A Look Forward: The Modern Value Proposition for Transaction Banking

The start of a new year is an opportune time to assess the state of the transaction banking industry and to project where the future lies. The transaction banking marketplace has not been characterized by significant movements into new business areas. This is because attention over the last years has been turned to external fundamentals of the operating environment such as Y2K, the euro currency conversion, Basle II, anti-money laundering and a new regulatory framework. These industry initiatives have forced many banks to focus on areas other than revamping their commercial propositions. However, transaction banking is currently faced with the need to vigorously reposition itself as a growth business, rearticulating the value proposition to the wider enterprise.

A Changing Marketplace
The market’s regulatory framework is undergoing a transformation. In Europe, the Single European Payments Area (SEPA) is causing seismic shifts in thinking at banks as they review their payment propositions for retail and wholesale client segments. Industry initiatives in the channel management and trade areas, spearheaded by SWIFT, as well as a stronger call for message standardization are also converging factors demanding a rethinking of this perceived commoditized business proposition. For the corporate franchise, a number of institutions are undertaking the evaluation as a collaborative effort between the cash and trade product lines to respond to clients buying a more tightly knit package of capabilities.

The implications of SEPA are more widespread than has been acknowledged. Network banks will be forced to look at their branch structure and dimension. A forward-looking architecture will collapse banks’ physical presence into a stronger consolidated delivery model.

New Opportunities
One of the most exciting recent developments in the transaction banking arena has been the shift in the assessment of the traditional trade business. Spurred on by the need to re-engineer a paper-driven risk activity and broaden supply chain offerings, there are emerging opportunities for banks to obtain competitive advantage leveraging the new Trade Services Utility (TSU) launched by SWIFT.

While TSU is currently in the pilot stage, it will eventually enable banks to offer finance and risk intermediation services, extend insourcing of receivables and payables propositions and highlight their critical role in providing information...
services. This development will further drive the convergence of cash and trade businesses as the distinction between payments and documentary business will be blurred through a growing non-documentary commercial payments need. Importantly, the new emerging collaboration model, with SWIFT providing an infrastructure to enable banks to enter the corporate supply chain, immediately opens up further growth and new revenue.

Additionally, the demand for risk expertise across a multitude of commercial variables is providing growth opportunities for banks committed to cash and trade transaction banking. These banks, with their deep involvement in managing the commercial support and settlement services, are well placed to provide advisory services around foreign exchange, interest rate and commodity risk structuring proposals. At the same time, there is a visible and growing element of deal structuring prevalent within the scale-driven transaction business—a clear indication that banks can tailor their responses to client needs and challenge traditional theory that scale and price are the only key variables for competitive differentiation.

To thrive in the new world, banks will be required to far better understand their clients’ needs and build a more integrated model of their own potential value proposition that moves away from a vertical delineation between cash and trade.

This more holistic selling proposition is already visible in the financial institutions market through a re-emerging white labeling interest. A handful of large network banks are rediscovering the value proposition of their geographical footprint and leveraging this to a new client base. As the understanding of end-client needs develops, there are more requests for a combined offering from provider banks to cover both cash and trade services.

The Corporate Voice
Corporates are gaining a stronger voice. Their views are being actively solicited and channeled into the transaction banking industry.

A stronger call for interoperability and standardization is being considered by many banks as a way of creating a level playing field and minimizing switching costs, a threatening development. However, this is not the view that many large corporations maintain. Recognition of the key competencies around transaction processing prevails as well as an understanding of the implications of committing to re-engineering these platforms.

Banks should feel more empowered in extracting value from within the enterprise and capitalizing on existing product capability as well as the compelling relationship dimension between corporations and banks.

The Bank’s Challenge
There have only been a handful of banks, amongst them Deutsche Bank, recognizing that depth of knowledge, robust technology, breadth of capabilities and keeping clients’ needs at the forefront of efforts are necessary across multiple functions to build a powerful transaction banking platform. This understanding of competency has been pivotal in reviewing strategic decisions around “smart-sourcing” and outsourcing as well as recognizing differentiating points in the bank’s business model. This starts with the knowledge that clients reward local client service teams, a geographical footprint is a key competitive advantage and a major technology commitment is needed to transform the bank’s business.