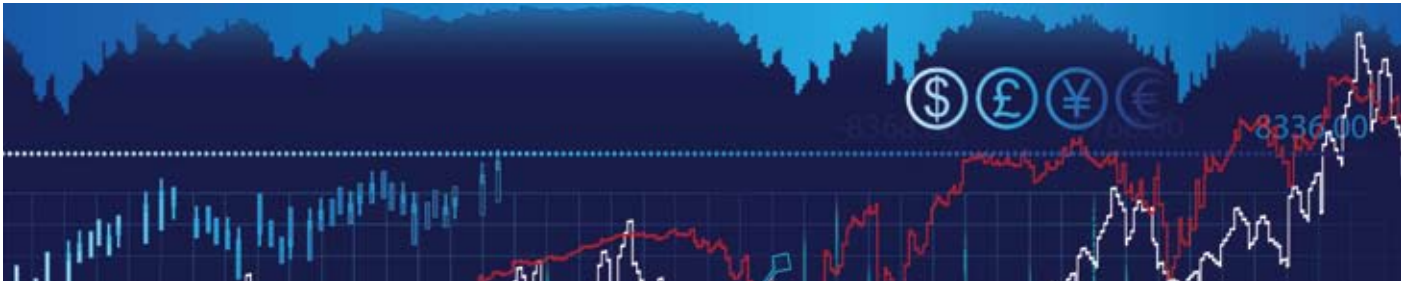


PaymentsLIVE!

TRANSACTION BANKING WILL NEVER BE THE SAME

Originated at Fundtech's annual International Client Forum, this two-hour live webcast featured a panel of the industry's thought-leaders discussing how the status quo in transaction banking will be totally transformed by the financial sector shake-up.





THE PANEL INCLUDED:

- **ERIC MODAVE**
HEAD OF INTERNATIONAL
PAYMENTS OPERATIONS, BARCLAYS
- **ASHLEY DOWSON**
CHAIRMAN, SEPA CONSULTANCY METRICS
- **LEE FULMER**
HEAD OF IBM'S EUROPEAN
CENTRE OF COMPETENCE IN PAYMENTS
- **GARETH LODGE**
REGIONAL RESEARCH LEADER,
EUROPEAN BANKING & PAYMENTS,
TOWERGROUP
- **JOSEPH MAZZETTI**
EXECUTIVE VICE PRESIDENT, FUNDTech

THIS REPORT IS A SYNOPSIS OF THE PANELISTS' PRESENTATION AND DISCUSSION.

“AGILITY IS THE KEY TO WINNING NEW BUSINESS, AND OFTEN TO RETAINING EXISTING CLIENTS.”

In the midst of the global banking crisis, the payments business is bucking the trend. Back-to-basics banking is back in fashion, offering the potential for fast-growing profitability for banks and a stable revenue stream. “In just 18 months transaction banking has gone from plumbing to almost sexy,” said Gareth Lodge, regional research leader, European banking and payments at TowerGroup.

Lodge was speaking at PaymentsLIVE!, a recent payments panel debate organised by Fundtech including participants from TowerGroup, The SEPA Consultancy, Barclays and IBM which was watched by more than 300 industry participants. As the global financial crisis transforms banking, it was agreed that payments organisations will need to be one step ahead to survive.

It is not just banks that are feeling economic pressures; so are their corporate customers who are now shopping like never before for payments services – seeking not just low costs but also services that will meet their needs. To win their business, banks need to move beyond a focus on low-cost batch processing and develop flexible systems that can support evolving requirements. Agility is the key to winning new business, and often to retaining existing clients.

BACK TO THE FUTURE IN CUSTOMER RELATIONSHIPS

Ashley Dowson, chairman of The SEPA Consultancy, has been surprised by how little bankers do understand their customers' requirements. Over the last five years, most of the business growth in banking has been on lending, as banks trimmed, or eliminated, many of their customer relationship positions.

According to Dowson, "actually understanding the fundamentals of the customer's business has been lost." Domestic-only banks will see even their smaller clients demanding the same sorts of services as the multinationals, he added. With increasing globalisation even a modest machine shop in Germany may be doing business around the world in multiple currencies. It will require many of the same services that BMW demands of its banks.

Poor relationships with clients mean banks have invested in what is good for them and missed supplying what corporations need. They have concentrated on batch processing because that is the cheapest way to move payments in and out. Unfortunately, in batch operations, information gets lost and individual items are no longer available to do track and trace, observed Dowson. Banks need to provide systems that can measure performance and get at the information which is contained within the payments so they can provide better service.

**"I WOULD LIKE TO SEE ANALYTICS ON PAYS AND RECEIVES SO YOU COULD PROVIDE THAT INFORMATION BACK TO THE CUSTOMER,"
– Dowson**

"I would like to see analytics on pays and receives so you could provide that information back to the customer," Dowson adds. "Then they could see their own peaks and troughs, cash flow and liquidity. But instead, banks are looking at how to lower costs and become more efficient."



USING PAYMENT INFORMATION TO INCREASE REVENUES

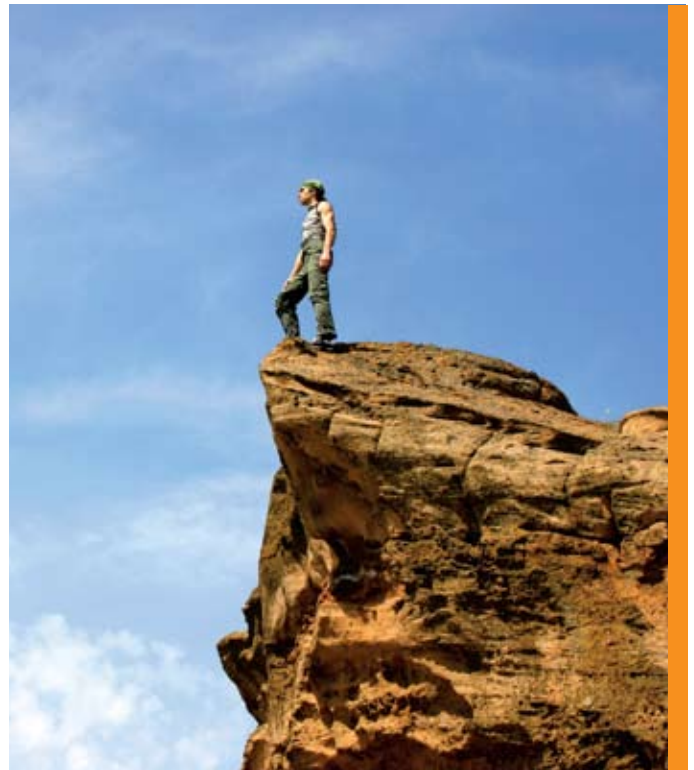
By building mass production payment factories, banks are missing an opportunity to grow revenues, commented Joe Mazzetti, executive vice president at Fundtech.

Banks could use transaction data to better understand their clients, he explained. In addition to providing clients with liquidity information, banks can use transaction data in risk management and to suggest additional services to customers.

“BANKS CAN USE TRANSACTION DATA IN RISK MANAGEMENT AND TO SUGGEST ADDITIONAL SERVICES TO CUSTOMERS.”
– Mazzetti

The process doesn't have to be expensive. Through Service Oriented Architecture (SOA) technology, banks can share some of their back office processing directly with customers so that the corporations can check the status of payments and balances in real-time, at little or no cost to the bank.

Lee Fulmer, head of IBM's European Centre of Competency in Payments, said that in the future users will place more value on knowing about the integrity of a transaction and place less emphasis on getting it to a destination in 15 seconds.



“We have taken computers and used them to try to exercise the human judgment that used to be in the equation,” he said. But message fields don't have the breadth to attach all the information needed to provide the context for understanding a payment.

He predicts that the big investment in payment operations over the next 24 months will be around improvements to risk and exposure.

“BIG INVESTMENTS IN PAYMENT OPERATIONS OVER THE NEXT 24 MONTHS WILL BE AROUND IMPROVEMENTS TO RISK AND EXPOSURE.” – Fulmer

“We need to make risk smarter,” agreed Dowson. “Now only the true exceptions get flagged, but we need to let people back into the equation and give them some oversight and look at transactions with intelligence. Where payments between counterparties are regular, we can leave those out and focus on risky payments and bring them to the attention of the people we need to.”

Meeting the need for sophisticated services is going to require a shift from improving efficiency rates in the back office to more emphasis on creating and providing bespoke types of information through the middle office according to Dowson. Going forward, banks will have to compete on business rather than technology. The winners will be the banks that can show they understand their clients’ needs from end-to-end and can provide data to improve forecasts and reduce corporate borrowing.

COMBINE PAYMENTS WITH PAYMENT INFORMATION

Successful banks will be those that understand that payments outside of the financial services industry are about more than money; they are usually part of a complex global supply chain.

Clients are no longer content just with accurate transfer of funds within some reasonable timeframe. They want to know where their inbound and outbound payments are, when they can be expected to arrive, and what they are tied to – containers at sea, pallets on a loading dock, invoices and purchase orders. This requires a middle office to develop these links, track all the information and deliver it to customers electronically.

Already some banks are working with global consultancies to model the end-to-end supply chain to see how to make it more efficient and reduce the stickiness of cash flowing through the system, said Dowson. One novel approach gaining in appeal is for buyers with better credit ratings to support the sellers in the supply chain, perhaps through a community approach centered around industry clusters such as health, automotive or defence. The supply chains will require a combination of trust and visibility through shared information and secure access control.



THE BUSINESS CASE FOR SOA

Banks and technology vendors are taking advantage of SOA to reduce complexity and increase reusability of code, said Mazzetti.

“The model is very much not just what we have inside the bank, but what is available out in the marketplace that the banks can take advantage of, using SOA standards and integrating available external services.”

On the client side, banks can use SOA standards to provide direct integration with customers, he added. It helps a bank close in on the Holy Grail – getting the customer to create a transaction that will go directly through the bank on its way without requiring exception processing.



“This transaction is not going to cost you, but it is difficult to achieve today.” Getting there is likely to lead to a simplification of the bank’s infrastructure.

“SOA isn’t a technology,” explained Lodge, “but more of an approach or a methodology – harnessing the most appropriate technology by loosely coupling it at the most appropriate time to make the most of what you have. It’s about getting rid of duplication and clearing up your technology,” he added. And it doesn’t require a drastic rip and replace approach; it can be done step-by-step.

SOA also offers a way to incorporate other functionality, such as anti-money laundering and fraud checking, with only a modest increase in overhead, commented Lodge. Corporate clients are not the only ones looking for information from payment systems – so are regulators, he added. They want price transparency so they can see if the price of a transaction is directly related to the cost of a service.

“REGULATORS WANT PRICE TRANSPARENCY SO THEY CAN SEE IF THE PRICE OF A TRANSACTION IS DIRECTLY RELATED TO THE COST OF A SERVICE.” – Lodge

TowerGroup, which conducted a mystery shopping campaign of bank pricing information delivered through branches, call centres and web sites, found that not one single bank provided consistent information across all channels.

RETAIL BANKING IMPACT ON CORPORATE PAYMENTS

Corporate payments could take some lessons from retail, according to Eric Modave, head of international payments operations at Barclays, who said the retail and corporate groups within a bank should work more closely and develop utility capabilities for online, real-time transactions.

“THE RETAIL AND CORPORATE GROUPS WITHIN A BANK SHOULD WORK MORE CLOSELY AND DEVELOP UTILITY CAPABILITIES FOR ONLINE, REAL-TIME TRANSACTIONS.” – Modave

The UK's Faster Payments, pushed by regulators to eliminate the three-day float, could be expanded to corporate clients.

“The world is changing and expectations from customers are going to change,” Modave asserted. Now retail payments in the UK take a few seconds and are free to consumers for payments up to £10,000. This fast payment could be expanded to corporate banking for cash and liquidity management, perhaps with a three-tier service for immediate, same day and next day payments.

Such a change would open the way for banks to provide new services, such as offering real-time payments through debit cards to displace some credit card transactions.

CHALLENGE AND OPPORTUNITY AHEAD

It is a truism in business that problems and opportunities are often found on opposite sides of the same issue, and that is certainly true in today's fast-moving world of payments. With transaction processing facing more change now than it has in 20 years, the opportunities for fast-moving banks which get the business right are huge.

PROBLEMS AND OPPORTUNITIES ARE OFTEN FOUND ON OPPOSITE SIDES OF THE SAME ISSUE.

Banks have to understand where they can make a profit, and how – what services should they provide directly and where should they partner or outsource? How can they use the right combination of people and technology to build and strengthen customer relationships? Where is human judgment needed to supplement electronic payment information? How can they expand upon their existing client relationships to extend their business to the client's clients in the supply chain?

Laggards face customer dissatisfaction, loss of business, rising cost per transaction and unwanted attention from regulators.

The best solutions begin with people – client relationship staff at the bank working with customers to learn what they want today, next month and in two years. Much of the supporting technology already exists, although some of it requires deeper cooperation between banks and clients to adopt useful standards and improve communication flows. There's no excuse for delay and every danger that those banks that wait will see their most savvy clients move on.



FUNDTECH ENABLING AND ACCELERATING THE FINANCIAL SUPPLY CHAIN

Fundtech is a leading provider of software products and services to banks of all sizes around the world. The company develops transaction banking solutions that automate activities such as payments, cash management, settlement, liquidity management, and the financial supply chain.

As e-commerce continues to shape the world, financial institutions and corporations will need to deploy integrated electronic transactions platforms that link their internal systems to one another. The result will be greater efficiency in the total financial relationship between them, including document management, transactions, and settlement.

Fundtech is leading this emerging field of financial supply chain services, which offers major cost savings to corporations and vast improvements in the working capital management to both sides of a business transaction. For banks, these services create deeper client relationships and additional fee-generating services. Our vision is to expand the traditional role of banks to include participation in the financial relationships between commercial trading partners. We refer to this as end-to-end or E2E2 products and services. With far more visibility into their clients working capital needs, banks are able to provide services that deliver greater financial leverage through just-in-time cash.

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