of the channels listed above can be used to access balances and statement transactions. The ability to receive confirmations and to initiate payments along with more complex transactions varies by financial institution and channel.

- **Online Cash Management Portals**: The largest banks offer multiproduct, multicountry web-based platforms integrating various corporate banking solutions and services. An integrated bank portal may support cash management, payables, receivables, trade services, financing, and investments. Many banks offer separate portals for specific services such as trade services or investments.

- **Host-to-Host and Managed File Transfer**: For corporates processing large transaction volumes, the host-to-host channel enables file-based data transmission and translation, connecting a corporation’s treasury management system (TMS) and enterprise resource planning (ERP) systems with a bank’s file gateway. Most bank host-to-host solutions support a variety of communications protocols and networks, with a goal of straight-through processing of transactions between corporates and their banks.

- **SWIFT for Corporates**: Direct connectivity to the SWIFT network provides corporates with a single channel to reach any of the 2,400 banks on the network. Corporates have several implementation options: 1) dedicated on-premise SWIFT Alliance software and hardware, 2) third party SWIFT Service Bureau, 3) cloud-based SWIFT Alliance Lite2, either using a PC-based browser or pre-built TMS integration. Once the province of the largest corporates, SWIFT connectivity is increasing among smaller firms, with fewer banking relationships (Figure 6), particularly in EMEA.
• **Mobile Banking**: Usage of corporate mobile banking is role-based and somewhat dependent on the size and treasury maturity of the business customer. Firms with dedicated, full-size treasury and finance staffs may never need mobile access to balances, payment approval, or fraud alerts.

• **Paper Based/Fax**: Somewhat surprisingly, some companies continue to rely on email and fax for account transactions and remittance advices. Finance departments often receive the same remittance information in multiple channels — online, host-to-host, and email or fax. However, many banks do not offer fax services because of data security concerns.

Especially for larger companies, corporate treasury and finance departments depend on reliable connectivity — internally (across operating units and departments) and externally (to banks, financial networks, and information providers). Bank connectivity through digital channels represents only one piece of a complex technology puzzle.

Because of the complexity of running a multifaceted global treasury operation, corporations often do much of their own technology heavy lifting. Many have an in-house bank structure or shared service centre, and are expanding into payment factories. Others are consolidating ERP systems and collapsing general ledgers. Still others are upgrading their treasury management systems to take advantage of cloud-based solutions. Figure 7 represents a simplified diagram of treasury and finance information flows and connectivity for a multinational corporate (MNC).
For multibank reporting, large corporates use SWIFT, EBICS, and bank concentrators. Large corporates may standardise on a global payments platform but lean on their lead transaction banks for more complex netting, intercompany lending, and foreign exchange hedging. Middle market companies with limited treasury and finance staffs value the ability to initiate and approve payments, manage exceptions, and receive alerts on smartphones and tablets when they are working outside of their corporate offices.

Small-medium enterprises want simplified services that are scalable as they grow, but not “dumbed down.” Many banks continue to offer their small business clients a rebranded retail online banking interface with limited cash management features. These banks underestimate the growing sophistication of SME financial needs. The world’s largest corporations have been doing business globally for many years. As it becomes easier for smaller businesses to work with suppliers and buyers across geographies, many more middle-market and small-medium enterprises are becoming globally active.
As discussed in Celent’s *Innovation in Financial Services 2015: Reaching the Next Level* (November 2015), the pace of innovation in financial services continues to increase. Numerous innovation incubators and accelerators are in operation and offer partnership models which bring incumbents together with startups. Banks are investing increasing amounts of capital for access to promising emerging technologies through venture operations. Labs engage both internal and external stakeholders. Hackathons and university recruitment efforts are on the rise. But the majority of these digital innovations focus on delivering easier, faster, and more convenient sales and service propositions to retail customers.

**Key Research Question 2**

What types of digital innovation are corporate clients demanding?

Innovation for corporate clients isn’t about incubators, accelerators, or hackathons. Innovation is about increasing usability, straight-through processing, and digitisation.

Much of the discussion about digital transformation and innovation in banking is centered on mobile banking. For retail banking, startup and digital-only banks can offer a best-in-class “mobile-first” experience, in large part because they are not hampered by legacy back office systems and the expense of maintaining decades-old technology.

Few companies, except for possibly the smallest sole proprietor businesses, rely solely on mobile banking to manage their company’s finances. As found by the AFP in their annual Transaction Banking Survey, whether big or small, 84% of business clients value “technology platforms and capabilities” when selecting a bank. Financial stability, strategic fit, best in class products, and global footprint round out the top five factors in selecting a bank. Fifty-nine percent consider “online and mobile service and product offerings” important (Figure 8).
Innovation for corporate clients isn’t about incubators, accelerators, or hackathons. Innovation is about increasing the usability, simplification, straight-through processing, and digitisation of corporate technology channel platforms and capabilities. We hear a lot of discussion about banks’ inability to adopt the “fail fast and often” approach of Silicon Valley tech startups. Celent salutes those banks that run pilot programs with small groups of corporate customers when testing new capabilities. Running early pilots helps banks to validate design approaches with their target audience, rather than the traditional approach of waiting until development is complete to conduct traditional beta testing.

We encourage treasury and finance professionals to seek opportunities to participate in customer advisory boards hosted by their banks, treasury technology providers, and other critical business partners. Corporates can help their providers to understand new markets, improve products and services, and recognise industry-specific nuances.

Figure 8: Online and mobile technology has limited impact on bank selection by corporates

Source: 2015 AFP Transaction Banking Survey Report of Survey Results, Celent
FORCES SHAPING THE FUTURE

A number of external forces are shaping the evolution of corporate digital channels (such as competition, regulation, the economy, and technology), but emerging technologies will have the largest impact.

**What are the external forces affecting corporate digital channels?**

A number of external forces are shaping the future of corporate digital channels, but emerging technologies will have the greatest impact.

**COMPETITIVE ENVIRONMENT**

For this report, Celent looks at how competition is a boon to corporate clients in the area of digital channels. Banks focused on corporate banking continue to invest in digital solutions to remain competitive. Corporates ensure they are getting the best bang for their buck by issuing RFPs for transaction banking services every few years as their requirements change. To avoid competing purely on price for commoditised products, banks must differentiate themselves with expertise and excellence.

The retreat of large global banks in countries where they lack competitive advantage presents a challenge for corporates operating in those geographies. Particularly in emerging countries, local and regional banks may be able to fill the void and at a discounted price point. However, many of the regional players can’t meet corporates’ expectations for sophisticated digital products. Larger banks recognise the need to combine digital sophistication with regional expertise to develop innovative products. Examples include cross-border renminbi (RMB) cash pooling for Chinese clients and regionalised online cash management capabilities for Brazilian companies.

**REGULATORY CLIMATE**

Another challenge for corporates operating in foreign countries is meeting a diverse and sometimes divergent set of regulations. The regional product nuances mentioned pale in comparison to regional regulatory differences, increasing treasury challenges for companies operating internationally. Global banking partners can be a valuable source of country-specific information on the banking sector, corporate taxation, regulations, and payment systems. As treasury departments assess shared service centres and enterprise treasury technology, they need to consider specialised staff and systems to support these country-specific requirements.

Eliminating manual intervention in day-to-day treasury and finance operations through automation minimises audit exceptions, improving internal controls and compliance with regulations such as Sarbanes-Oxley. Improving straight-through processing with file-based host-to-host and SWIFT connectivity mitigates the risk and cost associated with error-prone manual processes.

Once at the mercy of their IT departments, treasury and finance professionals making a business case to improve treasury technology drive business value through process
optimisation, enhanced liquidity reporting, and predictive analytics. Corporates also benefit from cleaner data for working capital management and cash forecasting as banks improve data management and predictive analytics in response to regulatory demands.

**ECONOMIC CONDITIONS**

Corporations have been expanding globally over the past several years. Supply chains are more geographically dispersed, trade barriers have been lowered, and middle-class buying power has increased in emerging economies. The shift in trade flows from West to East and continued rise of open account is increasing demand for cross-border payments and related trade services solutions. There is a complex web of counterparties and physical documents involved in an international trade transaction. Increasing digitisation of trade services across business networks could streamline the import and export of goods, but adoption will be slow until a critical mass of counterparties adopts electronic documents and join trading networks.

With bank return on equity squeezed by regulation and slowing economies across much of the world, banks are looking to optimise customer profitability. The upside is a focus on lowering the cost to serve business clients, particularly those with less sophisticated digital requirements. Automating previously manual processes such as electronic bank account management (eBAM) reduces servicing costs for both the bank and its clients. Continued competition for profitable corporate clients is keeping banks focused on digital channel investment and other value-added services to remain competitive.

**TECHNOLOGY IMPACTS**

Technology is a key enabler for corporate treasury and finance departments, and payments and cash management solutions delivered by digital banking channels are crucial to day-to-day operations. There are a few key technology themes shaping the future of these channels, with security, authentication, fraud, and cybercrime at the top of the list. In most jurisdictions, commercial customers bear the liability for fraudulent transactions, so these customers must be hyper-vigilant when it comes to security.

**Security and Authentication**

As evidenced by adoption, corporates are comfortable with the data security and user authentication options afforded by online cash management portals, host-to-host connectivity, and SWIFT network connectivity. Portals have built-in controls such as secure sessions, multifactor authentication, role-based entitlements, transaction limits, and multi-level approval. Host-to-host and SWIFT network connectivity are based on secure protocols such as FTPS, SFTP, and HTTPS. Encrypting data at rest and in motion between corporates and their banks provides another layer of data security.

Most banks use a consistent security and authentication approach for both online portal security and mobile banking apps, which affords consistent enforcement of internal controls such as separation of maker/checker responsibilities. However, security continues to be a barrier to corporate mobile adoption, even though there is little evidence of fraud. For example, according to the 2015 AFP Payments Fraud survey, only 1% of organisations surveyed were subject to attempted or actual payments fraud from a compromised mobile device.

Another factor affecting mobile adoption is corporate bring-your-own device (BYOD) policies, with limitations placed on the ability for employees to log in to mobile corporate banking from personal devices. Financial management staff must understand and adhere to their corporate guidelines for corporate-issued or personal devices in the workplace. They can then assess how best to use their banks’ security and authentication capabilities to remain in compliance. There is a trade-off between the convenience of using personal mobile devices and tablets and the security offered by using dedicated workstations behind a corporate firewall.
On the flip side, the anti-fraud benefits of corporate mobile banking are often overlooked. Many mobile apps support check and ACH positive pay alerts, allowing near real time notification of potentially fraudulent transactions while on the go.

**Fraud and Cybercrime**

In spite of these security controls, the 2015 AFP Payments and Fraud Survey found a doubling in instances of wire fraud, largely as a result of social engineering. In what are often referred to as business email compromise (BEC) scams, fraudsters are conducting research on company executives and then attempting to send emails with payment instructions to A/P employees that appear to be from the company’s CEO or CFO. In this scenario, email addresses may be hacked, or slightly altered, to deceive the employee into complying and making the payment. Fraudsters may also pose as vendors and request that their payment information be changed.

Corporates can learn more about preventing fraud and cybercrime in digital channels from a number of sources including the FBI, National Security Agency (NSA), National Institution of Standards and Technology (NIST), and their banking partners.

**Simplification and Standardisation**

Corporates continue to use technology to increase simplification and standardisation in digital banking services. A key example is the continuing shift from legacy file formats to ISO 20022 XML for payments, statements, foreign exchange, and trade finance. According to SWIFT, 610 corporates are sending and/or receiving ISO 20022 messages. This represents about 40% of the 1,514 corporates using SWIFT. Although ISO 20022 is an industry standard, banks use different versions and variants, limiting its ability to improve consistency. Proactive corporates are working with SWIFT and their banking partners to understand where and why differences exist and hopefully, reduce or eliminate differences where possible.

**Consumerisation and Customer Experience**

For their personal finances, many treasury and finance professionals embrace innovations such as contactless payments (e.g., Apple Pay, Visa payWave, MasterCard, PayPass) and biometric authentication (e.g., Apple Touch ID). The consumerisation (defined as business services influenced by consumer expectations) of these technologies is spreading as users recognise the benefits for corporate financial management.

Banks, awakening to this trend, are beginning efforts to improve the customer experience (CX) for their corporate clients, particularly in the area of client onboarding. Over time, corporate clients can expect a more streamlined experience, with fewer requests for the same information from multiple departments. CX projects are also underway to improve user interfaces for digital channels.

**Emerging Technologies**

The emerging technologies outlined below have the potential to improve user security, digitise the financial supply chain, streamline open account, and enable direct connectivity between corporates and banks.

- **Biometric Authentication**: Some banks have rolled out Apple’s Touch ID fingerprint authentication technology for consumer online banking login authentication. However, as quickly demonstrated by clever hackers, Touch ID is vulnerable to various hacking methods. For this reason, banks are turning to more sophisticated biometric authentication methods for its corporate online and mobile banking applications. The focus remains on layered, multifactor authentication, but combines emerging authentication technologies in unusual and unique ways.
Several banks are looking at biometrics such as finger vein, facial recognition, speech recognition, and iris scan to secure corporate digital channels and alleviate clients’ concerns about fraud and security. The hope is that as corporate mobile banking is equipped with security features such as tokenisation and biometric authentication, corporates will accept mobile more widely. We encourage corporates to participate in beta testing projects with their banks to ensure that authentication methods meet usability expectations. Wide adoption of biometric authentication is dependent on a seamless and foolproof customer experience. If not, customers will fall back to using traditional corporate authentication methods such as physical security tokens.

- **Digitisation**: Digitisation of information in the corporate banking space isn’t new by any means. But advances in the technology options and software tools available to banks and corporates are indicative of how this segment is evolving. One example is in financial supply chain management.

An increased focus on developing economies highlights the need for increased digitisation of paper in the physical and financial supply chains to streamline trade transactions and capture data for regulatory reporting and trading partner risk analysis. There are a number of software providers automating and facilitating trade and supply chain finance transactions, but as a first step, critical supply chain documents such as bills of lading, purchase orders, and invoices must be digitised, and transaction data accurately captured for downstream processing. Digitisation of key elements in the financial supply chain underpin the ability for banks, corporates, trading partners, business networks, and solution providers to collaborate in the digital transformation of trade and supply chain finance.

Other examples of digitisation across the corporate-to-bank value chain include adoption of electronic bank account management (eBAM), digital document signing (eSignatures), and client onboarding portals.

- **Blockchain**: A number of banks are investing in distributed ledger technologies, often called blockchain, primarily through an alliance of the largest global banks. The Distributed Ledger Group (DLG) consortium, which is managed by R3CEV, is composed of the largest global banks and focuses on building a next-generation financial transaction network. Members include Bank of America, Citi, Deutsche Bank, J.P. Morgan, Goldman Sachs, HSBC, Mitsubishi UFJ Financial Group, Morgan Stanley, Royal Bank of Scotland, and Toronto-Dominion Bank.

Applications for distributed ledger technology are trending towards more complex, paper-based activities. With distributed ledger technology, each transaction is recorded and shared among participants. Trade finance is an early candidate, with several FinTech firms focused on simplifying processes and reducing costs. WAVE’s application manages ownership of documents on the blockchain with a goal of eliminating disputes, forgeries, and unnecessary risks. Gazebo.io provides data-driven payment release on open account terms. Skuchain provides a financial instrument called a Bracket that manages interactions between buyers and sellers, focused on making open account transactions less risky.

- **APIs for Bank Connectivity**: According to the Macmillan English Dictionary, an “application programming interface (API) is a set of instructions that allows one piece of software to interact with another”. In financial services, APIs have been around for a long time. One example is the PayPal API, which exposes various features of the PayPal platform for developers to create eCommerce applications for retailers. Another example is the Intuit QuickBooks Online API, which allows a developer to access a customer’s QuickBooks account from within a third party app. Yet another is
the Federal Reserve Bank of New York API that provides historical data for foreign exchange rates to calculate prices for cross-border payments.

The Payment Services Direction 2 (PSD2), sponsored by the European Commission and adopted by the European Parliament on October 8, 2015, requires banks to provide customer account information to and enable payment initiation by third party providers in the euro area. Although the specific technical approach has not yet been published, industry watchers expect banks to use secure APIs to support data access and payment transactions. Celent expects the PSD2 to stimulate competition in electronic payments and account aggregation services, primarily focused on consumers.

For corporate treasurers, it’s possible that file-based batch transmissions could eventually transition to APIs. It would require the entire digital channel ecosystem to support data exchange via APIs — bank back offices, information providers, treasury technology suppliers, and ERP system vendors. Silicon Valley Bank (SVB), a $42 billion regional bank headquartered in California, is publishing APIs to give developers access to commercial account information and payment initiation services. The intent of the APIs is for financial technology providers to develop solutions that enable direct integration between SVB and its high-tech customer base.
THE PATH FORWARD

Increasing corporate treasury scope and sophistication are changing treasury technology requirements. Companies are investing in technologies such as next-generation treasury management systems, payment hubs and factories, trading platforms, and predictive analytics tools. Firms with limited IT resources look towards cloud-based solutions, particularly firms adopting treasury technology for the first time or requiring little customisation of third party solutions. Although digital banking channels are just one component of a complex treasury technology landscape, they are a critical one.

The transaction banking models outlined in Oliver Wyman’s “Serving the Corporate Treasurer: Implications for Transaction Banking” (2011) provide a starting point for corporates evaluating providers of digital services. The report suggests segmenting banks based on their core competencies:

1. Processor: The processing bank is one that has scale and tremendous capability in executing transactions. This bank can provide seamless and flawless execution at a low cost-per-transaction, often across multiple geographies, client segments, and products.

2. Specialist: The specialist bank is one that has deep knowledge and/or customised products. A specialist bank may be one that offers packaged solutions and complementary services targeted to the unique needs of specific industries. A specialist bank can also be an institution that focuses on providing state-of-the-art technology and automation tools for its clients. Often, these banks will partner with or acquire nonbank providers to deliver a solution that reaches deeply into the customer’s business and operations — for instance, providing a trade services and financing solution specifically for the shipping industry, or full revenue cycle management for healthcare companies.

3. Advisor: An advisory bank is one that focuses on the coverage and servicing of the customer. The client relationship model is based on a “quarterback” approach, with solutions and partners (both internal and external) brought together to deliver a comprehensive and out-of-the-box solution for the customer. These solutions are complex, value-added, and not easily compared to services offered by competitors (i.e., not considered commodities) and, as such, can command premium pricing. The advisory bank also often provides education and advocacy for its clients.

Many banks adopt more than one model across different geographies and segments. Corporate clients need to clearly define their requirements prior to choosing banking providers for digital services. In some cases, corporates may consider nonbank providers, particularly in the areas of trade finance, foreign exchange, and supply chain finance.

Corporates maximising the efficiency and transparency of digital channels today are preparing themselves to take advantage of emerging technologies in the future.

Was this report useful to you? Please send any comments, questions, or suggestions for upcoming research topics to info@celent.com.
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Celent is a research and advisory firm which focuses on delivering technology-related insight to the Financial Services industry, to enable our clients to make the right decisions, at the right time.

To deliver these insights, Celent harnesses three core principles.

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Our analysts come from a wide range of backgrounds, but they all bring wide ranges of experience with them. Often the source of an insight that an analyst brings is from their previous life of having dealt with an identical situation. Celent analysts have often walked in the shoes of their clients, rather than studied it in an academic way at arm’s length, and so they understand what matters, and the nuances of the situation.

AN UNPARALLELED NETWORK
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The research is carried to address these questions, through primary and secondary methods. We are careful to separate fact and opinion, and will always seek to validate or corroborate those facts. Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been independently verified, unless otherwise expressly indicated. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information.

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