



How to be a contender

Commoditisation and lost revenues are inevitable, so how can banks fight back?

The inevitable result of initiatives such as the Single Euro Payments Area (SEPA) will be the further commoditisation of the payments business. Corporate clients will seek to consolidate their banking relationships with fewer banks. Financial institutions will face loss of revenue once they can no longer charge higher rates for cross border payments than they can for domestic transactions. For banks, remaining competitive in an environment in which payments are commoditised will be a significant challenge. While the biggest players in each market are likely to be the beneficiaries of corporates' desire to rationalise their banking relationships, small to medium sized institutions across Europe will have to formulate new strategies to secure their future success in the payments business.



By Parth Desai

There has been a school of thought that a "payment is a payment is a payment". Key to banks' ability to compete in a commoditised world will be the recognition that this is not the case. Corporates are increasingly discerning when it comes to their banking services. The winners among the banks will be those that can offer ever more customised products and services to their clients, in order to attract new customers and to entice existing clients to put bigger and bigger volumes of business their way, enabling them to unlock scale economies. To do this, they must be able to create new products quickly, based on analysis of customers' requirements and behaviour. To maximise profitability, banks must also be able to tailor the pricing of these new products and services to suit clients' appetites, to reflect the value to the client in question and to tap into the most lucrative revenue streams available.

There are a number of initiatives banks could consider when planning customised value added payments products for clients. One is to package up together different payment services, for example offering reduced FX rates to encourage a client to take advantage of salary payment services. Another is branch based fee charging. Many of a bank's customers are head offices or branches that are authorised to maintain positions. A product

could be launched to provide differential pricing for other branches, with variants including volumes of transactions, currencies, regions involved, and transfer mechanism.

The types of customised products and services banks choose to offer their clients will be the result of business analysis. But to turn strategic thinking into reality, financial institutions must implement appropriate technology solutions to support new product development. The payments infrastructures currently in place in most banks do not have the necessary flexibility to allow them to create new products quickly enough; typically this takes months if not years, rather than the weeks that will be required going forward.

An added complication is that the parameters according to which products can be developed and priced are very varied. Furthermore, banks will not always know up front the kinds of parameters according to which they will need to shape product characteristics and pricing to effectively tailor their services to different customers. It is clear that most financial institutions must thoroughly upgrade their payments infrastructures if they want to compete successfully in the new commoditised environment.

The good news is that some of the next generation banking systems on the market offer all the functionality required to support banks in this endeavour. The necessary rules based, intelligent systems, enabling dynamic parameter definition are available, and some of them combine this capability with the functionality to continuously analyse large amounts of customer behaviour and transaction data.

To date, banks have been sufficiently confident of their margins in the payments business that they have not focused on tailoring products and product pricing to target different customers. In the future, customising and value addition around standard products will be the only way for many institutions to compete. To support them in their efforts to survive in the new banking environment, they will require robust and configurable systems that enable the seamless and rapid implementation of new products and pricing strategies for the payments market.

Parth Desai is CEO at ACE Software Solutions