

Focus on Innovation Drives Commercial Banking Growth

Research shows real-time payments
and customer strategy leading digital
transformation



Banking customer acquisition and retention challenges



Preparation for real-time payments



ISO 20022 messaging and FedNOW journeys



Plans for open banking strategy



Focus areas for growth within the next 12 months

Introduction

Call it payments modernization, digital transformation or even cloud migration. The current innovation agenda is stacked and commercial banking systems are at its center. CANAM Research partnered with Bottomline to understand how finance leaders are preparing for various industry initiatives, checking in with various players from C-level executive to CIOs to marketing directors. Here's what we found.

Key Observations

The stakes are high for finance leaders as they survey the balance of 2023. The pandemic's most dangerous days look to be over and fears now center around the double-whammy of inflation and a potential recession. Outside of macro issues the table is set for change. The FedNow faster payments service will launch in July bringing increased awareness and usage of the ISO 20022 messaging format. Open banking – which has gained substantial traction in the UK – is starting to see early usage in the US. And as always banks are expected to get, keep and grow their customer base at all costs.

So there's substantial change in the wind. But here's the problem: Banks don't seem to be as prepared as they should be with so much at stake. CANAM Research partnered with Bottomline to sense check various issues under the heading of payments modernization and found concerning evidence that legacy infrastructure combined with a lack of awareness of cloud-based technology could put innovative new payments solutions out of reach for many banks at a time when competition is at a premium.

What follows are the results of that research in four sections: legacy infrastructure, real-time payments, treasury management and open banking.

Legacy infrastructure

The findings on legacy infrastructure are a two-sided coin in the CANAM Survey. On one side the priority is spot on. Any bank that has even the vestiges of legacy infrastructure should be looking to upgrade it. It is concerning however, that 41% still have to reckon with Infrastructure that keeps them out of the API economy and all that affords banks such as data sharing, real-time payments and the rich data generated by ISO 20022 messaging. The best way to upgrade that infrastructure can be seen in the next result which is the 31% who prioritized migrating to the cloud. That migration can best be achieved by partnering with a fintech Vendor, which came in at 21%.

Which best describes your bank's primary approach to modernizing commercial banking systems?

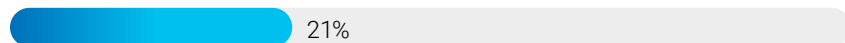
Upgrading legacy infrastructure



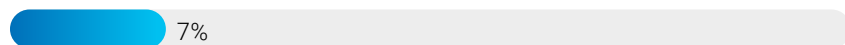
Migrating to cloud



Partnering with a Fintech vendor



Upgrading fraud detection



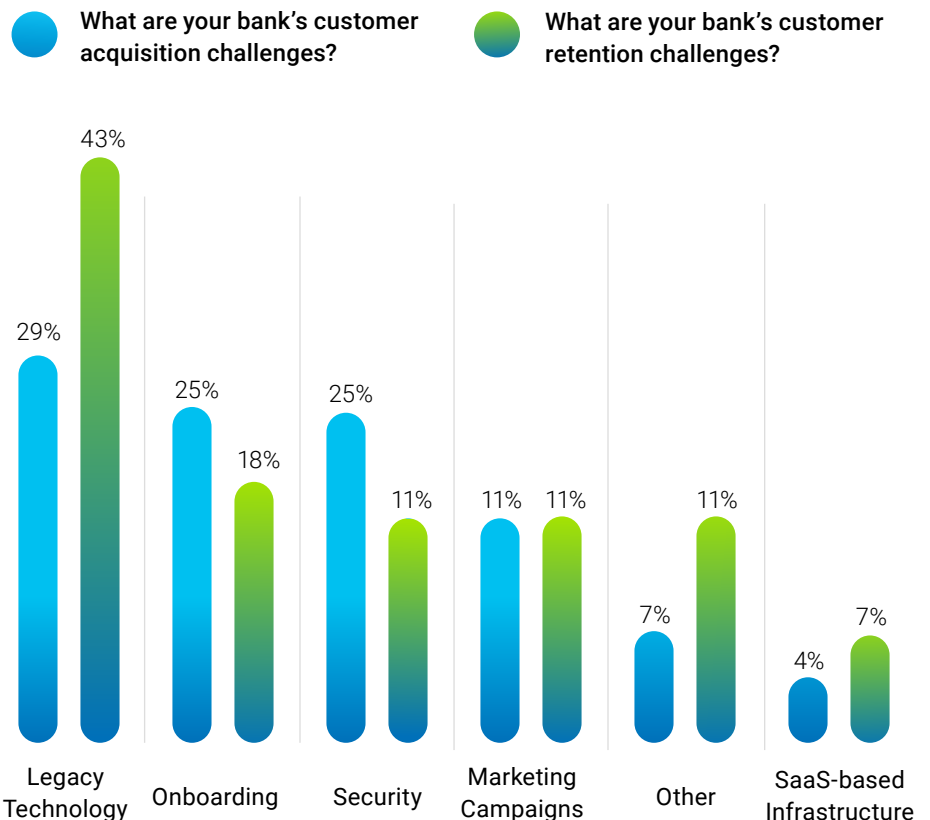
It is concerning that **41%** still have to reckon with Infrastructure that keeps them out of the API economy and all that affords banks.

Customer strategy

The question for any finance leader in today's competitive landscape is simple: How will you get, keep and grow customers. The findings here focus on the "get and keep" and it's interesting that the legacy infrastructure story gets more complicated when customer strategy comes into play. Legacy technology (as shown by the 29% stat) is rarely a factor in customer acquisition because basic banking services can still be delivered. But what happens if the customer wants online bill pay? Or real-time payments? Retention as seen here becomes difficult. It's also telling that security is a bigger factor for acquisition leading to the possible conclusion that customers won't want to sign on with your bank if they're aware of a security breach. It would also follow that retention would be harder to achieve if a customer's account or payments has been defrauded.



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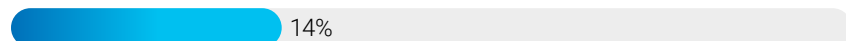
Legacy technology is the biggest challenge across customer acquisition and retention, while security is seen as a bigger concern for acquisition.

Treasury management

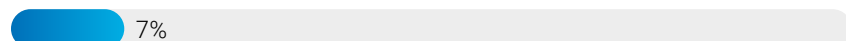
Two issues come to the fore here: support and satisfaction. And the findings seem to be split on both counts. On the support issue, nothing could be more critical to a bank. If they open a group of international accounts, will their payments hub be able to accommodate it? If they need to re-forecast to include new accounts can their TMS be relied upon for accuracy? TMS upgrades need to be automatic. This data shows that only 21% of respondents lack the confidence that basic functions will be supported. That's a positive indicator. However, a 42% satisfaction level with current systems means that there is either a need to upgrade current systems or integrate new ones. It could also indicate the presence of legacy infrastructure, which would mean current systems have an element of manual operations.

On a scale of 1 to 5, rate how confident you are that your online banking/ treasury management provider will support you as the commercial banking landscape changes. (ex personalization, FedNOW/real-time payments)

1 - not confident



2



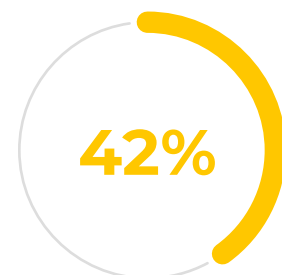
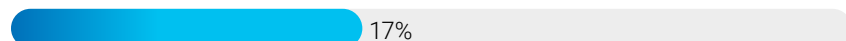
3



4



5 - very confident



42% of respondents are very satisfied with their current treasury management system.

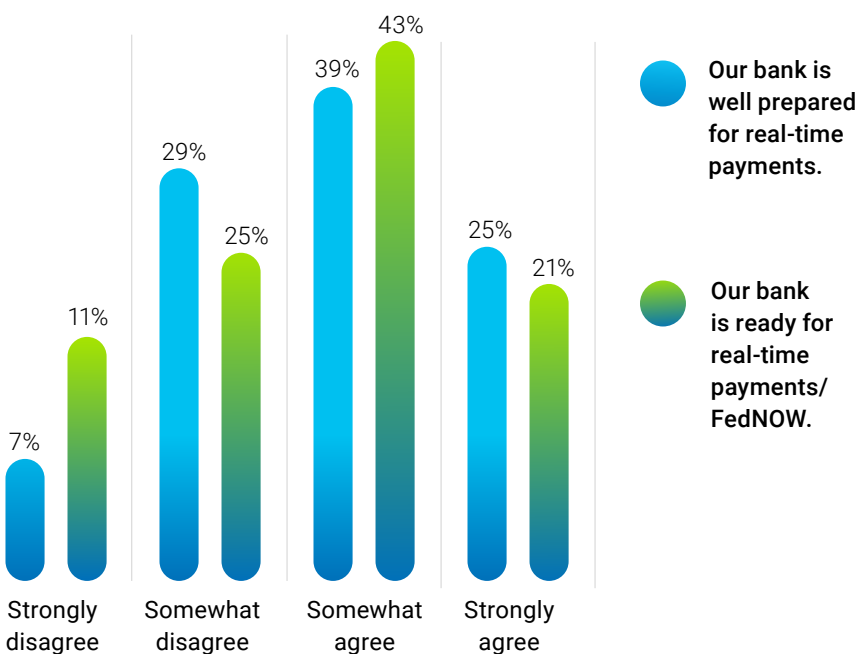
Real-time payments

There are two very distinct categories of findings here, and the differences are critical. First, let's take the more general issue of real-time payments. They are currently available via The Clearing House, with Nacha leaning on its same day ACH capability, which is not real-time but certainly intraday. It's here that the "somewhat" category is concerning. A bank should be ready or not for real-time payments. "Somewhat" indicates they're behind the beat on a critical and competitive element of digital transformation. FedNOW will not launch until July. With 62% of respondents ready in either six or 12 months, that's a positive development.

How would you respond to the following statements?

30%
of respondents
are either **fully
implemented** with
FedNOW or will be in
the next 6 months

32%
of respondents
said that they are **in
progress, ready to
implement** in less
than 12 months



Majority of people are well-prepared and ready for real-time payments and FedNOW.

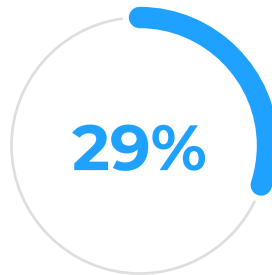
Open Banking

The right answer here is “all of the above” because open banking has not yet taken root in the US yet. The Consumer Financial Protection Board has issued guidelines, but big banks are still holding out for tighter regulations on third-party data brokers before they commit to open banking. When they do, APIs are the next area of focus because open Banking requires 1) data sharing through API access and 2) standards regarding API operation to ensure fraud protection and a consistent consumer experience. Banks should keep a close eye on open banking, which is reflected here.

Respondents are interested in open banking with some planning to implement IT now, in the next 6 months or in 2024 while many have no active projects yet.



Respondents are **interested in open banking** and plan to work on it in 2024



Respondents are **discussing open banking** but have no active projects, while 14% have no plans for it in the near future.



Respondents are **very interested in open banking**, either working on it currently or in the next 6 months.

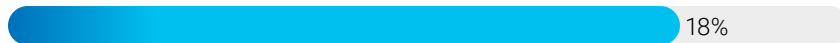
Conclusion

Applause. With so much at stake banks are approaching the short-term future of their business with a spirit and intent of innovation, improvement and partnership. As long as the word “digital” is placed before each of these phrases, they will be able to compete for business and consumer accounts.

In the next 12 months, where does your bank plan to focus to improve your commercial banking growth?

Top 3

Payments innovation



Treasury management upgrade

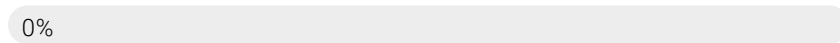


Fintech partnership

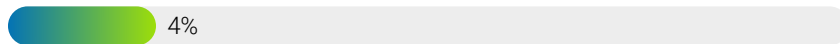


Bottom 3

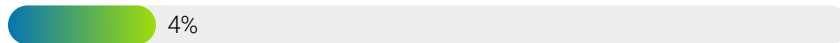
FedNOW implementation



HR/Recruiting



Mobile



Banks plan to focus on payment innovation, upgrades to treasury management, and fintech partnerships.



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