

# Business Strategy: Next-Generation Digital Services Survey Results — Corporate Banking

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Corporate Treasury Services  
Community Banking

MARKET OVERVIEW

#FIN220175

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## FINANCIAL INSIGHTS OPINION

Corporate treasurers highly value the digital services their banks provide, and banks value the noninterest revenue they can garner from these services. As the financial crisis broke and continues through 2009, businesses have increased the number of banking relationships and have moved deposits away from those institutions that were perceived as weak. This provides a short window of opportunity for banks to prove themselves and try to retain these newfound deposits. Investing in digital services is one way to increase satisfaction and retention. Financial Insights predicts:

- The future of digital services will not be about transacting; instead, it will be about interacting with clients. By this we mean that low-value transaction-based services will be standardized and commoditized. Digital services will instead provide more analytic and reporting capabilities, more user-controlled customization, and more self-service capabilities.
- Next-generation digital services will continue to evolve. Financial institutions must keep an open mind to future requirements and ensure that investments made now are flexible and scalable to adapt over time.
- Banks will continue to invest in digital services, but they cannot rely upon the new revenue streams they have gained from the recent flows of deposits. Banks have won that business for now and will have to prove themselves to win that business for the long term.

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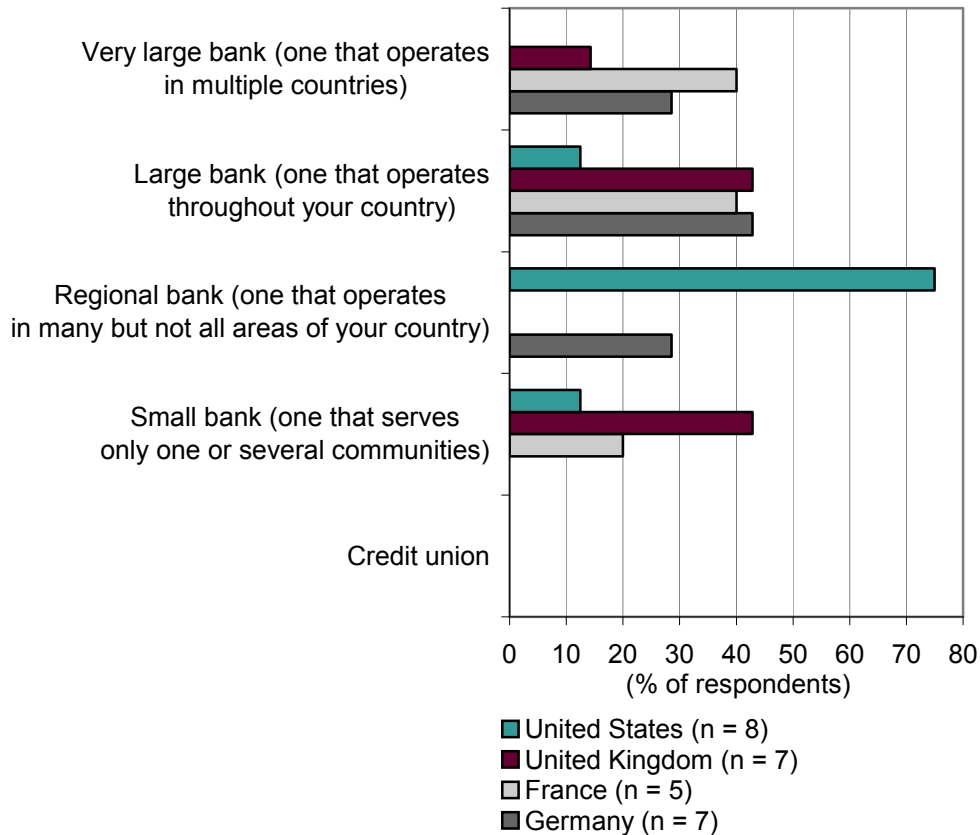
## IN THIS REPORT

In the spring of 2009, Financial Insights conducted research examining the perceptions of banks and businesses regarding the current state of digital financial services. Digital services include all of the Internet and mobile channels that banks support. This includes cash management applications, bank portals, mobile alerts, and other applications and services banks deliver digitally to their clients. This research was conducted in four countries — the United States, the United Kingdom, France, and Germany. A total of 27 banks and 31 businesses were interviewed for this research. A mix of various sizes of banks were interviewed, and for the purposes of this research, no credit unions were included. Figure 1 provides a breakdown of the sizes of institutions and the number by region.

**FIGURE 1**

### Bank Respondents by Institution Size and Region

Q. How would you classify your bank in terms of its presence?



Source: Financial Insights' *Digital Services Survey*, 2009

The purpose of this research was to determine where there are satisfaction gaps between banks and their corporate clients in the realm of digital services. The research uncovered some valuable insights in this area, which will help financial institutions make appropriate investment decisions as they go forward with next-generation treasury platforms and portals.

## **SITUATION OVERVIEW**

Business clients do not visit bank branches or ATMs; their primary mode of interaction with financial institutions is digital. Many regional banks are using their digital service offerings as a way to attract a national client base — using digital channels, vault services, and remote deposit capture to build their businesses without branches. Banks recognize this and are continuing to invest in this channel. Businesses likewise see the efficiencies they can gain — through reduced staff, fewer banking relationships, increased cash flow visibility, and more automation when these services are well designed.

Although banks may consider their corporate clients to be loyal, recent events show that loyalty is easily broken. By serving clients well, making it easy to do business, and offering a complete portfolio of services, banks will serve their clients well and retain some of those new deposits that have recently flowed in. Investing in digital services can serve all of these needs and make sure that banks are displaying an attractive face to their clients.

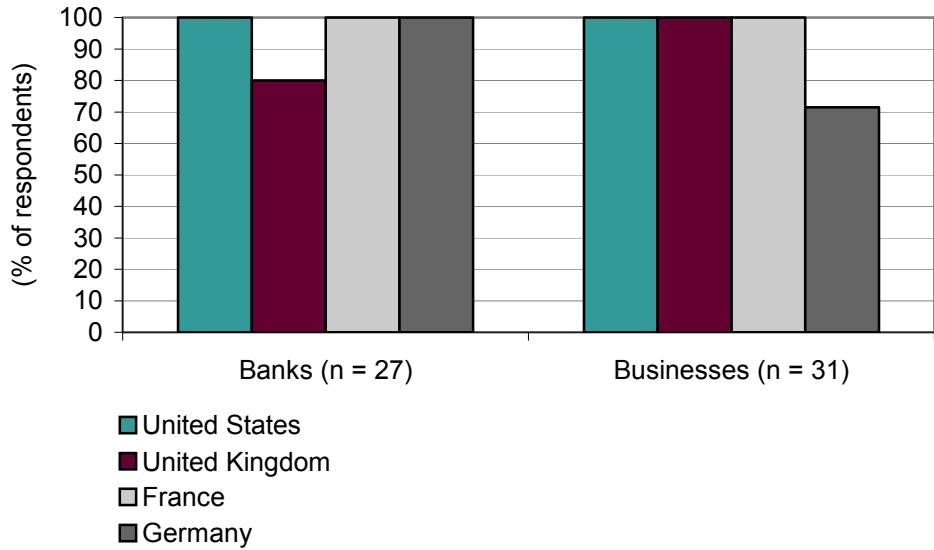
Fortunately, one of the findings from the research is that both banks and businesses highly value digital services. As Figure 2 illustrates, there is nearly universal agreement that digital services deliver on the promise of efficiency. In this time, where both investment dollars and staff are scarce, services such as this are even more important.

Digital services are certainly the "killer app" for corporate clients. Most corporate clients would agree that they could not do their jobs as efficiently, securely, or effectively without their banks' digital services. For balance reporting, payments initiation, liquidity management, investing, and so forth, digital services are the preferred medium for interaction. Banks have hit a home run with these services.

**FIGURE 2**

Value of Digital Services to Banks and Businesses by Region

- Q. (Businesses) Have the online digital services that you use delivered on their promise of efficiency?
- Q. (Banks) Have online digital services that you have deployed delivered on their promise of efficiency?



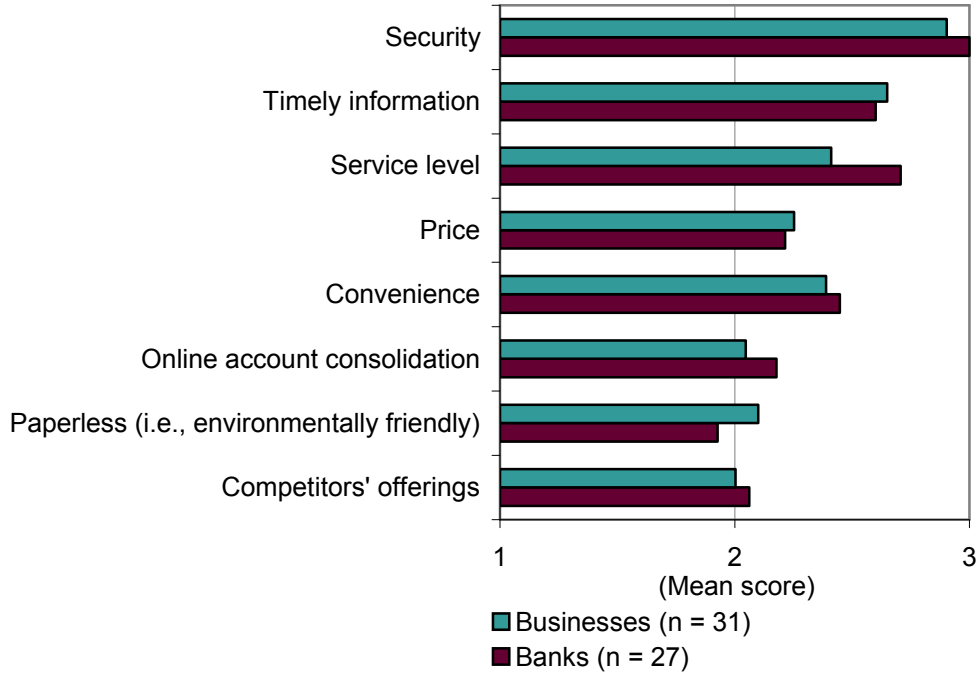
Source: Financial Insights' *Digital Services Survey*, 2009

Banks also clearly understand what the most important features are to their clients. Figure 3 shows the relative importance of digital services features, and banks and businesses are well aligned in their evaluations of the importance of each. An important finding in this data set is that price is ranked firmly in the middle. Although banks are often competing on price and undercutting each other, more valuable to businesses are timeliness, service levels, convenience and, of course, security. This indicates that banks that can outperform their peers in one of these areas will have the ability to charge more of a premium for their services. Worth noting is that concern for the environment ranks lowest. Although there are marketing budgets showcasing the "green" efforts of financial institutions, this is a much less important message than product features that can deliver more tangible value.

**FIGURE 3**

Importance Level of Digital Services Features to Banks and Businesses

Q. Rate the importance of the following digital services features.



Note: Scores are based on a scale of 1 to 3, where 1 = not important, 2 = important, and 3 = very important.

Source: Financial Insights' *Digital Services Survey*, 2009

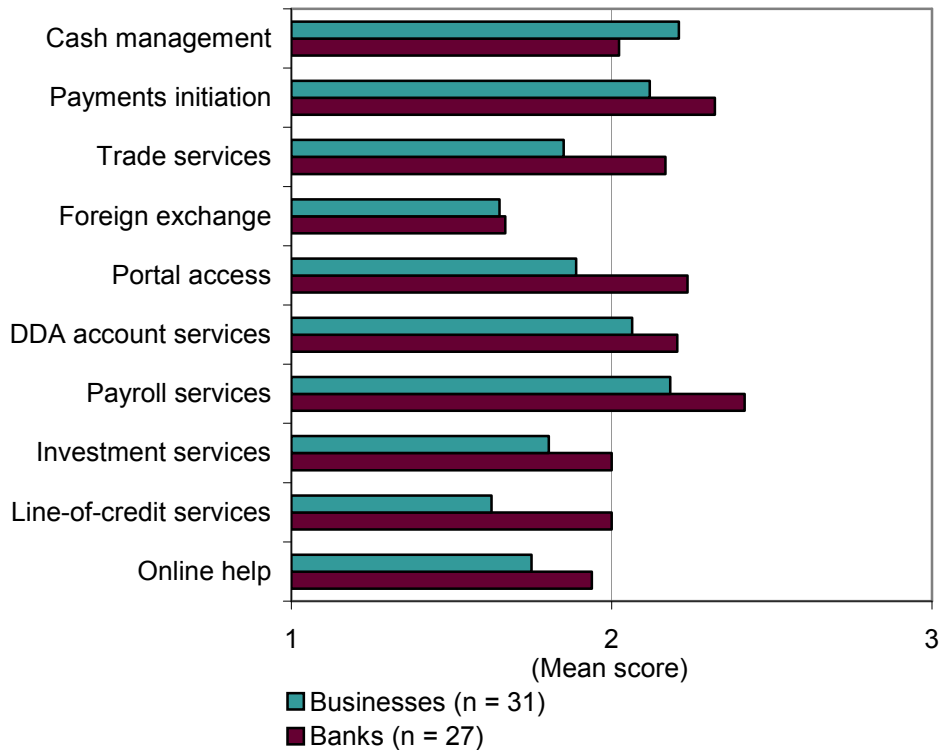
With security at the top of the list for both banks and businesses, it is important to note that this is not a feature that can be overlooked or de-emphasized. Financial Insights has conducted some related research with Treasury Strategies, and preliminary results of that survey show that approximately 50% of respondents in a survey of corporate treasurers are using bank-provided security solutions. Of those not using the solutions, 20% would use a bank-provided solution if it was offered for no additional charge. Hardware tokens are the most often deployed solutions, with more than 80% reporting use of that option.

Just as banks are well aligned with their clients in their understanding of which features are most important, they are also well aligned in their understanding of services where client needs are met and where they have more room for improvement. They are though in almost all instances more satisfied with what they offer than their clients are satisfied with their products, as shown in Figure 4. The only area where businesses are more satisfied than the banks is in cash management, where banks underestimate the satisfaction levels of that product.

**FIGURE 4**

Satisfaction Level of Banks and Businesses with Digital Services

Q. Please describe your satisfaction level with these services.



Note: Scores are based on a scale of 1 to 3, where 1 = needs improvement, 2 = satisfactory, and 3 = highly satisfactory.

Source: Financial Insights' *Digital Services Survey*, 2009

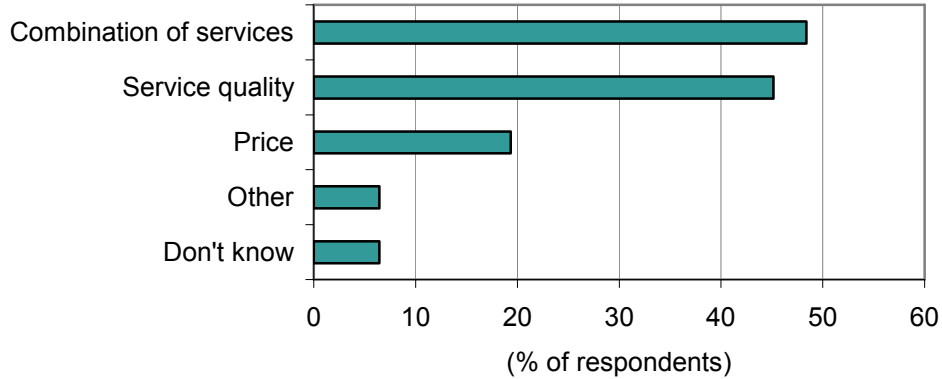
Not surprisingly, it is the older, most popular products that best meet clients' needs — cash management, payroll, payments initiation, and DDA services. Those products that have fewer users (and thus generate less revenue for the banks) are also most in need of improvement. These include lines of credit, FX and, interestingly, online help. It is also important to keep in mind that the question addresses satisfaction just with the digital services associated with these products and not the underlying product features such as interest rate or exchange rate (refer back to Figure 4).

Where there is dissatisfaction, it is associated with the mix of services offered and service quality most often, followed by price at a distant third (see Figure 5). Trade services, FX, and DDA were the product sets where a weak combination of services was cited as an issue. Online help, FX, trade, and DDA were also cited most often for poor service quality. Price was an issue with investments and FX.

**FIGURE 5**

**Businesses' Reasons Digital Services Need Improvement**

Q. For those categories that you rate as needs improvement, please identify the top reasons.



n = 31

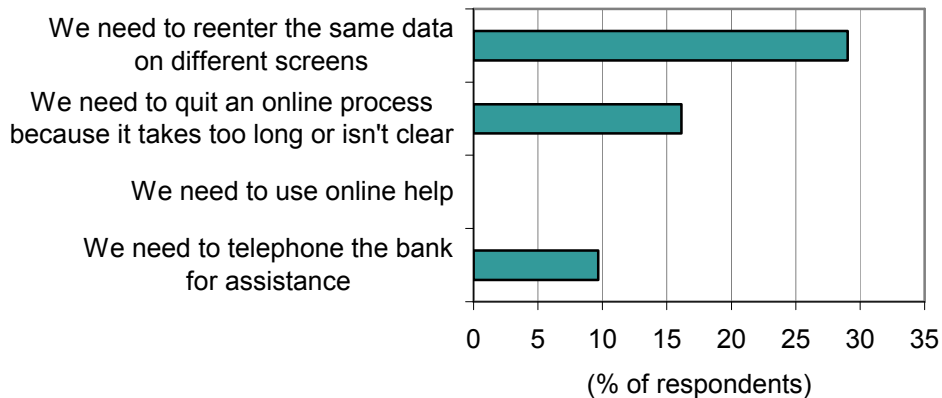
Note: Multiple responses were allowed.

Source: Financial Insights' Digital Services Survey, 2009

One of the key determinants of service quality is ease of use of the digital services offered by the bank. Financial Insights asked respondents to indicate which aspects of ease of use were the most problematic for them — responses are shown in Figure 6.

**FIGURE 6**

**Businesses' Ease-of-Use Problem Areas**



n = 31

Source: Financial Insights' Digital Services Survey, 2009

Of the 31 respondents, the majority cited issues occurred rarely or never across all the four aspects they could choose from. However, there are some areas that are clearly more problematic for businesses. The ease-of-use aspect that seems most difficult for banks to solve is related to data entry. Nine of the 31 respondents reported that they must enter the same information on multiple screens. Not only is this a nuisance for treasury staff, it also increases operational risk by increasing the number of fields requiring manual data entry.

Interestingly, none of the respondents claimed to use online help often or frequently. What these results do not answer is: Are they not using online help because there is no need to, do they avoid it because they do not think it will answer their questions, or do they prefer to call a customer service representative instead?

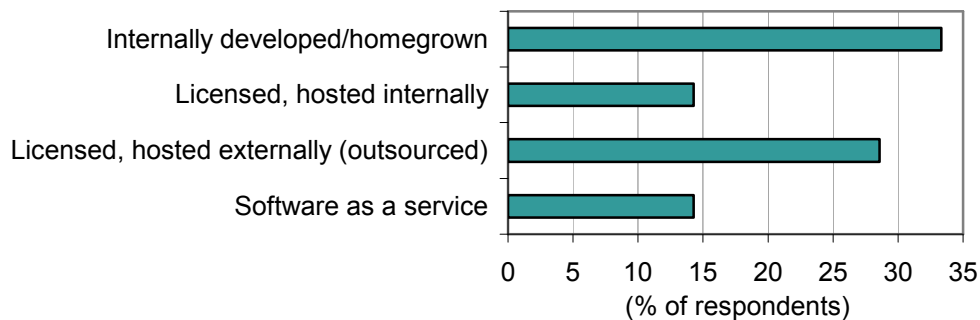
### Supporting Technologies

Banks have been investing for decades in digital services to their corporate clients — investing millions to build new products, rationalize platforms, and take advantage of the latest technology advances. Figure 7 illustrates responses regarding how their platforms are currently deployed, splitting these responses between in-house, licensed software, and outsourced, either in a traditional licensing mode or in a leased, software-as-a-service (SaaS) model. Within corporate digital services, there are proven, mature software-as-a-service offerings. Intuit's Digital Insights offers both retail and wholesale digital services offerings in a SaaS model and has been doing so since the 1990s. Although SaaS may be unproven in many realms, U.S. community banks have embraced this model and shown it can be successful for some of the most mission-critical applications.

**FIGURE 7**

#### Banks' Method of Digital Services Deployment

Q. How are your digital services deployed?



n = 21

Source: Financial Insights' Digital Services Survey, 2009

A surprising number of banks report using internally developed solutions, but this is likely a legacy of past deployments and is not indicative of future development trends. It is also predominantly the European banks (10 of 11 respondents) that reported using internally developed applications. In the early days of digital services, many banks developed solutions internally, often incorporating packaged solutions for the more complex offerings such as payment initiation, file transfer, and trade services. Most of these banks that were seeking differentiation through internal development have not met their goals and have higher maintenance expenses than their peers that went with packaged solutions. There are, however, some notable exceptions, for example, JPMorgan Chase, which has developed strong offerings in trade services with primarily internal development.

However, with the ongoing financial crisis that is increasing scarcity of both capital and IT staffing, and with the availability of proven technology solutions, Financial Insights predicts that more banks will move to packaged applications for their core digital services. In addition, they will use software tools such as Adobe Flash and Microsoft Silverlight to enhance those applications and create richer user experiences.

The responding banks provided a glimpse into the technologies they are using to develop rich applications and present information back to their clients (see Figure 8). These are the newer tools that banks are using to enhance current offerings and develop their next-generation applications. In this space, Adobe PDF has a leadership position as a document presentation tool. With the ubiquity of Adobe PDF format and free distribution of the Adobe Reader, use of this application for presentation is widespread.

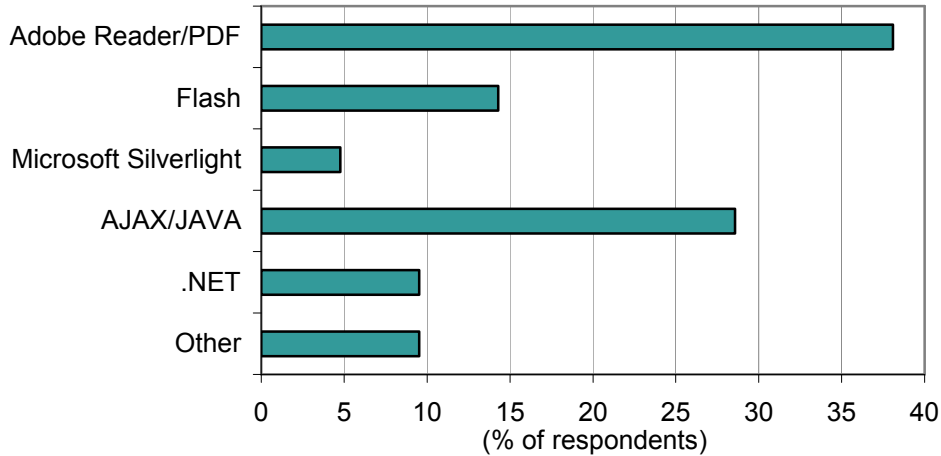
Adobe also has strong market share with its Flash offering, allowing banks to create rich Internet applications and incorporate video and audio into their digital services. Like PDF, Flash players are distributed without charge — creating a ubiquitous platform into which banks can deliver their services without requiring installation of client applications. One of the more mature offerings, AJAX, still maintains dominance.

These new technologies will improve user experience for corporate clients and increase differentiation between banks. Continuing to look ahead, banks and businesses have divergent views on the future use of digital services.

**FIGURE 8**

**Banks' Digital Services Technologies and Vendors**

Q. Please choose the technologies used to deliver your digital services.



n = 21

Note: Multiple responses were allowed.

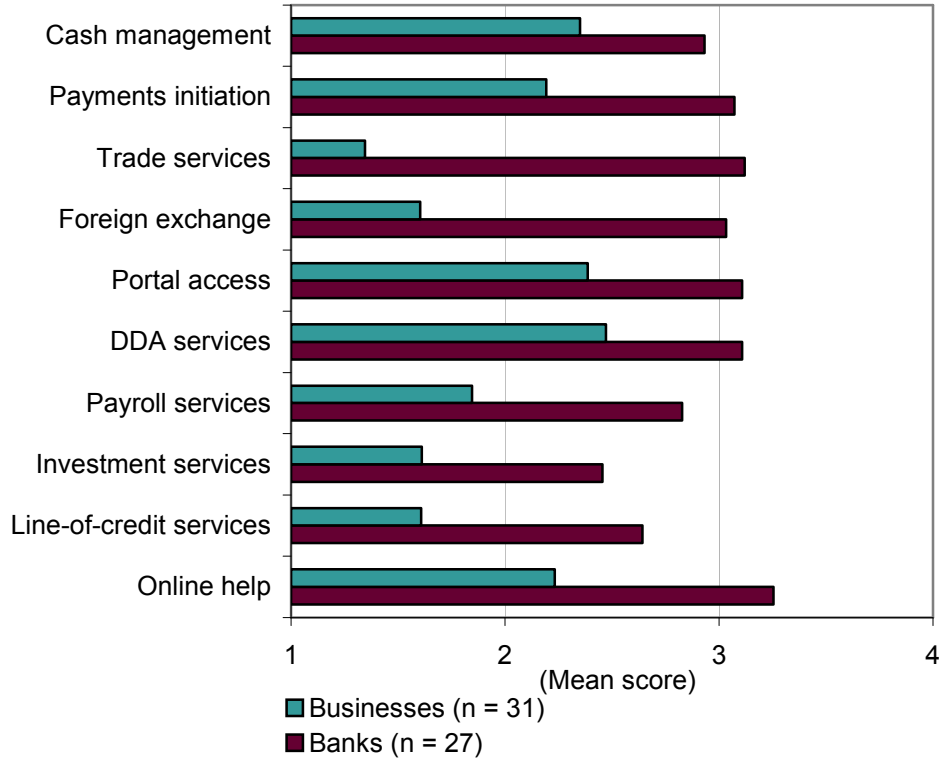
Source: Financial Insights' *Digital Services Survey*, 2009

Banks are more optimistic than their business clients are about future use of digital services. As Figure 9 illustrates, banks are expecting a moderate increase in use for almost all categories of digital services, with investment services, line-of-credit services, and payroll services seeing the least growth in future use. For businesses, their ratings converged around a tendency to keep usage at the same level as today. The survey did not ask for reasons businesses' usage levels would change, but we can make some assumptions based on other conditions in the market and some of the specific comments that were provided by some of the respondents. Use of these services is often dictated more by market conditions and changes to businesses rather than the attractiveness of a bank's offering. Given that global recession is occurring, it will certainly impact the use of services such as payroll (where head count decreases), foreign exchange and trade (where global trade may be decreasing), and investment (where excess balances may have dried up). So, despite whatever banks are doing to satisfy their clients, market conditions will dictate usage to some degree. Banks can combat those forces though by increasing market share and improving their product delivery — this will increase the pool of business customers, even if individual product usage declines.

**FIGURE 9**

Change in Banks' and Businesses' Level of Digital Services Use in the Next Three Years

Q. Will usage change in the next three years?



Note: Scores are based on a scale of 1 to 4, where 1 = decrease, 2 = stay about the same, 3 = increase moderately, and 4 = increase significantly.

Source: Financial Insights' *Digital Services Survey*, 2009

A word of caution for banks as they invest in digital services and evaluate their deposit businesses in 2009. There have been dramatic movements in deposits over the past 12 months, and we do not believe that deposits are now in their final resting places. Those banks that have benefited from a deposit windfall must be cautious in assuming that those new deposits will be retained.

Financial Insights and Treasury Strategies' just-completed *Key Trends Survey* finds that 42% of respondents have increased counterparties to reduce risks, with 51% still planning to move their business. Corporate treasurers now are very focused on taking measures to reduce risks they see in the financial industry. However, as the industry stabilizes, emphasis will shift away from reducing risks back to increasing efficiency and reducing costs. When businesses are more focused on efficiency and costs, they will begin again to consolidate banking relationships and reduce the number of counterparties. As this occurs, deposits will shift once again. Banks that have benefited from these

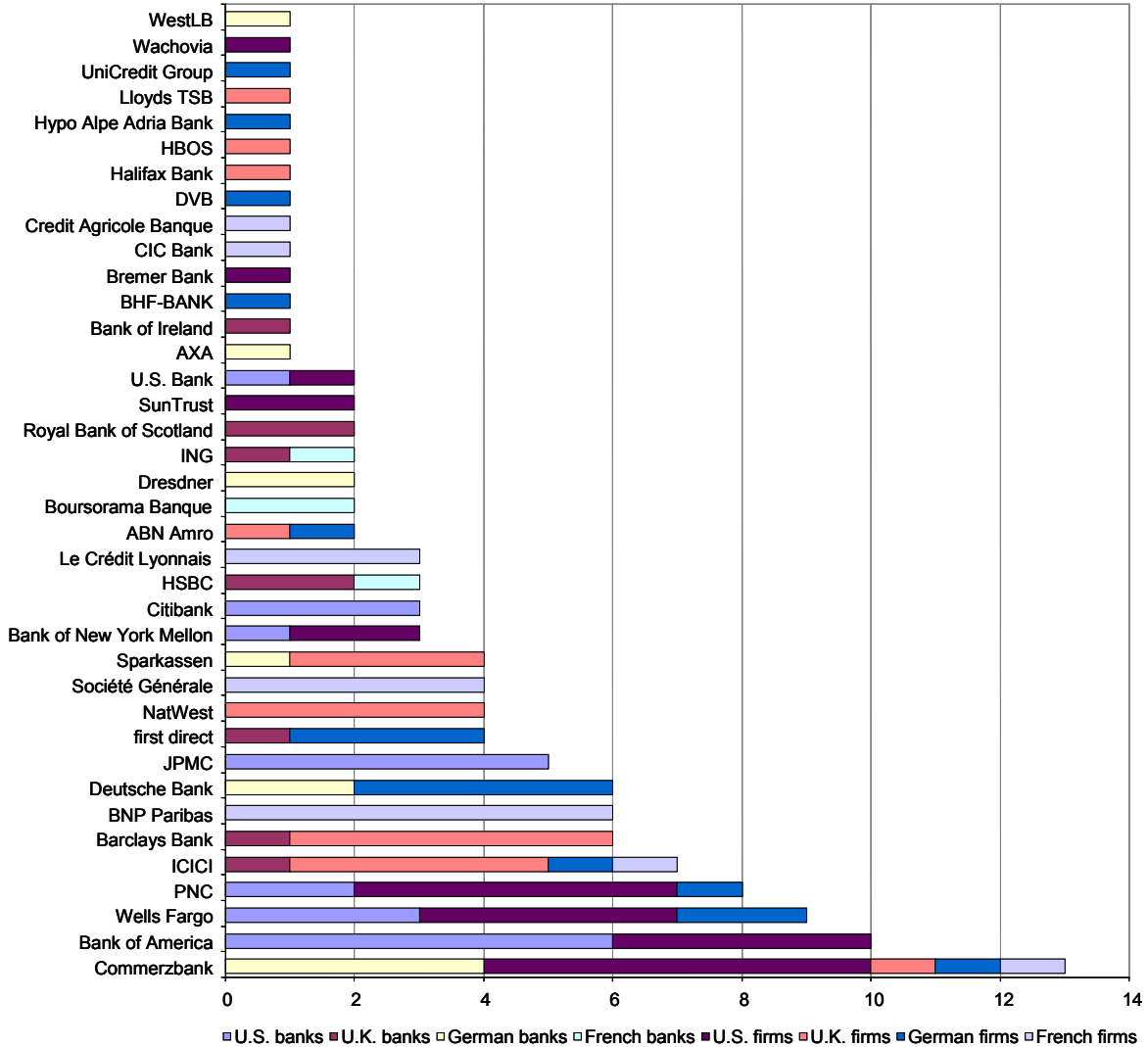
deposit shifts now have a chance to prove themselves to these new customers, with the chance to retain them for the future if their service offerings and financial stability remain proven.

Improving financial stability is outside the realm of what digital services can provide, but they are instrumental in determining satisfaction in banking relationships. Figure 10 provides a view into which banks are perceived to be the leaders in their markets — as judged by their peers and clients. Both banks and businesses were asked to select the three banks they view as leaders in their domestic markets with their digital offerings. These findings favor U.S. banks, as there were more respondents from the United States than from the other three countries. Findings also favor large banks that have a broader reach of clients and a well-known reputation. But even with these prejudices, it is Commerzbank of Germany that garnered the highest number of responses. The U.S. banks topping the list are, respectively, Bank of America, Wells Fargo, and PNC.

**FIGURE 10**

Leading Banks by Region

Q. Which three banks that serve your market do you believe represent the strongest competition in the digital services market?



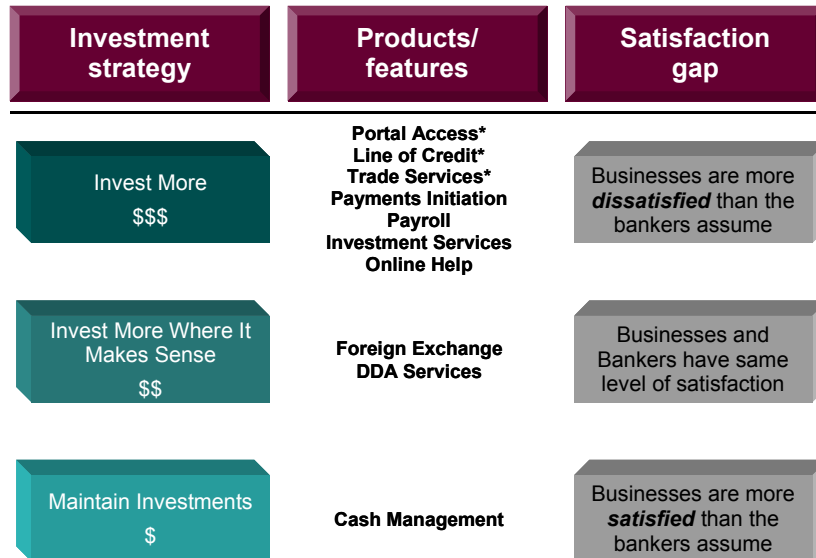
Source: Financial Insights, 2009

**FUTURE OUTLOOK**

As banks look ahead and plan where to invest scarce technology resources, one measure that can be helpful is evaluating those offerings that have high actual or potential usage and that are not meeting client expectations. Based on the digital services survey results, Figure 11 provides a framework for evaluating future investments in digital services.

**FIGURE 11**

Digital Services Satisfaction Gap Analysis



\* These three services have the largest gap.

Source: Financial Insights, 2009

According to this survey, although trade services and line-of-credit services have some of the largest gaps between bank and business views on satisfaction, this may not be a promising area for investment for most banks. With line of credit, most of the dissatisfied users were in France, and usage is quite low for all countries. So for banks outside of France, investing in this offering is likely to yield slimmer benefits than investment in services with more usage. With trade, there are not only few users, but there are also few banks that have made a business decision to specialize in trade services. In trade services, scale is crucial to reach profitability, and many banks are outsourcing their trade services to specialists that also provide digital access. This may be an area to address with those service providers, but it makes sense for only specialist banks to invest in this offering.

**Deutsche Bank — Investing in Digital Services to Improve Onboarding and Account Management**

One institution that is moving ahead aggressively to improve not only its digital services but also its workflow is Deutsche Bank. Within Global Transaction Banking, Deutsche Bank is investing in a program of strategic initiatives to enhance the client experience for onboarding and account management. The goal of the program is to simplify the way corporations do business with the Bank by providing dynamic

self-service solutions that maximize the client experience. Using document management and intelligent forms technology to provide an online self-service application to clients, the Bank anticipates up to an 85% reduction in the time needed to process and manage set-up and changes from clients as well as eliminate the distribution and management of paper forms. In addition to the burden of managing paper, some of the challenges a global bank faces as it on-boards corporate clients are:

- The need for a consistent global operating model
- A requirement to support multicountry, multilanguage, multiproduct, and multilegal entity deals
- Various changes required on an ongoing basis to accommodate changes in signers, business structure, and product set
- Paper-based document flows that are inherently inefficient and need to be replaced with more efficient processes

The focus of the initiative under way now is on new customer/product setup and ongoing customer maintenance. With this initiative, a formalized, consistent process is being developed to collect customer information in an automated yet familiar manner. Deutsche Bank is developing new user and workflow interfaces (for both clients and employees). Although the Bank already had a workflow engine in place, and it will continue to use that engine, documents were often paper-based with a mix of manual and automated data entry into the engine and back-office systems. By moving to workflows built around intelligent forms, customers and employees make a transition away from paper documents that are familiar yet inefficient to a digital medium that mirrors many of the attributes with which customers and employees are comfortable. Intelligent forms adoption then allows Deutsche Bank to standardize the process using business rules, validate data at the source, and leverage the same tool for client-facing and employee-facing activities. Some of the goals Deutsche Bank expects to achieve are:

- Improve time to complete complex customer information changes by as much as 85%
- Increase quality, as information is captured electronically from the outset
- Elimination of paper and the costs associated with distribution across a global team

The project is well underway, and customers and employees will start to reap the benefits in 2010. Interfaces to legacy applications will continue in a phased approach, and further enhancements to digital

services are planned as well. With this kind of investment, Deutsche Bank is enhancing its clients' ability to serve themselves and improving its ability to serve its clients well — by increasing quality, setting up new products faster, and providing consistent processes that support client participation throughout Deutsche Bank's Global Transaction Bank.

Deutsche Bank provides an example of how investing in digital services, with the tools and services now available, goes beyond just improving user experience. Allowing clients to have a greater participation in the process, and optimizing these processes will bring fee-generating clients on board faster. Improving processes increases efficiency and reduces costs. Institutions that can realize the full potential of digital services within their organizations will not only better satisfy their clients but should also meet profit goals.

## **ESSENTIAL GUIDANCE**

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### **Actions for Financial Institutions**

To take a leadership position in digital services:

- Financial institutions should consider developing a compelling digital experience — online and mobile, incorporating rich Internet applications and focused on ease of use — that will increase client satisfaction and increase retention rates.
- Financial institutions' investments should focus on both customer-facing enhancements and back-office, efficiency-generating improvements. Benefits in improved business processes and increased straight-through processing can deliver cost savings and improve error rates.
- Financial institutions must also consider the skills within their organizations and ensure that they have staff and consultants that understand the advantages investments in digital services can provide. It's not just about developing a pretty interface but markedly improving the way the bank and its customers can do business together.

### **Actions for Vendors**

Vendors can support financial institutions by embracing new technologies and providing bankers with tools they can use to improve user experience:

- Banks remain budget constrained, and many require flexible contracts with vendors to be able to move forward with technology investments.

- Vendors that can provide a deep understanding of the science of user experience and user-centric design will be welcome resources for their clients, which are often too focused on delivering the latest in features/functions to consider the basics of how customers will interact with their digital offerings.

## **LEARN MORE**

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### **Related Research**

- *Business Strategy: Key Trends in North American Corporate Treasury Survey Results* (Financial Insights #FIN219292, August 2009)
- *SunGard's Infinity Update* (Financial Insights #lcUS21913309, June 2009)
- *Methods and Practices: SWIFT for Corporates as a Building Block to Simplification* (Financial Insights #FIN218888, June 2009)
- *Treasury Services: Bank IT Spending Forecast Update* (Financial Insights #lcUS21844809, May 2009)
- *Web 2.0 Survey Results: Investing in User Experience* (Financial Insights #FIN216830, February 2009)
- *North American IT Spending 2008–2012: Corporate Banking* (Financial Insights #FIN215692, December 2008)
- *Duke CFO Global Business Outlook Survey — U.S. 4 Quarter Results* (Financial Insights #lcUS21602908, December 2008)
- *Corporate Payments and Financial Supply Chain: Which Banks Are Best* (Financial Insights #FIN212936, June 2008)

### **Synopsis**

This Financial Insights report discusses the results of research Financial Insights conducted examining the perceptions of banks and businesses regarding the current state of digital financial services. Corporate treasurers highly value the digital services their banks provide, and banks value the noninterest revenue they can garner from these services. As the financial crisis broke and continues through 2009, businesses have increased the number of banking relationships and have moved deposits away from those institutions that were perceived as weak.

According to Jeanne Capachin, research vice president, Global Banking and Insurance Practices at Financial Insights, "There is a short window of opportunity for banks to prove themselves and try to retain the newfound deposits they gained during the financial crisis. Investing in digital services is one way to increase satisfaction and retention."

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