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Digital Cash Management Solutions: The Time to Replace Is Now

JUNE 2018

INTRODUCTION

Next-generation digital technologies are creating opportunities for banks to not only better address evolving market needs and expectations but also differentiate themselves in areas that are increasingly becoming commoditized. Cash management is one such industry where most business customers see little difference from one bank's product portfolio to another. Banks are not winning business based on the products they offer, but rather by the ways in which they deliver them and the tools available to support and enhance their value. As such, banks striving to effectively compete in this space must take a step back to analyze their digital cash management capabilities and user experience. In doing so, many are finding outdated systems, clunky user interfaces, siloed infrastructures, and paper-based processes that are no longer acceptable to bank clients. They face little choice but to replace their digital cash management platforms to remain competitive; investing in new technology has become table stakes for success.

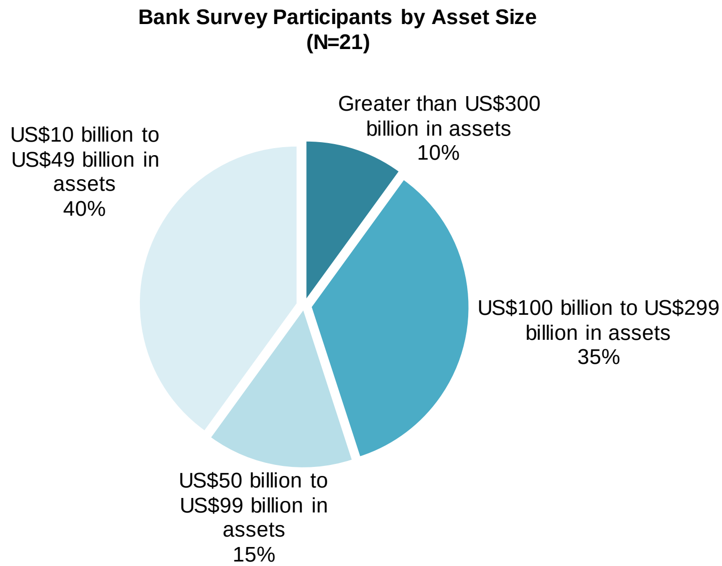
This paper highlights some of the key trends shaping the cash management industry and driving banks toward system replacement. It also analyzes the likelihood that large and midsize banks will replace their systems over the next few years and the criteria they most often consider when selecting new technology partners.

METHODOLOGY

This paper is based primarily on phone interviews conducted by Aite Group analysts with executives and decision-makers from 21 of the top 70 U.S. banks. The top five banks were excluded from this research due to their tendency to build much of their technology in-house.

Throughout this paper, the top six to 20 U.S. banks (with approximately US$125 billion or greater in assets) are referred to as super-regional banks, while banks 21 through 70 are referred to as regional banks. The smallest bank participant in this study has US$17 billion in assets. Given the size and structure of the research sample, the results of the qualitative interviews provide a good directional indication of the conditions of the market. Figure 1 shows a breakdown of bank participants by asset size.

Figure 1: Bank Survey Participants



Source: Aite Group survey of top 70 U.S. banks, December 2017 to January 2018

KEY MARKET TRENDS AND DRIVERS OF CHANGE

The U.S. cash management industry is evolving at an accelerating pace. As customer needs expand beyond the basics and bank products historically offered, most of the industry is finding itself in lesser-known territory. Gaps are increasingly appearing between what customers expect and what their banks are offering. Bank strategies must evolve and technology must effectively be leveraged or the institution is vulnerable to losing business to their more forward-looking and agile competitors.

There are several key trends currently shaping the market and driving banks toward system replacement. They include the following:

- New expectations for user experience
- A desire to solve key customer pain points
- The blurring of needs across customer segments
- A growing focus on becoming the primary bank
- The need to stand out

NEW EXPECTATIONS FOR USER EXPERIENCE

The bar has raised significantly for customer user experience expectations. Corporate treasurers no longer compare their user experience with one bank to that of other banks, but rather to their best digital experience in general. As a result, they increasingly expect banks to understand their customer journeys, to know who they are, and to be able to provide recommendations through analytics as online retailers do. Additionally, across all their transaction executions and interactions with the bank, they expect the same ease of use, simplicity of navigation, and modern presentation offered by other industries. They see great value in dashboards and wizards and seek a tablet-like look and feel with self-service capabilities.

However, providing the right user experience goes beyond just a modern look and feel and system navigation. It also includes improved data delivery. The market demands a shift toward more consolidated data and systems. The ways banks currently present data to their clients remains siloed, due in part to the siloed nature of their technical architectures. This creates extra steps, which are often manual or create a need for Excel spreadsheets, for banks' corporate customers. Aite Group estimates that less than 20% of corporate treasurers consider bank reports to be flexible enough to meet their needs and deliver information in the format they require. Further, more than 50% admit to a dependency on Microsoft Excel to meet all or some of their reporting needs. Some next-generation cash management platforms enable banks to provide some level of consolidation for payment initiation, but more progress is needed. Most banks recognize this and have made both integrated receivables and payments hub strategies high priorities within their institutions. Banks are further along with payments hubs, as approximately 53% of large and midsize banks already have one, compared to only about 4% that are already live with a robust integrated receivables offering.[1]

Customer expectations around data access go beyond what is offered within the bank portal. Most customers want flexibility in how they receive information from the bank. Corporate customers, especially the largest ones, often have many bank relationships and therefore prefer to have information delivered to their enterprise resource planning (ERP) systems, as opposed to having to go to each bank's portal to retrieve it. They want fast and seamless delivery of information to their systems as well as the ability to perform transactions and banking functions outside the bank via APIs. APIs represent the future of banking, thus open architectures and well-thought-out API strategies and roadmaps will be important considerations for banks as they seek out new solutions.

Finally, integration challenges, especially at regional banks, are negatively impacting user experience. Ninety-one percent of participants in a July to August 2017 Aite Group survey of large and midsize banks admit that they do not sufficiently offer the type of integrated experience their cash management/transaction banking customers expect.[2] Over the years, in an effort to offer best-in-class capabilities, many banks have piled the offerings of different vendors on top of one another, essentially turning themselves into "Frankenbanks." The implementation of portal strategies is one way to address customer demands for greater technology consolidation. Many institutions are also trying to limit their number of vendor relationships. Customers want a single entry into their bank with access to all the products and services they need across the bank. They want single sign-on, a single set of entitlements, and a similar look and feel across products so they can move seamlessly from one function to the next.

There are several initiatives currently in place at large and midsize banks to improve their user experience, including the following:

- Improved look/navigation/access to information
- More real-time capabilities, reporting, and payments
- Actionable consolidated reporting
- Automated onboarding
- Customer-driven dashboards
- Payment wizards
- Exploration and implementation of API use cases
- Easily searchable online knowledge libraries within the portal

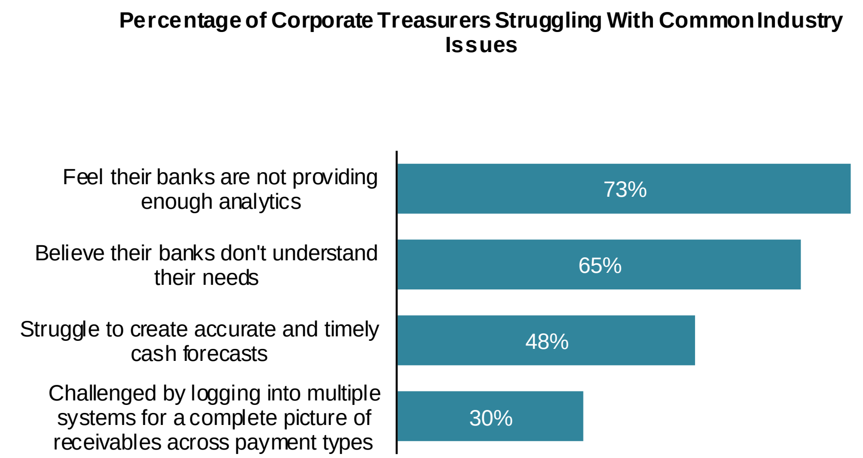
1. See Aite Group's reports *Payments Hubs: What Are They and Why?*, March 2018, and *Banks Journey Into Integrated Receivables: A Three-Pronged Approach*, January 2018.

2. See Aite Group's report *Creating the User Experience Your Cash Management Customers Expect*, September 2017.

A DESIRE TO SOLVE KEY CUSTOMER PAIN POINTS

As the pace of change in payments technology continues to increase, corporate user needs are evolving with those changes. Bank clients are faced with an increasingly complex landscape of receivables and payables, requiring automation for quick action and decision-making. Outdated cash management platforms do not always provide the capabilities for cash flow forecasting, integrated reporting, and efficient accounts receivable and accounts payable processing and automation (Figure 2). Banks that cannot solve for these challenges are finding themselves at a competitive disadvantage and are losing market share to other banks and sometimes even fintech providers that have found strategic offerings to disintermediate banks.

Figure 2: Corporate Treasurer Challenges

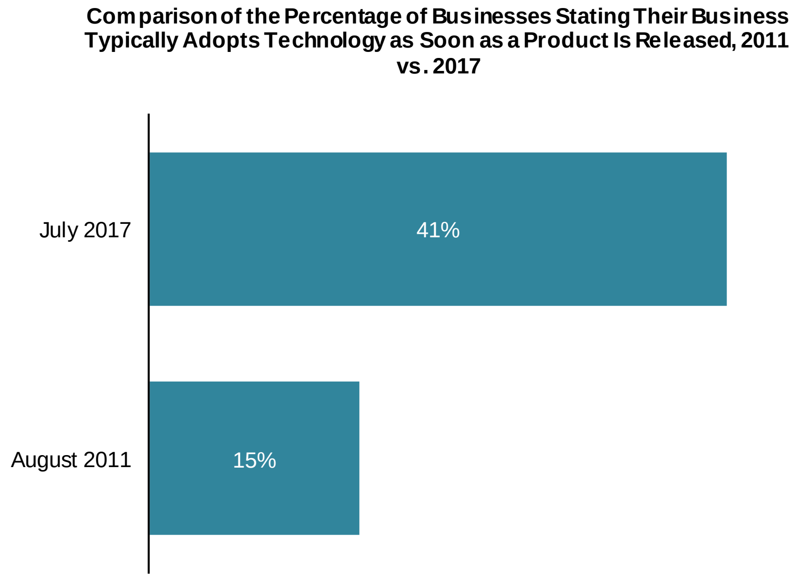


Source: Aite Group Estimates

THE BLURRING OF NEEDS ACROSS CUSTOMER SEGMENTS

While most banks continue to segment their client base by revenue size, many are finding that the lines distinguishing needs across segments are beginning to blur. Most business customers, regardless of size, are growing in sophistication and demonstrating a growing comfort level with technology. This is resulting in a greater willingness to leverage it to manage their financial transactions and automate once-manual processes. It is also leading to faster adoption of newly rolled out capabilities. A comparison of past Aite Group research found that in August 2011, approximately 15% of businesses reported being first adopters of new technology made available at their bank, compared to 41% in July 2017 (Figure 3).

Figure 3: Speed of Technology Adoption



Source: Aite Group

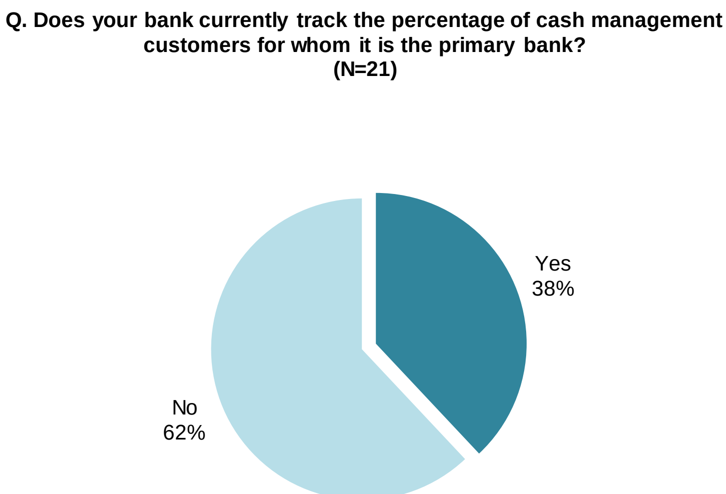
While the growing level of sophistication is taking place across business client segments, it is especially evident among smaller businesses. It is no longer uncommon for these businesses to initiate different electronic payment types, do business overseas, see value in fraud detection products such as positive pay, and expect greater consolidation of their payables and receivables. Despite this, a large number of banks continue to serve small businesses from consumer platforms or basic business platforms that lack the necessary capabilities**.** Only 43% of regional and super-regional banks serve small businesses from commercial cash management platforms. The good news is that a growing number of banks recognize that change is needed and have plans in place for the necessary migration. However, implementing the plan requires a cash management platform that is user-friendly enough for small-business users and that can be customized to meet their specific needs. These tools should also have wizard capabilities to guide them through more challenging processes, such as selecting the right payment type and the necessary money management tools to help them address key challenges. Not offering the right capabilities prevents banks from being able to generate money from these customers. While more than 65% of small businesses state they are willing to pay for products and services that save them time and increase convenience, more than 25% of regional banks generate little or no revenue from the majority of their small-business customers (excluding interest income).[3] Banks that are providing a cash management platform that considers the user experience and functional needs of small businesses can tap into this new revenue opportunity.

3. See Aite Group's report *Where Small Businesses Bank: Bigger Doesn't Have to Be Better*, January 2018.

GROWING FOCUS ON BECOMING THE PRIMARY BANK

As competition becomes more intense, banks are looking to deepen relationships and position themselves as the customer's primary bank. Establishing the bank as the primary bank provides more stable and predictable noninterest income. Cross-selling cash management also makes it harder for a business to leave the bank, referred to as "anchoring" clients. Currently, 38% of banks report tracking the percentage of clients for whom they are the primary bank (Figure 4). The majority of the 62% of banks that are not tracking this state that they desire to do so. Of the banks that are tracking the metric, regional banks are most likely to believe they are the primary bank for their clients, reporting that on average they are the primary bank for 65% of their cash management customers.

Figure 4: Tracking Primary Bank Status



Source: Aite Group survey of top 70 U.S. banks, December 2017 to January 2018

Banks report several strategies to deepen client relationships and become the primary bank. These include the following:

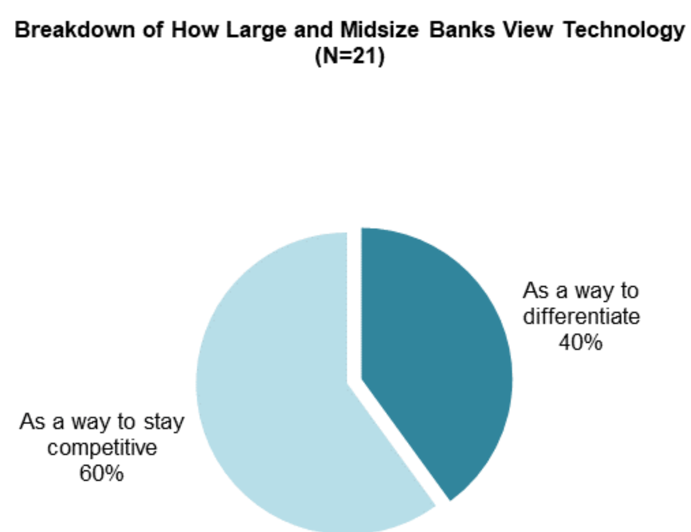
- Investing in technology for a modern look and feel
- Increasing their focus on payments, including commercial cards for which growth opportunities are believed to exist
- Wrapping fintech capabilities to provide more efficient payment processing and analytics around more traditional cash management products and services
- Taking on an advisory role to solve business challenges
- Identifying a niche or vertical specialty
- Increasing local presence with feet on the ground and employees playing an active role in the community

For banks that have gaps in these areas, several of these strategies can be fulfilled by replacing their cash management platform. A cash management platform with a superior user experience that focuses on simplifying the payments process and integrates functionality from across the bank with robust analytics, with the ability to cater to targeted industry verticals as needed, is critical to executing a strategy to deepen client relationships and achieve status as the primary bank. This helps the bank be an advisor to enable businesses to make better decisions and realize greater efficiencies.

THE NEED TO STAND OUT

Finally, banks need to identify ways to stand out in an industry in which many of the products and services are increasingly viewed as commodities. Bank customers report few major functionality gaps in the offerings provided by their banks. All financial institutions in the U.S. allow clients to make and receive payments and have some sort of reporting of account activity. What bank clients desire is for the experience to meet their consumer expectations in the corporate world, with tighter integration across products that are easy to use with bells and whistles that create a superior experience. Planned enhancements are what banks hope will make them stand out to retain existing clients and gain more market share with features that go beyond the basic product capabilities. Forty percent of large and midsize banks view technology as a way to differentiate themselves, and their cash management platform is the most obvious customer-facing investment (Figure 5).

Figure 5: Banks' View of Technology

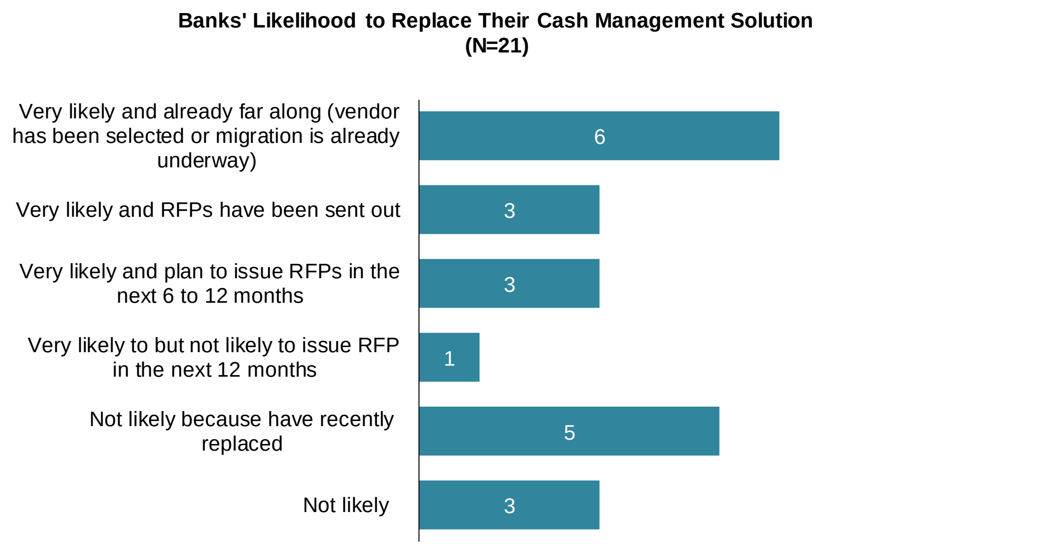


Source: Aite Group survey of top 70 U.S. banks, December 2017 to January 2018

BANK PLANS TO REPLACE THEIR CASH MANAGEMENT SOLUTIONS

The growing gaps between bank offerings and new customer expectations and demands are leaving most banks with little choice but to replace their cash management solutions. In fact, several have already begun to do so. Of banks interviewed, five have recently replaced their solutions, and six more are far along with their replacement plans and either are already in the process of migrating to a new platform or have already selected a new vendor partner. An additional six have either already sent out their requests for proposal (RFPs) or plan to in the next six months. Only three stated they have no plans for system replacement; thus, 86% of bank participants have already upgraded their cash management solutions or are about to (Figure 6).

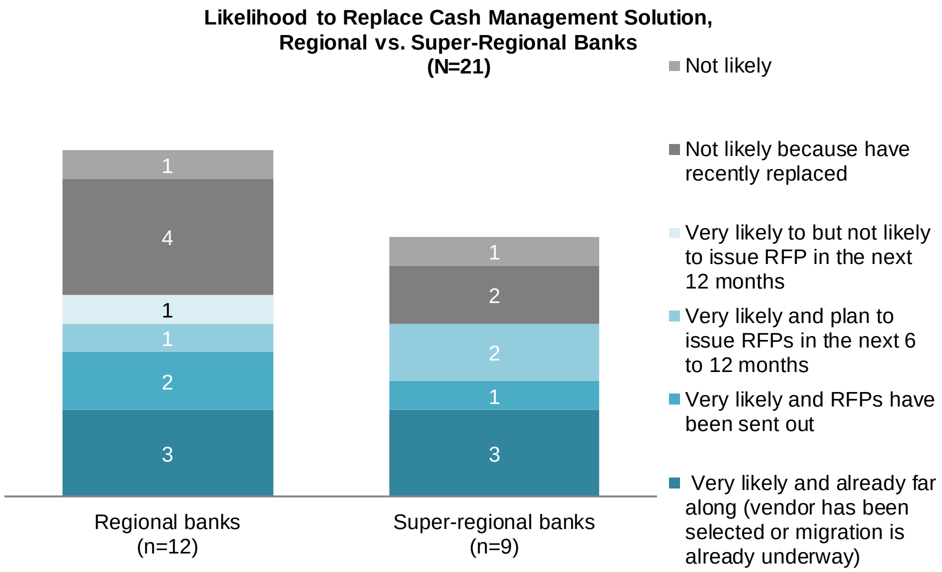
Figure 6: Likelihood to Replace



Source: Aite Group survey of top 70 U.S. banks, December 2017 to January 2018

Given the high number of banks likely to replace their solutions, it is not surprising to find that the need to replace is not limited to a particular segment of the bank market. Regional banks are just as likely to be planning to replace their cash management solutions as are super-regional banks—though their key drivers are slightly different, as described in the next section of this report (Figure 7).

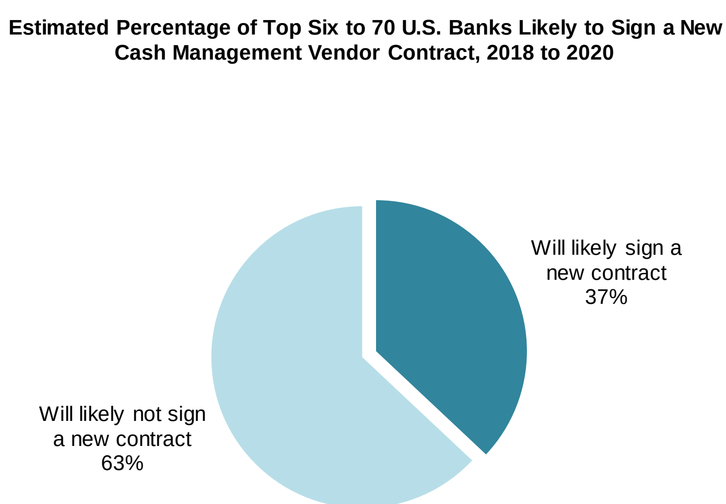
Figure 7: Likelihood to Replace by Bank Segment



Source: Aite Group survey of top 70 U.S. banks, December 2017 to January 2018

The trend to replace cash management solutions is expected to continue in a steady flow over the next few years, with 37% of the top six to 70 U.S. banks (ranked by total assets) forecast to sign a new cash management vendor contract between 2018 and 2020 (Figure 8).

Figure 8: Forecast Number of New Contracts Signed



Source: Aite Group estimates

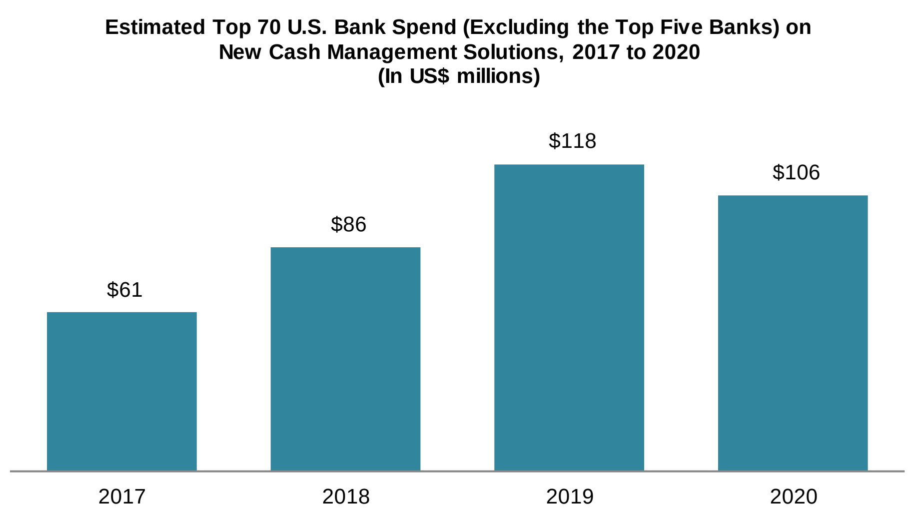
Based on bank interviews, those banks will spend approximately US$310 million on those vendor contracts during that period. Aite Group forecasts the average spend by each bank asset subsegment to be the following:

- Banks with US$10 billion to US$49 billion in assets will spend an average of US$7 million.
- Banks with US$50 billion to US$99 billion in assets will spend an average of US$11 million.
- Banks with US$100 billion to US$299 billion in assets will spend an average of US$11 million.
- Banks with greater than US$300 billion in assets will spend an average of US$30 million.

Forecasts also factor in some additional spend for upgrades to new releases and enhancements. The slight drop-off in forecast 2020 spend is due to the largest banks with the highest average spend replacing their systems in the earlier years (Figure 9).

Finally, most (81%) regional and super-regional banks expect their bank's cash management technology spend to increase over the next two to three years. This represents a growing importance being placed on cash management products and services by banks as a way to generate additional fee-based revenue and also a high level of urgency to invest in the largely dated technologies in place at many institutions. Those banks not investing in more modern and flexible architectures risk placing themselves at a disadvantage when trying to attract new customers and retain existing customers.

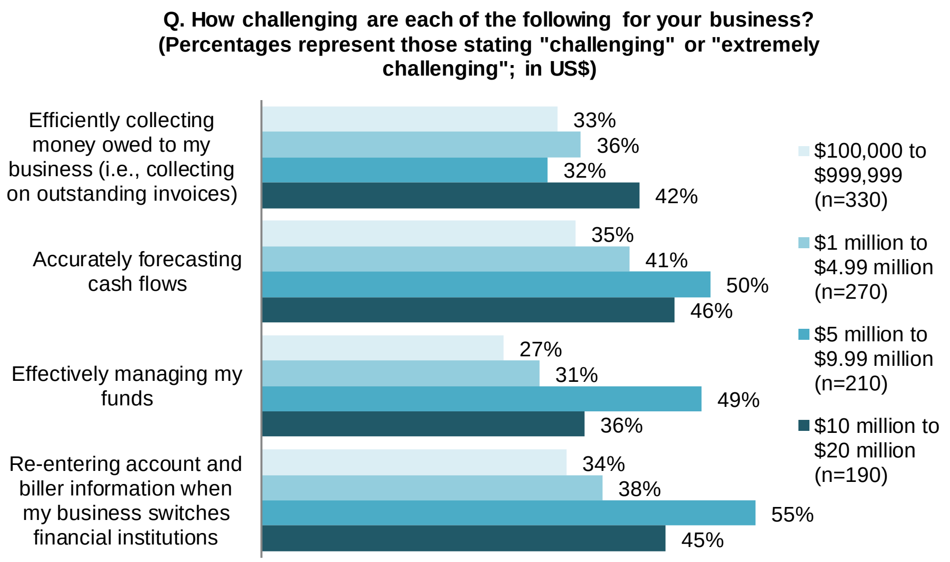
Figure 9: Estimated Spend on New Cash Management Solutions



Source: Aite Group estimates

Even in the smaller, downstream market, businesses are reporting that their banks' current offerings are not solving for these pain points, which they believe to be considerable or major problems (Figure 10). With the cash management platform being the gateway into the bank, providing corporate treasurers and small-business owners with the capabilities that directly address their pain points is key to the long-term generation of revenue from reoccurring business banking and treasury management fees.

Figure 10: Small-Business Customer Pain Points



Source: Aite Group survey of 1,000 businesses generating between US$100,000 and US$20 million in revenue, July to August 2017

CASH MANAGEMENT PLATFORM VENDOR LANDSCAPE AND SELECTION CRITERIA

The U.S. cash management landscape is a competitive one, especially given the significant consolidation due to mergers and acquisitions over the last few years. This has led to fewer options for banks and new opportunities for vendors that can offer something different. Having fewer U.S.-based vendors has also led some of the largest U.S. banks to consider non-U.S. vendors to meet their needs. While other vendors exist, Table A lists vendors that were mentioned as leaders in the space by U.S. regional and super-regional bank interview participants.

Table A: Cash Management Platform Vendors Named by Banks Interviewed

Vendor	Founded	Headquarters
ACI Worldwide	1975	Naples, Florida
Bottomline Technologies	1989	Portsmouth, New Hampshire
Finastra (Fundtech)	2017	London, England
FIS	1968	Jacksonville, Florida
Fiserv	1984	Brookfield, Wisconsin
iGTB (Intellect)	1985	London, England
Infosys	1981	Bengaluru, India
Q2	2005	Austin, Texas

Source: Aite Group survey of top 70 U.S. banks, December 2017 to January 2018

VENDOR SELECTION CRITERIA

When selecting a vendor for its cash management platform, banks need to seek a partner that provides solutions to the key demand drivers of solving customer pain points, reaching the needs of small businesses, becoming the primary bank, and standing out from primary competitors. The following list ranks vendor criteria as reported by banks:

1. Modern user interface with intuitive navigation and functionality for use by both small businesses and large corporate customers
2. Componentization, not customization—a unique customer experience that is user-persona-based but doesn't make banks touch code, which prevents them from taking new releases easily
3. A well-thought-out and forward-thinking product roadmap that addresses expected market needs and aligns with the bank's strategy
4. Customer-driven dashboards and widgets

5. A single code base across channels—all the vendors talk about it, but many are not there yet
6. A vendor culture that aligns with that of the bank
7. Regular, small upgrades, as opposed to two to three large upgrades each year

CONCLUSION

To remain relevant to their business clients, banks need to provide a cash management platform that rises to the demands of the market.

- Gaps between what bank customers expect and what most banks are providing in the areas of user experience, consolidated technology infrastructure, consolidated data and delivery, and products and services offered to small businesses can be improved through an updated cash management platform.
- Most banks are committing increased investment dollars to their treasury management and cash management platforms; the ones that are not investing are at greater risk of falling behind their competitors.
- Improving user experience, solving customer pain points, capturing new and different market share, expanding the product set of existing customers, and differentiating the bank's offering are all key drivers for replacing a cash management platform.
- An estimated 86% of banks have already upgraded their cash management solutions or are actively planning to, leaving the remaining banks with little to no choice but to do the same.

RELATED AITE GROUP RESEARCH

Payments Hubs: What Are They and Why?, March 2018.

Global Payments Regulation, 2018: From Compliance to Regulation, February 2018.

Top 10 Trends in Wholesale Banking and Payments, 2018: The Customer Comes First, January 2018.

Creating the User Experience Your Cash Management Users Expect, September 2017.

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