The future of Internet banking for business
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Background
At the start of 2011, IBM completed a benchmark of UK business and corporate banking Internet portals through a series of interviews with end users ranging from corporate treasuries to small businesses. The results were surprising. While some good core functionality existed in key areas, many reported limited functionality, and confusing interfaces which were generic and thus non-configurable. Furthermore, major emerging technology areas such as mobile, applets, basic alerts and use of collaborative working tools were largely absent. The overwhelming impression was of Internet banking undervalued as a market differentiator and not the focus for customer acquisition or revenue growth.

When compared with the retail Internet banking market, it is apparent that business and corporate banking Internet portals lag well behind in many respects. Expectation of Internet technology is driven by firms like Apple, Facebook and the multitude of new start-ups. These expectations quickly spread to the corporate world. As stated in a recent Finextra corporate banking survey, ‘Treasurers and cash managers know that the technology is available to provide the service they desire, and if it’s not delivered, they question the bank’s commitment to the client relationship’.

Clearly many of the questions that were asked in retail banks 10 years ago are still being asked in corporate and business banks today:

- How much more are corporate and business customers willing to do online?
- Will banks make money from online services?
- Are Internet services worth the investment?

The answers are ‘lots more’, ‘yes’ and ‘yes’. Missing the digital boat will have a negative impact with increased customer attrition, higher acquisition and servicing costs, reduced transactional revenues and suboptimal cross-selling. Customer demand is rapidly developing. Now is the time for business and corporate banks to act. The latest research from Finextra supports this view:

- 62 percent of corporate clients said they would consider switching to a different bank for better customer service
- 57 percent said they would be willing to pay higher fees for a sophisticated web portal that enabled them to manage their entire portfolio through the web.

The survey further highlights that there is a disconnect between the needs of corporate customers and the priorities of banks:

- While 41 percent of corporate clients cited ease of access to service and information (channels) as the main criterion for selecting a bank, only 18 percent of banks cited this reason as their strongest selling point
- 63 percent of banks say they have lost corporate business due to inadequate products and services. However, of the 35 percent of corporate clients to have reduced business with one or more banks in the past 12 months, none gave this as a reason.
Overview of market
IBM undertook a comprehensive benchmark of the UK corporate and business Internet banking solutions in January 2011. Our general observations were:

Corporate banking Internet
- Fragmented, multiple log-in for different services
- Outdated user interfaces and excessively complex processes
- Limited site functionality
- No mobile services
- No product purchasing capability (e.g. extending lines of credit).

Business banking Internet
- Hosted on retail platforms
- Limited functionality (minimal dual/differentiated authorisation)
- No flexibility to upgrade functionality
- Limited product purchasing – no straight through sales processes
- Minimal use of alerts, notifications and secure messaging
- Little availability of international payments.

With the tendency of the large corporate client to use a variety of banks, the potential impact of an improved online banking service from a competitor is much more significant – switching suppliers is easy. This risk is magnified by those players in the market who have to re-platform as a result of acquisitions or demergers. This is not a time for any bank to become complacent.

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**Figure 1**: Magic quadrant for UK business banking Internet sites

**Figure 2**: Magic quadrant for UK corporate banking Internet sites
**Getting the basics right**

There are a number of basic features that most business and corporate banking Internet portals lack today. These are:

**Login** – this needs to be simple and convenient. While most business banking customers only need one login, the same cannot be said for corporate customers. Up to six different logins for services from one bank were identified. The single login must be a priority. In a recent corporate bank initiative, IBM rationalised five separate systems down to one, delivering cost savings, improved service consistency and future transformation flexibility.

**Content management/personalisation of roles** – Internet banks need the flexibility to be able to add and amend content in real-time and for this to be business rather than IT driven. Serving content relevant to the user could optimise cross sale opportunities and improve customer experience.

**Improved usability** – redesigning corporate and business banking websites around a more intuitive user interface (UI) could deliver real benefits to users and save significant amounts of time. This can help to increase customer ‘stickiness’ and the proportion of business given to a particular bank. Effective usability must extend over multiple channels and devices with a seamless user experience across channels.

**Multi-signature and differentiated authorisations** – business customers increasingly look for multiple signature authorisations and the ability to grant view-only or segmented threshold payment/transfer rights. The SME owners who want to delegate view only rights or low-limit payment authorisation to a part-time bookkeeper are demanding to be able to do so.

**Alerts** – customers want online banks to offer configurable alerts. Customers want to be able to set alerts limits (when account balance equals £x) and receive alerts by their preferred delivery mechanisms (text, email, etc.). This includes a range of transaction alerts.

The absence of such simple functionality in these basic areas reduces customer service, increases costs and restricts the options banks have for driving income from their Internet propositions. It is essential to get the basics right to be in the game.

**Effective usability must extend over multiple channels and devices with a seamless user experience across channels.**
Upgrading business banking

Today, business Internet banks are typically extensions to retail banking platforms. This suits sole traders with simple business banking needs, as it allows them to maintain an integrated view of their business and personal accounts. However, it seriously limits all but the simplest businesses. Business customers wishing to use more complex functionality cannot do so online which drives them into higher cost channels. For business and corporate clients there is an opportunity to drive some ‘channel shift’ from higher cost branch provisioning to lower cost digital channels.

It is important that customers are not swamped by functionality they do not need. Conversely, banks should not assume small businesses have no need for more complex operations.

Some providers have started to evolve, allowing business customers to upgrade from their basic service and subscribe to a slimmed down version of corporate systems. However, in these solutions, customers cannot look at their personal and business accounts in one place and are required to learn a very different Internet platform.

It is important that customers are not swamped by functionality they do not need. Conversely, banks should not assume small businesses have no need for more complex operations. More complex banking functionality should be offered as a series of modules, which can be added to an account.

For example, a small business owner interviewed by IBM runs a website in the UK selling furniture. As it is a start-up, turnover is low. However, the company is a subsidiary of a larger operation run from the US. As a result, the UK business needs to make regular payments to suppliers in Japan, manage collections from regular clients and allow members of staff to review the payments and balances, but not to make payments. The challenge for banks is how to meet this relatively simple type of need with a cost-effective digital banking solution.

In our view, business customers are looking for a range of modules of functionality which they can select for themselves. There are three benefits to this approach for banks:

1. **Retention** – customers become more sticky, as they can do more of what they need to do with their current provider.
2. **Revenue** – banks can charge for these incremental modules of functionality should they wish to do so, either by function, on a transactional basis or in groupings of additional value-added functionality.
3. **Cost reduction** – business customers are less dependent on high cost channels to transact.

For this reason, we believe that in future business banking accounts will become based around menus of functionality and pricing combinations.
Cash management
Offering effective cash management is critical to the success of any corporate Internet bank. In the UK today, only a small number of banks offer cash management to business banking customers.

While ability to invest excess cash is included in corporate offerings, most borrowings or other liquidity provision vehicles are still handled through a relationship manager. Banks have an opportunity to differentiate themselves by offering as much secure online cash management functionality as possible, including overnight borrowings, real-time liquidity, or lines of credit approvals.

While some leading banks do offer basic cash management services to corporate customers, much more can be done. As previously mentioned, the outperformers from IBM’s 2010 survey of CFOs showed that, among other things, they had consistent competency at providing increased business insight. It is very clear that insight drives value. The IBM Institute for Business Value’s 2011 CIO survey found that more than 80 percent of CIOs ranked business intelligence and analytics as their top initiative to enhance company competitiveness.

The market leaders in business and corporate Internet banking must help their clientele provide rapid, easy-to-use and perceptive information drawn from the unique transactional, cash flow and portfolio data held at the heart of their banking operations. By providing the tools for analysis of past transactions, cash flows and current portfolios, the Internet banking platform itself can help finance departments deliver more and better decision-making support.

So, how can an organisation’s digital channel strategy be harnessed to drive business insight? Clearly providing a forward rather than backward looking view (balance sheets, P&L, cash flow statements) is key. Within the Internet bank this can mean:

- A range of analytical tools which customers can select and pre-programme
- Analytics using the full range of historic data held in the account to refine forecasts
- Automated cash forecasting tools
- Scenario-based planning and forecasting using historic data
- Tools for customer execution of cash management including sweeps/zero balancing
- Cost measurement and managing tools
- Cash management optimisation tools
- Balance/transactions alerts.

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These tools are not only for corporate customers. Although many larger businesses will already have systems for creating business insight, the smaller and medium sized businesses may well benefit significantly from basic portfolio analysis tools. It is essential to make these tools easy to use so that users can understand their position quickly. As customers spend more time on the online bank, the bank benefits by creating cross-selling opportunities, and by capturing a larger overall share of business from multi-banked customers.
Payments and collections
Payments are at the heart of online banking. As a result, payments and collections functionality is relatively more developed within today’s online banking offers. However, we believe that there is capacity to build on this level of functionality as a way of saving time for customers and encouraging them to use lower cost channels.

The key requirement must be to ensure customers have the full range of payment and collections options available for self service. For business banking customers, this again may form part of an additional module of functionality, for which customers can be charged.

With the wide range of payments types available, it is crucial that interfaces are user-friendly and configurable by the customer. The customer must be able to customise data fields to have the ability to change them according to transfer or payment type selected, with only those fields required for a specific transaction type being shown. This makes payments easier for the user, reducing errors and thus contact centre traffic. Providing a simple online auto-reconciliation function will save customers time when matching up payments/collections issued and/or received.

Finally, the introduction of a simple e-Invoicing tool will ensure business and corporate customers can also complete their collections online.

Foreign exchange and money markets
The key to delivering effective online FX and MM trading and transactions is to ensure that they are as convenient as possible for corporate clients and as simple as possible for business customers. Customers are increasingly looking for online banks to display exchange rates to provide a more convenient and seamless service. Internet banks could enable customers to instant message bankers to confirm rates in real-time – especially on large deals.

Business customers are demanding to be able to upgrade to this functionality where it is required. They also need the flexibility to see their balance details in a range of currencies. For corporate customers – in much the same way as for payments and collections functionality – a wide range of transaction types should be made available.

It is crucial that interfaces are user-friendly and configurable by the customer. The customer must be able to customise data fields.
Mobile

By 2016, mobile devices will have fundamentally changed business and corporate banking. The latest research from IBM’s global research centres has given us – and our customers – keen insights into this rapidly changing area. The data already shows that business and corporate customers would use these services – and would pay for them.

1. CEOs/CFOs on the move

For busy CFOs on the move, a mobile device could be a huge time saver. They would be able to:

• Check balances
• View reports on cash positions
• Initiate and approve payments
• Receive messages or alerts from the bank
• Allocate new payment authorities remotely.

This means that there would no longer be a requirement for senior executives to be at their desk at specific times.

2. SME customers away on a job

If a small business person is working away from their base, mobile banking will be a crucial way to stay on top of their finances. Customers should be able to:

• Make payments and transfers – across selected accounts
• Check balances
• Receive alerts
• View simple reports – configurable according to customer needs.

3. Relationship managers with clients

Relationship managers are often on the road. Mobile devices will enable them to keep track of clients while on the move. By adding communications functionality and collaborative working tools (as discussed in the next section of this paper), mobile banking could enable relationship managers to stay connected with their customers.
Collaboration and communities
Collaborative working tools could make it easier for customers to engage with their bank. Within corporate customer organisations, where there may be large teams of Internet bank users, these tools could also make it easier for employees to work with each other. IBM’s own worldwide internal deployment of collaboration technologies puts us at the forefront of both usage and deployment. From personal experience we believe the advantages would be significant for early movers.

- Online chat/instant messaging
- eVaults and document exchange – help business or corporate customers save their business critical documents safely within folders in their online account. Banks should also be able to send their customers confidential documents
- Video conferencing – particularly pertinent where clients are based across a wide geographic area – already deployed by Bank of America for wealth management
- Blogs and RSS feeds – put customers in contact directly with subject matter experts within the bank
- Click to call-back or the ability to request a phone call back from customer service via the Internet.

Online customer training
By providing hosted self-training for their customers’ financial staff, banks could offer a value-add service. Customers would take less time and effort to train their own employees. eTrainees could be provided with a ‘sandpit’ test system in which to practise.

Online networks for bank customers
Banks would be able to offer a secure online network enabling their clients to work with one another. By providing online forums, the Internet bank’s online customers would be able to search for and communicate with other bank clients. This model has already been introduced by a number of banks.

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Next steps

How much more value could your business generate with an online bank aligned to corporate and business customer needs?

IBM can help banks achieve this transformation. IBM’s expertise combined with our recent experience of digital channel transformation for two of the largest UK banks has given us the experience, resources and immediate relevant assets to help with your transformation strategy. For example, one particular programme has brought rapid results for customers embarking on digital transformation initiatives. One major bank client stated “IBM’s accelerated visioning programme has helped us achieve in eight weeks what would have previously taken eight months”.
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Alex is a retail banking and digital professional with more than 10 years’ experience.

Alex joined Lloyds TSB in 2000. During his time at Lloyds, he worked in both product teams and distribution. Over the past few years, Alex has specialised in Internet and mobile banking and was the product owner for loans and mortgages across the Lloyds TSB, Halifax and Bank of Scotland Internet channels.

Since joining IBM, Alex has held implementation roles with UK online banking clients. He has also consulted on retail, corporate and business Internet and mobile banking and social media with European and Chinese clients.

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Jeff's focus at IBM is on Digital Channel Transformation. He has been working on Internet banking initiatives from the inception of the Internet over the past 17 years in the US, Europe and the UK.

Jeff initiated his private sector career in banking in California 24 years ago. In 1995, Jeff redirected his post business school career towards Internet banking. He worked with two very early stage US Internet banks and software companies, Security First Technologies and Netbank, and was instrumental in making Netbank one of the first profitable Internet companies.

In 1999, Jeff moved to Ireland to work with a rapidly growing Internet banking start-up, First-e/ENBA. From 2001-2007, Jeff worked with a series of delivery-focused assignments in the Internet and mobile Internet sphere ranging from work with Vodafone, T-Mobile, Royal Bank of Scotland and Cahoot/Abbey (Santander).

More recently Jeff has raised capital for and served as CEO of a Web 2.0 digital media web start-up, worked on a global Internet banking strategy assignment for Santander in Madrid, and has worked on an e-Initiative at BSkyB aimed at streamlining and digitising sales and servicing.

Jeff has an MBA from Harvard Business School with an emphasis in Technology Management.

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