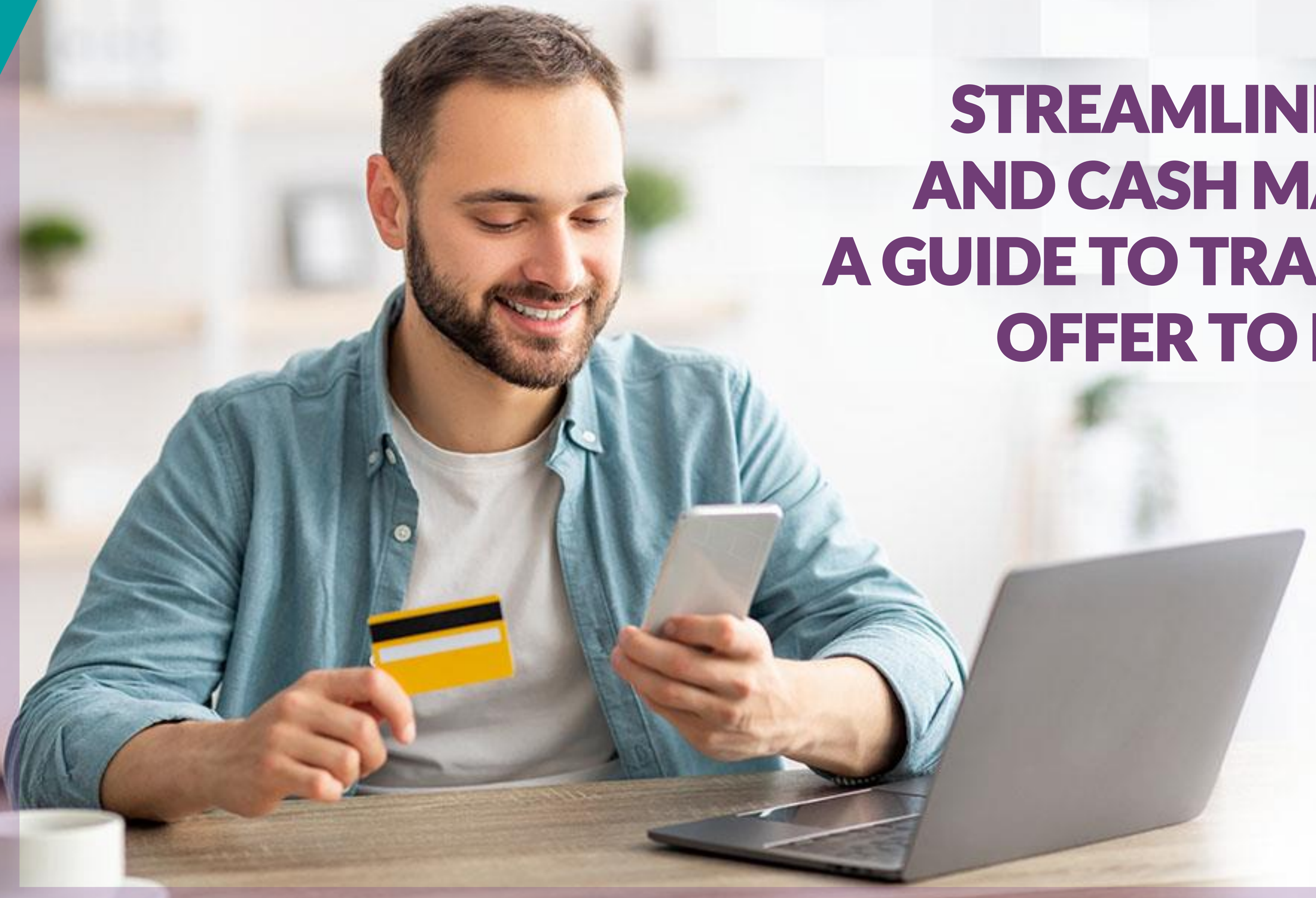

# STREAMLINING PAYMENTS AND CASH MANAGEMENT — A GUIDE TO TRANSFORM YOUR OFFER TO BILL LIFE CYCLE

eBook

# TABLE OF CONTENTS

# INNOVATION IS CRITICAL FOR BANKS IN A HYPER-COMPETITIVE ENVIRONMENT

Banks are responding vigorously to threats from non-bank players to protect traditional bastions like payments and cash management. With the emerging business landscape for banks vastly different from what they have been used to, a "business as usual" view cannot sustain profitability and growth. Payment and cash management solutions have been transformed by digitalization. Banks are therefore focusing resources on providing "all-digital" experiences that support faster transaction processing, greater convenience, bundling of services, personalized pricing, cost-effectiveness, and risk management in these areas. API-based integration with leading third-party payment apps and ecosystem partners is another component of banking transformation.

In the specific context of payments and cash management, strengthening of "common market areas" represents a major opportunity for banks. For example, the Single Euro Payments Area (SEPA) has been operationalized in a phased manner over the past 15 years to simplify and speed up payments among members. European countries such as Norway and Iceland are not EU members but are part of SEPA. This represents an opportunity for European banks in general, and Nordic banks in particular, to target customers seeking payments and cash management opportunities within SEPA.

For banks, payments and cash management are highly regulated. Rules cover KYC, PMLA, disclosures to regulators, prevention of funding terror and trafficking, ensuring fairness, etc. Changes to banks' business environment also occur due to the formation of new trading blocs, realignment of existing ones, changes to bilateral agreements, sanctions on certain jurisdictions etc. Banks therefore must look at transforming their entire offer to bill life cycle. They must develop the ability to infuse their solutions — including payments and cash management, with agility, security, reliability, flexibility, and scalability, so that customers will trust them.

# BANKS MUST TAKE A MORE DELIBERATE CUSTOMER-CENTRIC APPROACH

As banks shift from a product-centric to a customer-centric view, their focus is to take a portfolio view of customers to optimize financial goals for the basket of products/services their customers consume. The goal is no longer just to maximize revenue/ profitability for individual products or lines of business. Some products/services may not even be delivered by the bank, but by acting as enablers/facilitators, banks can generate profitable revenue streams. An example is Banking-as-a-Service, under which banks allow payment/e-commerce apps/websites to access relevant customer data in a controlled manner using APIs.

While the broad process and steps involved in the offer to bill life cycle includes remains the same, banks are increasingly using the rich and diverse datasets available to them to identify and analyze customer needs. This enables them to structure deals more effectively. In the face of such change, banks are reorganizing internal teams and changing workflows, governance etc. Product management, sales, and customer relationship management teams responsible for clearing, cash sweeping/pooling, liquidity management, multicurrency payments, billing consolidation solutions etc. must collaborate better to co-create and smoothly deliver cash management and payment solutions that address each customer's unique needs. Banks need the right technology stacks to capture, store, retrieve, and process the relevant datasets needed during solution design, operations, revenue management, and relationship management on an ongoing basis.

# THE PAYMENT AND CASH MANAGEMENT NEEDS OF CUSTOMERS VARY WIDELY

Banks serve a wide range of corporate customers, from local businesses to MNCs that operate globally. The cash management and payment solutions that each customer segment needs varies. Customers with globally dispersed customer bases and supply chains will need the ability to receive and make payments in multiple currencies. Some customers of the bank (or their customers/suppliers) may use an Automated Clearing House network (ACH) or non-banking payment apps. Banks must be able to offer seamless integration with them as well. Funds will need to be available to customers with minimum delay. Additionally, all relevant regulations across jurisdictions need to be complied with. Some customers will need to make recurring payments on specific dates and in designated currencies. All customers will need authorized refunds to be smoothly handled.

As a service, cash management is becoming increasingly complex, given the many needs of customers. Cash may be generated from business receipts, trade related activities, or investments. There could be gains/losses on forex transactions. Businesses may have multiple accounts in different jurisdictions. These accounts may even be with multiple banks. Banks need to make it easy and convenient for their corporate customers to consolidate funds in the best account and make disbursements/payments from there digitally to pay suppliers, service providers, and employees.

Payments and cash management solutions will therefore need to be integrated with cash pooling/sweeping capabilities aligned to the governance and procedural mechanisms of the customer and the regulatory compliance requirements in the relevant countries. This must include real-time matching of accounts with surplus cash balance with those where additional funds are needed to make payments. While this is an internal finance function of the customer, banks are increasingly partnering with finance teams to provide real-time information to aid decision-making. Thus, the treasury management services offered by banks also gets bundled with other solutions.

It is clear from the above that business enterprises will prefer banks that provide comprehensive, end-to-end payments and cash management solutions that are not just cost-effective, but also convenient, secure, error-free, and scalable. They must provide customers with superior visibility into cash balances (across accounts), effective liquidity management (factoring in interest rates, terms of the contract, need for funds to make payments etc.), and waterproof regulatory compliance and risk management.

A pre-requisite for banks to consistently deliver customized, high-quality cash management and payment solutions, is their ability to efficiently capture and process the vast amounts of customer-specific and transaction data and use the data effectively for various operational purposes, including the key value levers of pricing and billing.

# PRICING AND BILLING ARE THE PRIMARY DETERMINANTS OF VALUE FOR BOTH CUSTOMERS AND BANKS

**Every business relationship a bank has with its customers is a two-way street. While customers must derive (and perceive) that the value delivered by their bank is higher relative to what is promised by alternative providers, banks too must generate revenue and have visibility into opportunities for sustained growth. The latter requires the bank to be the sole or primary provider of various banking services. In turn, this means that banks must price each service at a level that provides optimum profitability, i.e., meeting internal targets while also being competitive vis-à-vis rivals.**

**For both customers and banks, pricing and billing are key levers that directly impact their respective abilities to extract value from the business relationship. As such, these two elements lie at the heart of individual contracts and customer relationships. They determine not only the longevity of customer relationships, but also mutual trust and hence, opportunities for growth in revenue and margins.**

## PRICING

broadly refers to the process of banks submitting a quote that includes pricing mechanisms for its various offerings and the associated terms and conditions (e.g., committed transaction volumes, processing times, automated pricing changes based on milestones, access to management reports, drill-down capabilities etc.).

## BILLING

kicks in once the contract takes effect and the bank has started providing services to its customers. This term refers to service delivery in compliance with the terms and conditions stipulated in the contract, generating the right invoices (based on appropriate pricing rules, the relevant formats, the agreed frequency etc.), and post-invoice activities such as timely collections.

Robust pricing depends on the bank's understanding of each customer's business needs and accuracy in projecting transaction volumes. This needs the relevant sales/relationship management and product management teams to analyze historical data (if it is an existing customer) or develop robust projections by probing customer leaders on strategy and plans (for new customers). The bank must be able to quickly adjust pricing. Efficient billing relies on a well-oiled operations engine that ensures both service delivery as well as timely generation of accurate invoices and follow up for collection. This is critical to ensure the fine balance banks need to maintain between delivering customer-centricity and achieving profitable revenue growth.

**To sustainably grow their cash management and payments businesses, banks must ensure that existing customers stay loyal and consume more of the products and services offered by the bank. They must also regularly attract new customers and steadily expand their footprint. Achieving this requires banks to consistently deliver on the following elements of value:**

## INTEGRATING THE OFFER TO BILL PROCESS

Banks must efficiently design and deliver on the entire offer to bill process, streamlining and automating the entire process.

## MEETING SPECIAL NEEDS (E.G., BILLING CONSOLIDATION)

Banks must be able to meet the special needs of customers. For example, some customers may need consolidated billing. Instead of giving customers multiple invoices (for different products and services, different entities, and geographies), banks must be able to consolidate relevant information into a single invoice (potentially from multiple billing systems). Invoicing capabilities must also support multiple formats, languages, currencies etc.

## RISK MITIGATION

Banks must ensure that they help their customers mitigate revenue risk, promote fairness with right pricing, and ensure regulatory compliance.

## TRANSPARENCY

Banks must ensure fairness and transparency in pricing and billing. Each service must be priced appropriately and factor in customer-specific needs.

## DISPUTE AVOIDANCE

Error-free billing is critical to minimize the risk of disputes between banks and customers.

## COST SAVINGS

Banks can ensure cost savings by enhancing operational excellence capabilities (spanning people, processes, and technologies) and automating end-to-end processes.

It is important for banks to consistently extract value from each customer relationship. Banks must ensure accurate and timely billing/invoicing in line with contractually agreed terms. They must ensure that the right accounts get debited. There must be no room for disputes around pricing or billing, as this will delay collection of receivables. Errors or lacunae can lead to lost revenue and even penalties for non-performance. Meaningfully monetizing customer relationships is possible only when pricing and billing processes are streamlined so that every customer portfolio yields the optimal combination of revenue and profitability for the bank.

# THE RIGHT TECHNOLOGY SUPPORT IS CRITICAL TO REVENUE MANAGEMENT

**The process of revenue management is not always straightforward given that different customers have different needs and expectations. For example, banks servicing MNC customers with multiple profit/cost centers across the world must have the ability to provide each of these units secure, accurate, real-time, integrated payments and cash management solutions in the appropriate currencies. While some customers may need itemized billing for each line of business, others may expect billing consolidation. Arrears need to be managed efficiently. Banks must hone their ability to deliver solutions for every customer, irrespective of size or nature of business relationship.**

**Active revenue management involves tracking the services consumed by each customer in each billing period, matching them with contracted customer commitments, and applying the right pricing formula to generate the right invoices. For every customer, pricing and billing decisions thus need to be made based on data-driven insights that help answer questions such as the following:**

1. Have we identified all the products/services the customer is likely to need in the quarter? Year?
2. Are the projected transaction volumes consistently achievable for the main products/ services expected to be consumed by the customer?
3. What are the unit economics associated with service delivery? How do they vary with customer segments and geographies?
4. Do our pricing algorithms use accurate data? How often are the rules reviewed?
5. Are changes to rules easy to implement? What if changes are mandated by regulatory authorities?
6. What billing errors has our bank been making? Is there a pattern?
7. To minimize these errors, do we need to make changes to workflows or operational controls to enhance efficiency and effectiveness of service delivery?
8. What changes are needed to the pricing or other contract terms to enhance revenues and profitability when the contract comes up for renewal? Do we have the data needed to make an informed determination of such changes? Are there any likely changes to projected transaction volumes (or value) that may need us to re-examine the pricing rules or milestones?

The above questions span different stages of the revenue management life cycle. Some are relevant to the pre-sales phase, while others pertain to the pricing and contracting phase, the service delivery and billing phase, and finally, the assessment and contract renewal stage.

Every aspect of a bank's operations increasingly relies on digital technologies. Constraints imposed by legacy architecture, or a siloed product-based software stack can impede a bank's ability to deliver superior payments and cash management solutions to its customers. Banks need an easily configurable, rules-based central revenue management system that allows individual product management and relationship management teams to respond with strategic and tactical agility to changing customer needs, competitor actions, market changes etc. Such a revenue management system also improves governance by reducing the risk of individual sales teams making changes that may benefit them in the short term but may lead to sub-optimal revenues at the overall customer level. These capabilities become even more critical when banks launch innovations or upgraded solutions around offerings such as payments and cash management, which contribute significantly to revenues, overall profitability, operating leverage, and customer loyalty.

Large and medium sized business enterprises are shifting application servers and data to the cloud, to make "anywhere, anytime" access the default option. While this prepares businesses to quickly shift gears to a "work from home" mode should such a situation arise, it also raises the need for higher governance standards and fewer exceptions. Banks must embrace a higher level of intelligent automation to reduce the risk of human errors while increasing throughput and speeding up service.

Banks that already have the right architecture in place are at a relative advantage. It is those who rely on legacy core banking systems with rigid, product-based software silos that will find it harder to transform themselves. Ripping and replacing the existing core banking platform with a modular architecture is expensive, time-consuming, and risky in terms of business disruption.

Banks need intelligent solutions that can circumvent the constraints of legacy architectures. Such solutions must be easy to implement and cost-effective. Most importantly, these solutions must ensure that banks can walk their customer-centricity talk by putting in place the necessary building blocks of customer value while equipping the banks with superior ability to extract value. A robust revenue management solution with automated, rule-based pricing and billing capabilities can help boost customer-centricity. Such a solution acts as a repository that can provide internal teams with clean, accurate, reliable, real-time actionable data.

We at SunTec would love to hear about your bank's specific challenges to explore the possibility of offering a revenue management solution that is best aligned to your business context and operational needs. To speak to our experts, write to us on contactus@suntecgroup.com.

## ABOUT SUNTEC

SunTec is the world's No. 1 pricing and billing company that creates value for enterprises through its Cloud-based products. More than 150 clients in 45+ countries rely on SunTec to provide hyper-personalized products, offers, pricing, loyalty programs, tax compliance, and billing for over 400 million end-customers. SunTec products are based on our cloud-native and cloud-agnostic, API first, micro-services-based proprietary platform, Xelerate and are delivered on-premise, on private cloud and as SaaS. SunTec has global operations including the USA, UK, Germany, UAE, Singapore, Canada, Australia, and India. For more information, please visit us at www.suntecgroup.com or email us at marketing@suntecgroup.com

SunTec®