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Four Key Points to Consider When Rolling Out an Integrated Receivables Offering

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Prepared for: fiserv.

INTRODUCTION

The corporate treasury space is in a state of transition. Corporate customers are demanding greater innovation from their bank partners to deliver more efficiency and accuracy to their financial processes. New expectations, driven in part by new challenges arising from the shift to electronic payments and away from paper-based ones, are forcing banks to take a closer look at their processes and the ways in which they present data to their customers. Most are now looking at new tools available in the market to help their customers more efficiently manage receivables. Through partnerships with the right technology vendors, banks can quickly and cost-effectively ramp up their receivables capabilities to offer their corporate customers a more seamless and painless experience. Such initiatives will help financial institutions not only drive incremental revenue and grow deposits but also, and more importantly, retain and grow their corporate customer base.

This white paper was commissioned by Fiserv and produced by Aite Group to help financial institutions build their corporate receivables strategy. It highlights some of the key points made during an October 11, 2018, Aite Group webinar titled "Integrated Receivables: Meeting Your Corporate Customers' Expectations." The webinar and this paper analyze how the shift to electronic payments impacts corporate customers' ability to effectively manage their accounts receivable and the key factors banks should consider when rolling out a robust integrated receivables offering.

METHODOLOGY

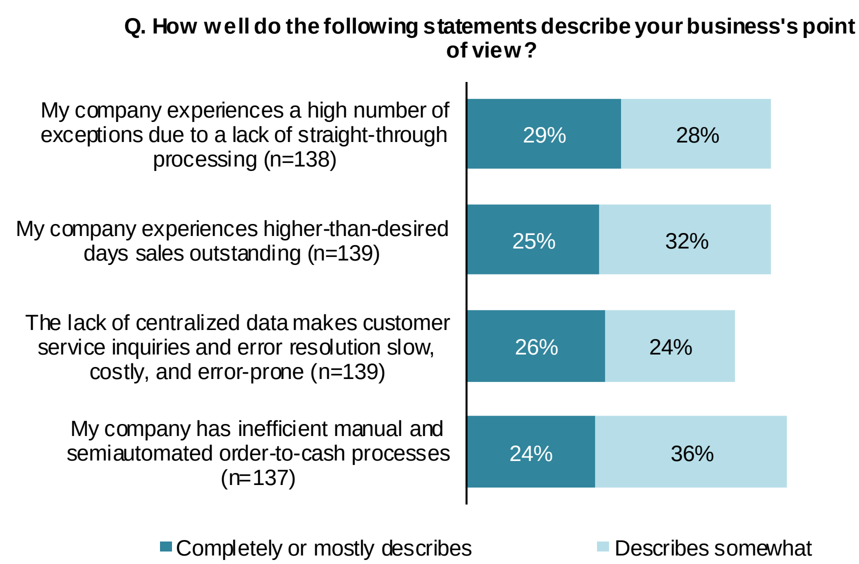
The information in this white paper is based primarily on the results of an October 2017 online survey of 145 U.S. receivables managers working at companies with greater than US$50 million in annual revenue. It also leverages the analyst's deep understanding of bank strategies and how technology is evolving in the integrated receivables space.

TODAY'S REALITY

Corporate treasurers expect easier access to information, a modern user experience, consolidated data, automated processes, and integration with their accounting systems. Despite those expectations, most bank customer experiences include multiple system logins to get a full picture of their receivables, different file formats, and manual data entry with subsequent data quality issues, all of which make managing accounts receivable processes extremely challenging. Sixty percent of corporate receivables managers admit to being either completely or somewhat dependent on Microsoft Excel for getting the consolidated view of data they require. Banks' failure to offer integrated receivables capabilities is creating that dependency as well as the challenges that go with it. Further, the shift toward electronic payments is compounding the problem. According to NACHA, remittance information for 61% of ACH payments is received through a different channel (typically email). This often necessitates a manual reassociation process in the already complex B2B payments landscape, which is further complicated by partial and combined payments. The pain is greatest for larger businesses with high receivables volume—50% of corporations receive more than half of their payments from businesses as an ACH payment—but is a common problem regardless of business size.

This lack of automation and the unavailability of the right capabilities are creating other challenges for corporate customers, such as a high number of exceptions, higher-than-desired days sales outstanding, inefficient order-to-cash processes, and slow error resolution (Figure 1).

Figure 1: Exceptions and Higher-Than-Desired Days Sales Outstanding



Source: Aite Group survey of U.S. corporate receivables managers, October 2017

Companies are willing to pay for greater efficiency and elimination of their manual, error-prone processes; thus, integrated receivables offers banks not only the opportunity to help their clients overcome challenges and operate more efficiently but also a potential new revenue stream.

BANKS' FOCUS ON INTEGRATED RECEIVABLES

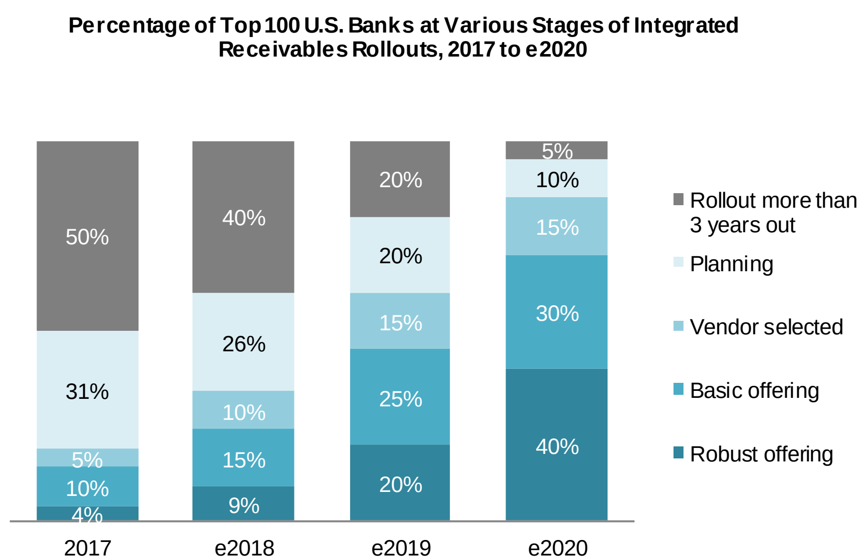
In its simplest terms, integrated receivables is the ability to receive any type of payment from any channel and in any format and be able to present it back to the customer in a consolidated report or file. Robust offerings are often composed of three key pillars:

- Consolidated data and reporting
- Remittance matching
- Single file

Banks looking to remain competitive and address new customer challenges must increase their focus on improving receivables processes for customers. For approximately 70% of large and midsize banks, rolling out an integrated receivables offering has already become a high priority. Those serving the largest corporate customers are seeing the greatest customer demand, while those with more of a middle-market and small-business customer base recognize that educating customers about newly available capabilities will be critical to success. Additionally, while receivables challenges are often greater for business-to-business transactions compared to business-to-consumer ones, most corporate customers, regardless of their client base, would benefit from the efficiencies integrated receivables offers.

To date, only a handful of banks are already live with a robust integrated receivables offering, with more than two-thirds of the top 100 banks still either in the planning stages or more than three years away from rollout (Figure 2). Most of the investment by the 13 to 30 largest U.S. banks will take place during 2019 and 2020, with most spend by banks beyond the 30 largest not happening until 2020 and beyond.

Figure 2: Forecast Bank Rollout of Integrated Receivables Capabilities



Source: Aite Group estimates

FOUR KEY CONSIDERATIONS

Banks are no longer considering whether to move forward with integrated receivables. The question has become "How?" This section focuses on four key areas banks should consider as they roll out new integrated receivables offerings.

CHANGE YOUR MINDSET

Most banks look to their existing lockbox clients as the lowest hanging fruit and primary target market for their planned integrated receivables strategies. ACH clients are also often viewed as likely to see value for the reasons stated earlier; however, the potential for this product goes beyond those customers. For example, remote deposit capture (RDC) users should also be included.

Banks must stop thinking of lockbox, ACH, and RDC as stand-alone products and begin thinking about their potential as part of a larger integrated receivables strategy. As one regional bank stated to Aite Group analysts, "While RDC helps drive additional deposits, integrated receivables will ultimately drive primary operating deposits, not RDC or any channel alone." Banks should be including all their receivables products in a larger integrated receivables strategy. Mobile capture is currently one of the fastest-growing treasury products for banks across both their small-business and corporate customers. The volume of deposits flowing through this channel continues to grow and thus should be included if customers truly want a consolidated view of their total receivables. However, a January to February 2018 Aite Group survey found only 57% of large and midsize banks consider RDC to be a critical component to their integrated receivables strategies. Nineteen percent plan to integrate it as part of phase two of their strategy, and the remaining 24% don't see a place for RDC in integrated receivables. Those banks constituting that 24% will likely change their opinion in time as more customers start to demand it, but in the meantime, they will be missing out on an opportunity. Banks need to change their siloed mindset and start thinking the way their customers do. Customers want consolidation and don't care which channels a payment is received through, as long as it comes in. Customers don't operate in silos, nor should their banks.

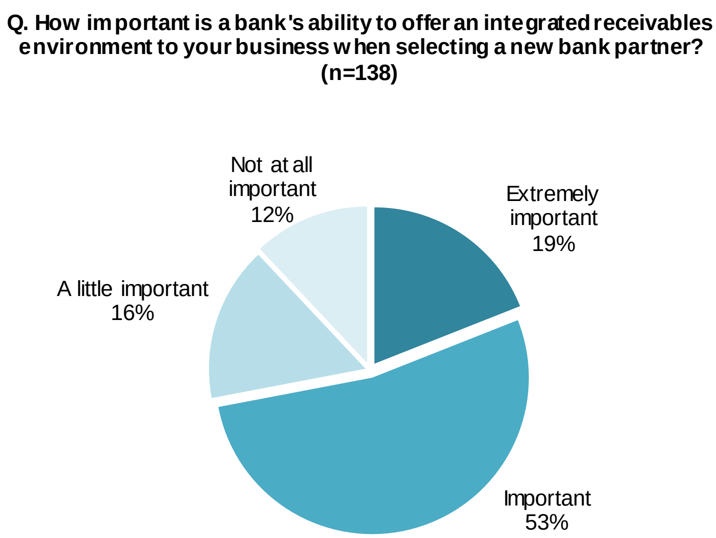
BROADEN YOUR TARGET MARKET

Banks also shouldn't limit their target market by business size. As stated previously, while upper-middle-market and corporate customers are often seen as the sweet spot for integrated receivables offerings given higher receivables volumes, offerings should not be limited to just those customers. Many small businesses face similar challenges to larger ones. Their clients are increasingly paying them using various payment types, and these businesses often struggle to efficiently reconcile their receivables. While their volume and staff are significantly lower than those found at larger businesses, the pressure of manual processes is equally painful. Providing them with integrated receivables capabilities in a user-friendly experience at a price point they can afford would enable banks to expand the target market to include them. In fact, the market is already seeing some fintech companies targeting small businesses with receivables solutions designed specifically for their needs.

STAY AHEAD OF DEMAND

Not surprisingly, the largest banks are moving the fastest with integrated receivables because their clients are demonstrating the greatest demand for it. Lower demand has caused some regional and small institutions to put off their initiatives for a couple of years. Those banks doing so may come to regret that decision as they find some of their customers moving their business over to more forward-looking and faster-moving competitors. Banks should be planning the rollout of their integrated receivables offerings regardless of customer demand and readiness to use it. Approximately 72% of receivables managers at companies generating greater than US$50 million in annual revenue consider a bank's ability to offer an integrated receivables environment to be important (53%) or extremely important (19%) when selecting a new bank partner (Figure 3). A bank's ability to offer new capabilities gives customers the perception that the bank is on top of trends and new customer needs, while those not offering them are often perceived as out of touch and not the type of bank many companies will want to partner with.

Figure 3: The Importance of Integrated Receivables



Source: Aite Group survey of U.S. receivables managers, October 2017

Some larger banks are already feeling the pain of not moving fast enough as Aite Group estimates approximately 21% of large corporations have already invested in integrated receivables. Many of those organizations have gone beyond their banks directly to technology companies because their banks didn't offer the needed capabilities soon enough. Winning that business back will not be easy for banks. Rolling out integrated receivables is critical to both retaining customers and attracting new ones.

FIND THE RIGHT PARTNER

Vendor solutions have come a long way over the last few years, and many banks now believe they are better aligned with their goals. Thus, most banks, including the largest ones, have leveraged and will leverage vendor-built solutions to meet their integrated receivables needs.

Building an integrated solution from scratch is extremely costly and time-consuming, while vendor offerings enable faster time to market.

Banks consider several criteria when selecting integrated receivables vendor partners. The most common follow:

- Having critical capabilities already available, as opposed to being on a roadmap
- Industry knowledge and the ability to provide guidance
- Existing receivables relationship or open architecture that easily integrates with other third-party solutions
- Strong dashboard and user-friendly interface/experience
- Vendor culture that aligns with the bank's
- Forward-looking roadmap that demonstrates industry knowledge and thought leadership

CONCLUSION AND LOOK TO THE FUTURE

Integrated receivables are still in their early stages and will likely evolve a great deal over the coming years, especially as they become more widely offered by financial institutions. While opportunities for differentiation still exist for early movers in this space, all banks, regardless of size, should be adopting an integrated receivables strategy, including those not yet seeing a great deal of demand. Regardless of whether a customer is ready to use a capability, they often expect their bank to offer it.

In addition to more widespread rollouts over the next few years, integrated receivables technologies themselves will also continue to evolve. Analytics is viewed as the biggest upcoming opportunity for this technology and is on the roadmap of many banks and solution providers. Many banks see analytics as adding additional value and a key driver for being able to charge for this product. Its full potential is still unknown, but several banks perceive some initial use cases as benchmarking clients against their peers and leveraging analytics to provide advice on ways to improve efficiencies. Similarly, banks also see integrated receivables information as an important component to helping their customers better forecast their cash flows. Accurate forecasting is a major challenge for many companies, especially middle-market ones that don't have access to treasury workstations and that largely depend on Microsoft Excel. Forecasting is also an area where many customers want more support and where most banks fall short.

There is no denying the value proposition that integrated receivables offers business and corporate customers by addressing key pain points and efficiency issues. For banks, it will become a requirement over the next few years for retaining customers, attracting new ones, and remaining competitive. It also offers a potential new revenue stream and a way for banks to be better partners for their corporate customers by assisting them with more automated and accurate receivables as well as money management processes. Banks must act now or risk losing business to their more forward-looking competitors.

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