Customer-Centric Treasury Services
Corporate Banking Growth via Integrated Treasury Services
Executive Summary

- Our industry research, and experience with banks across the country, suggests that treasury services has reached a “tipping point”
  - Corporate banks will be positioning treasury services as a growth engine over the next few years
  - Major banks are undertaking large-scale programs to transform their online treasury platforms
  - They are targeting growth primarily in the under-penetrated small and medium-sized enterprise (SME) and middle-market segments
  - Leading banks are using their online platforms to integrate their treasury products
  - Banks are beginning to transition from a product-centric to a client-centric business model
  - They are focused on providing a seamless client experience, unified administration, and integrated reporting
  - Ultimately, their goal is to broaden and deepen client relationships to increase cross-sell and up-sell

*This Leading Research highlights changing client demands, the capabilities that banks will need to respond, and practical considerations for bank success*
Treasury is one of only two product groups (along with wealth) poised for growth over the next 5 years

U.S. Product Revenue & Operating Profit Pools
(2009–2014F)

Revenue Growth (CAGR)  Profit Growth (CAGR)
2004–2009  5.3%  2004–2009  3.8%
2009–2014F  1.2%  2009–2014F  (1.1%)

1. Excludes insurance (life, P/C, etc.) and capital markets.
2. Excludes loan loss provisions, nonrecurring gains or losses, and income taxes.
3. Excludes commercial real estate.
4. Includes fees from cash management, online payment processing, global trade, and wire transfers; also includes interchange fees from credit and debit card transactions.
5. Includes originations, holdings, and servicing of multifamily, commercial, and farm mortgages; excludes securitization.
6. Includes originations, holdings, and servicing of 1-4 unit residential mortgages; excludes securitization.
7. Includes home equity lines of credit, auto loans, student financing, and other consumer lending products; excludes mortgage and credit cards.

Source: Federal Reserve; FDIC; Nilson Report; MBA; 2010 Financial Services Fact Book; analyst reports; industry newsletters; news articles; annual reports; Booz & Company analysis
### Growth opportunities are available across the full range of treasury products

<table>
<thead>
<tr>
<th>Treasury Product</th>
<th>Overview</th>
<th>Strategic Direction &amp; Opportunities</th>
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| **Cash Management & Liquidity** | - Cash management tools (e.g., notional pooling) to monitor and consolidate global cash  
- Short- and long-term investment options | - Global cash management combined with payments to make best use of available cash |
| **Payables & Receivables** | - Electronic invoicing and working capital optimization  
- Connecting buyers with suppliers across settlement networks | - Early payment discount optimization  
- Integrated payables, receivables, payments, and invoicing |
| **Payments & Cards**       | - Payments via ACH, wire, and other methods  
- Visibility and control over payments via purchasing cards, T&E cards, single-use cards, etc. | - Payments integration with accounts payable/accounts receivable/liquidity  
- Regional or global market card programs  
- Purchasing cards and single-use cards |
| **Trade Finance**          | - Management of physical and financial supply chains through integrated cross-border trade and logistics solutions (e.g., letters of credit and commercial trade documents) | - Letter of credit-related revenue accounts (largest fraction of trade revenue)  
- End-to-end supply chain financing products |
| **Information & Reporting** | - Consolidated, up-to-date views of account balances and demand deposit account services  
- Global cash and investment positions | - Cross-product information  
- Risk management via forecasting and scenario analysis |

Source: Booz & Company
Our research indicates that broad market and client forces are accelerating the need for modern, integrated treasury platforms

<table>
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<tr>
<th>Market Forces</th>
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<td>- Recent financial events are driving many clients to seek multiple bank relationships to spread risk</td>
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<td>- Banks must provide a more integrated set of services to achieve “stickiness” in their client relationships</td>
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<th>Technology</th>
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<td>- Clients’ increasing familiarity with push technology raises expectations for proactive prompts/suggestions</td>
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<td>- All mobile devices are viewed as integrated, Web-enabled platforms for accessing treasury services</td>
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<td>- Increasing variety of payment vehicles drives customer demand for more integrated operational and reporting capabilities</td>
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<th>Integrated Treasury Platforms</th>
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<td>- Holistic online solutions that support multibank relationships, multiple payment methods, enhanced security requirements, and overall liquidity management</td>
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<td>- Tighter partnership/integration with back-office systems and processes</td>
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<tr>
<td>- Proactive prompts and alerts to advise clients on their to-do lists across access devices</td>
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<th>Fraud and Security</th>
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<td>- Increased recognition of the risks of internal fraud is driven by:</td>
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<td>- Automation</td>
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<td>- Self-administration</td>
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<td>- Online access from anywhere</td>
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<tr>
<td>- Increased malware and external threats drive demand for more robust security capabilities in treasury platforms</td>
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<th>Cost/Capital Pressures</th>
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<td>- Increased profit pressures have led client treasury departments to reduce head count, driving demand for enhanced treasury services (e.g., back-office finance and accounting integration and reporting) to reduce the workload on remaining client staff</td>
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<td>- Holistic working capital management has increased in importance</td>
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Source: Booz & Company industry research
Treasury clients are frustrated by inefficiencies resulting from the current lack of cross-product integration

Inefficiencies Hindering Treasury Optimization

- Inability to forecast company cash flows: 67%
- Weak working capital/liquidity management decision making: 38%
- Time for transactions processing is too long: 36%
- Inadequate financial reporting practices: 35%
- Inefficient payments process (accounts payable): 34%
- Inefficient collections process (accounts receivable): 30%
- Inability to pool company’s cash accounts: 28%
- Poor performance of short-term investments: 13%

Source: Aberdeen Group survey; Booz & Company analysis

Growing Demand for Cross-Product Integration

- Four of the top eight inefficiencies cited by treasury clients stem from their inability to manage global positions across all product groups
- Product silos restrict their ability to pool, optimize, forecast, and report on cash balances
- Increasing cross-product integration and online access would help bank clients address these inefficiencies
Executive users are increasingly using treasury products to support strategic decision making, accelerating the need for cross-product integration.

**Users of Treasury Products**

- **Strategic**
  - Strategic Planning
  - Key Users: Board, CEO, CFO

- **Operational**
  - Treasury
  - Key Users: CFO, Treasurers, Cash Managers, Liquidity Managers
  - Data Integration

- **Transactional**
  - Receivables
    - Key Users: AR Clerks & Managers
  - Payables
    - Key Users: AP Clerks & Managers
  - Trade Finance/Logistics
    - Key Users: Operations Managers, Trade, Logistics

**Value Drivers & Needs**

- **Strategic**
  - Strategic decision making based on **accurate and comprehensive financial data** from across the enterprise
  - **Strategic insights** to support optimized decision making

- **Operational**
  - **Visibility into cash information** across the organization to drive informed decision making; comprehensive and consolidated views of corporate-wide data to improve asset utilization and return
  - **Integrated and seamless solutions** to reduce time spent on key activities (e.g., global cash forecasting and investments)

- **Transactional**
  - **Seamless, simple** systems that provide relevant functionality
  - Consistent core functionality across products to **reduce learning curve**
  - **Automation** of low-value activities

Source: Booz & Company
Treasury platform investments are largely focused on satisfying three fundamental demands from online clients

**Demand**

- **Cross-Product Integration**
  - Customers increasingly value seamlessness and improved visibility into their global cash positions, which is driving demand for cross-product integration

- **Improved User Experience**
  - Usability drives the client experience, and as competitors broaden their product offerings, ease of use will become more important to the overall value proposition

- **Self-Service Entitlement Administration**
  - Customers are placing greater importance on entitlement administration capabilities to manage change and maintain control over increasingly complex organizational layers and transaction rights

**Description**

**Insight from Industry Interviews**

- “Once Bank of America CashPro solves legacy integration and scale issues associated with its online platform, it will be poised to grow market share.”

- “Citi is the global leader and has great functionality, but it is not as intuitive or easy to use, which limits its acceptance, mainly with larger and more sophisticated customers.”

- “As customers try to do more with less, they need advanced entitlement administration capabilities such as more intuitive self-service and greater control across a broader universe of users.”

Source: Interviews; Booz & Company internal industry research
The investments are geared toward achieving greater client-centricity in treasury, moving away from product-centric models.

**Traditional Treasury Services Model:**
Focus on Vertical Product Silos

- **Product-Centric View**
  - Payments
  - Liquidity
  - Accounts Receivable
  - Information Management
  - Trade Finance

**Problems with Product-Silo Model**
- Limited cross-product penetration; hence, low revenue growth
- Products developed in silos
- Multiple systems support similar functionality
- Lack of formal sharing of ideas

**Emerging Treasury Services Model:**
Focus on Horizontal Client-Users

- **Client-Centric View**
  - Payments
  - Liquidity
  - Accounts Receivable
  - Information Management
  - Trade Finance

- **Benefits of Client-Centric Model**
  - Drives greater revenue potential through increased value of product offerings
  - Emphasis on client roles and needs across the entire value chain
  - Drives product groups to develop integrated product offerings that best meet client needs

Source: Booz & Company
While the move toward client-centricity requires changes across the value chain, most investment is focused on the service platform.

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<th>Value Chain Step</th>
<th>Objectives</th>
<th>Client-Centric Approach</th>
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| Product Design   | Integrate and bundle products based on client needs | Integrate treasury products to create seamless solutions  
  – Design based on client needs rather than available capabilities (e.g., integrate supply chain solutions with procure-to-pay, payments, and commercial cards) |
| Pricing          | Simplify pricing structure of products | Provide simple pricing options, differentiated by segment  
  – 2-4 standard bundles with varying levels of sophistication  
  – A la carte pricing for optional add-ons  
  – Simplified billing to reduce administrative burden on client and provider |
| Sales            | Coordinate sales efforts across products & segments | Align relationship managers with treasury product managers  
  Approach product bundles/suites as an opportunity to cross-sell  
  Realign and dedicate resources according to client need |
| Service Platform | Provide enhanced self-service capabilities | Support ease of access and effective decision making  
  – Streamline product platforms  
  – Improve user interface |

*Current investment focus of major banks*

Source: Booz & Company
To deliver a truly client-centric platform, banks must enhance their capabilities in five critical technology layers:

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<th>Customer Issues</th>
<th>Solution Layer</th>
<th>Description</th>
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| Multiple & inconsistent user interfaces | Seamless front-end user interface | - Enhanced user interface providing single sign-on, and consistent look and feel across all products and administrative functions  
- Seamless transaction experience across all products  
- Single point of access across all customer segments |
| Poor user experience | Integrated core product functionality | - Enhanced product capabilities through rich and comprehensive functionality across treasury products (e.g., trade finance and payments) |
| Limited cross-product integration with independent product platforms | Cross-product self-administration | - Ability to allow users to self-administer profiles and user access  
- Efficient means of onboarding new treasury clients and products |
| Complex process for assigning & managing entitlements | Cross-product integrated data access, reporting, and transactions | - Integrated transaction and position data (e.g., cash management positions) to enable cross-product reporting |
| No holistic view of operational data | Customized and flexible data transfers | - Direct integration to ERP systems and existing templates  
- Options to deliver data in various file formats (e.g., XML) |
| Limited ability to send customized data in varying formats | | |
Major banks are recognizing these demands and are investing heavily in their treasury platforms

**Treasury Platforms from Three Major Providers**

<table>
<thead>
<tr>
<th>Platform</th>
<th>Current Offering &amp; Positioning</th>
<th>Investments in Future Offerings</th>
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| **Wells Fargo**           | ▪ Active user base growing at 20% a year, to ~400,000 in 2010  
                          ▪ Majority of systems are built internally  
                          ▪ Run by “IT experts acting as bankers, rather than bankers acting as IT experts”  
                          ▪ First to deliver commercial banking mobile services  
                          ▪ Easy to use (e.g., single sign-on system permits access to 60 products)                                                                                                                                   | ▪ Grow CEO through mobile applications  
                          ▪ iPad and Android versions in development  
                          ▪ Focus on small business (10% now use mobile app)  
                          ▪ Integrate the “best of both” from Wells and Wachovia  
                          ▪ Migrate to S1 ACH solution with enhanced reporting, tools, and payments                                                                                     |
| **Citi**                  | ▪ Perceived to be the strongest solution for large multinationals with international payments  
                          ▪ Smaller clients can get “lost in the shuffle”                                                                                                                                                                        | ▪ Major investment in multiyear “banking evolution”  
                          ▪ Electronic bank account management (eBAM)  
                          ▪ Media channel with online training and user support  
                          ▪ Mobile capabilities, including approvals and collections  
                          ▪ Service-oriented architecture and open standards                                                                                                               |
| **Bank of America**       | ▪ Easy to use, particularly for clients with relatively simple needs  
                          ▪ Lacks some functionality valued by large, complex clients                                                                                                                                                          | ▪ Revamp online treasury management platform to establish an online payments hub and increase usability and client visibility  
                          ▪ CashPro Invest application to be launched and integrated with CashPro online                                                                                                                                     |

Source: Booz & Company
There are five critical success factors in transforming to a modern integrated treasury services platform

<table>
<thead>
<tr>
<th>Critical Success Factor</th>
<th>Description</th>
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| End-State Vision                        | - Develop shared vision and metrics for cross-product client-centricity  
- Align objectives of key stakeholders across corporate, treasury function, product lines, and clients  
- Develop a high-level road map; prioritize rollout based on client usage and cross-sell opportunities |
| Data & Client Migration to New Platform | - Integrate data infrastructure to support single view of client, including hierarchies and entitlements  
- Develop detailed and phased implementation plans for migrating clients  
- Ensure that internal product and support processes are in place prior to large-wave client migrations |
| Functionality Prioritization & Sequencing| - Prioritize product functionality to be migrated to new platform in phases; identify and fill gaps  
- Migrate functionality in phases based on cross-sell and penetration potential  
- Align release schedules with the company’s production release schedule |
| Program Management & Resourcing         | - Develop a comprehensive program structure including corporate, business unit, product, and IT roles  
- Define resources needed for each release, including client availability for requirements and testing  
- Manage project plan “pressure points” (e.g., too many concurrent releases) |
| Metrics Program                         | - Define metrics to track cross-sell, penetration, and referral rates  
- Define new client-centric metrics aligned to relationship manager metrics  
- Design implementation scorecard including metrics for activity, operations, and business impact, along with project management metrics |

Source: Booz & Company
Leading institutions are embarking on significant treasury platform initiatives starting with several key analyses

**Critical Up-Front Analyses**

<table>
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<tr>
<th>Identify Headroom for Growth</th>
<th>Assess Online Platform Technology Layers*</th>
<th>Assess Technology Implementation Plans</th>
<th>Benchmark Platform Against Competition</th>
<th>Rationalize Product Road Maps with Platform Road Maps</th>
</tr>
</thead>
</table>
| • Summarize product penetration within existing client base | • Map current platforms against five layers of treasury platform architecture:  
  – User interface  
  – Integrated product functionality  
  – Onboarding and self-administration  
  – Integrated data and reporting  
  – Data, files, and template transfers | • Accommodate five-layer architecture approach into implementation work streams  
  • Seek synergies and coordination:  
  – Across work streams  
  – With enterprise initiatives (e.g., integrated data and reporting, single view of customer, process orchestration) | • Identify suite of products and features desired  
  • Align to industry nomenclature on product features and attributes (e.g., more than 200 attributes from Booz & Company’s benchmark study)  
  • Conduct benchmark analysis  
  • Prioritize areas of focus for competitive parity vs. competitive advantage | • Understand existing product management road maps  
  • Identify overlaps on product road maps for each of the five layers of architecture  
  • Seek synergies across product road maps  
  • Align with platform road maps and implementation plans |
| • Prioritize cross-sell and up-sell opportunities | • Prioritize enhanced functionality requirements | • Prioritize areas of focus and spend | | |

* Five layers of architecture: Booz & Company framework for treasury platforms. 

Source: Booz & Company
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