NEXT-GEN
# COMMERCIAL BANKING

## TRACKER®

FEBRUARY 2022



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# NEXT-GEN COMMERCIAL BANKING

## TRACKER®

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■ JANUARY 2022

Next-Gen Commercial Banking


ACKNOWLEDGMENT

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# EDITOR'S LETTER

Financial institutions (FIs) and their customers have permanently altered their business practices during the pandemic. In the United Kingdom alone, 60% of FI decision-makers said their organizations had invested in at least one new digital product in the past year. Much of that investment is going toward embedded finance products and services, yet integrating systems and getting them to share data with one another can be an arduous process that costs both time and money. Those costs do not end with launch either, and ongoing maintenance and updates can further drain resources.

Embedded banking products promise to reduce manual interventions and remove friction from workflows for commercial banking customers. By integrating commercial banking data directly into accounts payable (AP) and accounts receivable (AR) workflows, treasury and accounting departments can view real-time account balances and information. They also can interact with that data, conducting transactions directly from the software programs they already use rather than having to travel to their FIs' online portals. To get those results without application programming interfaces (APIs), companies and FIs must invest in expensive and invasive point-to-point integrations, which are further complicated by any differences that develop within the software employed at either end.

The same hurdle to integration often exists within organizations, and FIs already commonly solve internal integration problems with APIs. When used to connect external systems, APIs can provide the benefits of point-to-point integration without the need to marry systems to ensure compatibility. This nature also makes APIs a secure means of data integration, as the systems themselves remain separate and one system cannot compromise the other. FIs can even make their APIs publicly available to software developers, greatly increasing the potential for compatibility and expanding the pools of both potential customers and potential partners. More complicated API deployments are more expensive, though, and just like other in-house solutions, investments of time and personnel for in-house API development can continue indefinitely as systems are updated and features are added.

Many FIs are looking to third-party API solutions to catch up with the evolving marketplace. This approach enables FIs to save on costs while benefiting from the experience of FinTechs that already have developed commercial banking APIs. While some FIs still may regard FinTechs with caution as historic competitors, these companies can serve a vital role as technology partners, empowering FIs to take larger steps into the digital transformation than they could on their own.

Thought Leadership Team
PYMNTS.com

Feature Story

# TD Bank On Tapping APIs And Partnering With FinTechs To Serve Commercial Clients


## APIs ENABLE REAL-TIME FUNCTIONALITY ACROSS BANKING APPLICATIONS AND SERVICES BY STREAMLINING THEIR COMMUNICATIONS WITH ONE ANOTHER.

This functionality can benefit FIs' internal and external operations.

One of the most notable perks APIs provide commercial clients is the creation of a single, seamless user experience. Paul Margarites, head of U.S. commercial digital platforms and FinTech partnerships at TD Bank, said his team uses APIs to tie clients' banking processes and services together.

"If I use TD [Bank] as a commercial client, I might use TD for my payments, I might use TD for my receivables, I might use TD for my trade, finance or lending," Margarites said. "What we've done — and continue to do — is connect those experiences via APIs into a single experience through our commercial digital portal, so that the client gets the benefit of the various systems but in a single, unique experience."

TD Bank also gives customers access to banking details via APIs, enabling commercial clients to import the data into their preferred systems and work with it in the context of their operations. That same API functionality allows FIs to address clients' unique needs through FinTech partnerships.

### FINTECHS AS PARTNERS IN FINANCE

Margarites explained that FinTechs often excel at solving specific problems and leading the industry in a chosen niche. He said TD Bank leverages APIs to share banking data with these FinTech services, in turn enhancing the FI's ability to serve customers' unique needs. Some FinTechs, meanwhile, aggregate data to offer customers a broader view of their finances, enabling users to see all their information via just one portal.

"There are FinTechs out there, for instance, that are looking to do cash flow forecasting for clients," Margarites said.

"If a client has multiple banks, they can look to those FinTechs for cash flow forecasting, in which case we can deliver our APIs to those FinTechs to provide the clients with the experience they look for."

FinTechs also can play a role in helping FIs develop APIs. Margarites said TD Bank has the capacity to develop APIs in-house but that development with a FinTech partner sometimes is the best option. As with other business decisions, he said the bank takes a "buy, build, partner" approach to determine which method will achieve the desired capabilities with the greatest speed and lowest cost.

"[There are] core competencies we have and have built over time where it makes sense to build in-house," Margarites said. "In other cases, there are needs that aren't necessarily core to the actual banking infrastructure but are very valuable to our clients, in which case it might make sense to do a FinTech partnership."

He also explained that a FinTech partnership could be the best solution if it enables banks to take advantage of industry-leading technologies rather than creating a solution in-house. FinTech partnerships also can accelerate the process for developing new API solutions.

"FinTechs are often a great solution, given that they're able to rapidly innovate and evolve and roll out capabilities, much of which is due to well-designed and externalized APIs," Margarites said.

## SECURITY, EFFICIENCY AND A BETTER CUSTOMER EXPERIENCE

Speed and cost savings are not FIs' only concerns when considering how clients receive their data. APIs also can address customer experience and data security. They are not limited to making customer experiences more efficient — they also make transactions more secure, even by simply removing steps from the process and reducing manual interventions.

"If my day-to-day is: I go to my bank, I download an Excel file with my bank reporting [and] my transaction details, then I have to manipulate the columns or put it into a certain format, and then I put it into my business system, there are multiple points along that chain [at which] something could have gone wrong," Margarites said.

APIs can turn that entire process into a single click, offering a better customer experience that also protects against human error and the potential for data to be lost or stolen. He said APIs can save commercial clients a significant amount of time as well.

"[It is these] normal tasks from our client's treasury teams that we can reduce significantly so that their time is spent adding value to the business," he explained.

Commercial banking clients need to be able to make real-time decisions, and APIs can help with one of FIs' major challenges: having immediate access to the most up-to-date data. Beyond that, APIs also enable FIs to provide that data in a way that fits a business's individual banking needs.

"We try to offer the various experiences to our clients that make sense for them because there's no one-size-fits-all [experience] from a banking perspective," Margarites said. "[APIs] allow us to face the challenge of creating the multiple customer experiences that we need to create for our clients."

Margarites said to truly maximize APIs' potential, FIs cannot look at them just as a way to transmit data or to extend the reach of their products. Capitalizing on APIs' potential starts with examining what customers need and how FinTech partnerships fit into the equation. That means looking closely at how businesses handle their banking data, how treasury teams' day-to-day workflows progress and what software tools customers use. Understanding clients' pain points is essential to identifying how APIs can make the customer experience better.

# Q&A



**CLAYTON WEIR**
CEO and co-founder
FISPAN

**What is the biggest advantage for FIs in partnering with FinTechs rather than developing their own APIs in-house?**

"I think there are many advantages for FIs, and it really depends on where they are currently in their digital transformation strategy. For starters, banks are known to have legacy systems in place. Building upon those systems can be both costly and time-consuming. By partnering with a FinTech, FIs can utilize cloud-based open banking platforms to integrate [with] the FinTech's API solutions, potentially saving both time to market and savings in terms of internal resource requirements. Integrating to a cloud-based platform is by far the better solution for an FI, and [FIs] would benefit from access to multiple FinTech providers and services. Additionally, when FIs use an established and tested integration from a FinTech, they can also reduce the risk and likelihood of faulty integrations [that] would have a negative impact on the customer journey and experience."

**What are the advantages of FIs using open APIs to provide data to customers and partners?**

"There are many advantages FIs can gain from using open APIs, primarily being able to provide innovative and customized experiences for their corporate customers, which can really help to increase customer loyalty. Open APIs can allow FIs to quickly respond to changes in market demand and customer expectations, and — more importantly — attract new customers with their service offerings. API connectivity also allows banks to extend their banking solutions outside of their existing ecosystem and extend their reach to new markets and customers.

Banks can also incorporate open APIs into various product segment strategies, including payments, working capital finance, cash management and lending. By leveraging APIs, FinTechs and FIs can improve the user experience through embedded banking and new service offerings. ... Financial institutions can integrate their banking capabilities where their clients live, providing a holistic commercial banking experience."

**How does a branded banking experience work within a commercial client's banking and accounting software, and what kind of difference does that make for the relationship between the client and their FI?**

"Branded banking or embedded banking is essentially taking banking capabilities usually reserved for your banking portal and, with the help of open banking and APIs, inserting them directly where your clients live — in ERPs and accounting systems, for example. In this case, the CFOs, treasury managers and accountants of this business will experience a significant and beneficial change in their banking experience: [eliminating] dual-entry day-to-day payments and providing improved cash management visibility.

[The bank is] improving their corporate client relationship by offering a more personalized and simplified user experience that they might not be able to get elsewhere. [The client is] seeing their business bank prioritize them and invest in improving their experience. Seeing your bank invest time, money and effort in you means they value you and your relationship, which again ties into customer loyalty and retention."

**What advantages does an FI realize in terms of future updates and maintenance when partnering with a FinTech for API deployment?**

"The first step the FI needs to take is to pick the right FinTech partner with the end goal of achieving long-term advantages. When partnering with the right FinTech, the FI's successes are also the FinTech's. At FISPAN, we take a long-term view of our relationships with our bank clients and in turn take a hands-on approach to understand their relationship with their key clients. We work to strengthen both relationships and ensure value is being derived for all involved in the long term. These important details on updates and maintenance are also clearly determined ahead of time before the work even begins. At FISPAN, we are continuously innovating, and as we make updates to our products and services, our clients benefit from those added features."

PYMNTS Intelligence

# Taking Down **Commercial Banking Barriers** With APIs



## FOR MANY CFOs, THE PANDEMIC DROVE HOME THE MERITS OF DIGITAL PROCESSES FOR SAVING BOTH TIME AND MONEY.

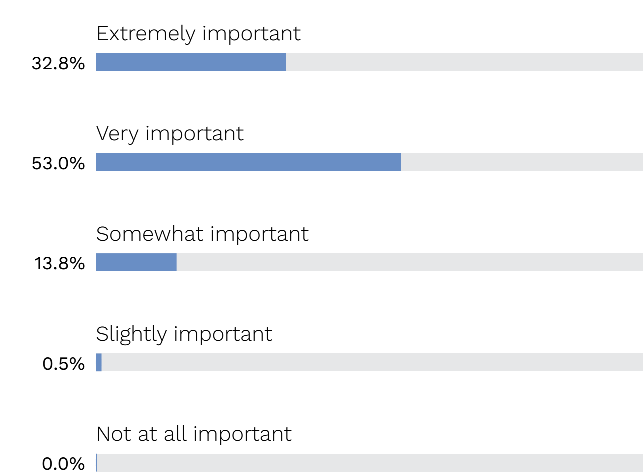
Even small businesses are pushing for efficiencies and accelerating cash flow with digitized accounting. As companies work toward making their operations more digital, some may struggle with ensuring even their own software programs play nicely with one another, let alone making sure they can easily integrate data from outside systems, such as their commercial banking partners'. In one survey, 64% of companies reported that they lack full integration between their treasury management system (TMS) and enterprise resource planning (ERP) system, and that leaves many processes still being done manually that otherwise could be automated.

APIs offer a further advantage to digitization efforts, providing the means for organizations to connect both internal and external systems and further automate processes. Serving as information intermediaries, APIs can help businesses and FIs share data in real time as well as automatically integrate that data directly into native workflows. APIs make it possible for businesses' internal accounting and treasury programs to update real-time account balances automatically and make payments directly. This month, PYMNTS examines how businesses and their banking partners can take advantage of APIs to streamline processes, further minimize the need for manual interventions and improve workflows' overall efficiency.

FIGURE 1:

**Importance of AP/AR digitization**

Share of CFOs citing select levels of importance of the digitization of AP or AR functions to improve customer satisfaction, retention or revenue generation




Source: PYMNTS.com

## THE IMPACT OF A FEW LINES OF CODE

Anyone who has ever booked a flight or a hotel through a third-party website has experienced an API at work. APIs are what enable third-party travel websites to talk with airlines' computer systems to find out which seats are available and how much they will cost, for example. Without having to invest in expensive and involved point-to-point integrations of disparate systems, companies can use APIs to share the necessary data securely in real time so that transactions are completed without serious problems or delays.

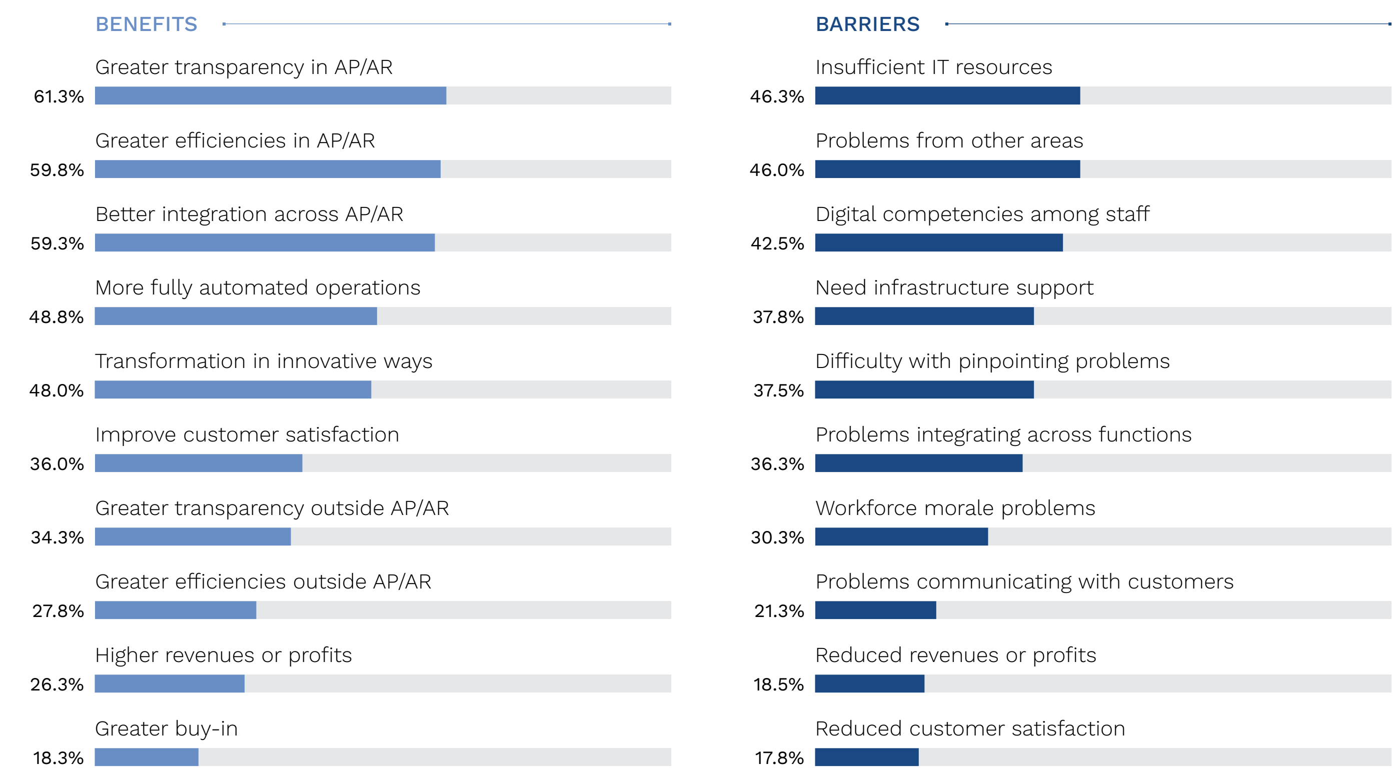
In corporate banking, APIs enable businesses to have that same flexibility between their financial services providers and their own internal systems. In terms of importing, interacting with and acting on banking data, companies can have the same level of access within their own systems as they have through their FIs' mobile apps or online portals.

Many FIs already use APIs to connect internal systems, such as back-end and front-end servers, and this is how most APIs are used in current banking systems. That likely will change in the near future, however, as one report predicts that most new banking APIs will connect to external systems within the next three years. At the same time, only 30% of FIs used APIs at all at the start of 2021, and a significant portion of the sector still is catching up. Partnerships with FinTechs may offer the solution for FIs needing to bridge this gap.

FIGURE 2:

**Digitizing AP/AR operations**

Share of CFOs who identify select benefits and barriers to digitizing AP/AR operations and workflows




Source: PYMNTS.com

## MOVING FORWARD WITH API INTEGRATION

Legacy FIs may view FinTechs as competitors disrupting their market space, but FinTechs can be natural partners for rapidly deploying commercial banking APIs in an industry that seeks better and more efficient operations. It is possible for some larger FIs to create their own API solutions with significant investments of time and resources, but not all have that capacity. Even for banks that have the means, the reduced speed to market for in-house solutions can further slow technology adoption. In-house solutions also need ongoing improvements and maintenance, requiring continued investment of resources and personnel.

Open APIs — those made publicly available to software developers — permit the maximum compatibility and integration possible while also broadening the range of FIs' potential partners and vendors. One survey found that the desire to have open APIs to enable access to a broader range of partners and vendors was one of FIs' most important drivers of modernizing payments infrastructure, beating out such desired outcomes as being cloud-ready and creating more real-time-capable processing. That prioritization has significant implications, as early adopters are likely to have an advantage over FIs that wait to implement digital solutions such as APIs.

A cohesive and effective digital banking presence will serve as an important differentiator for FIs, whether they are competing to attract new commercial customers or working to keep the ones they already have. The embedded banking experience that APIs create can make transactions as frictionless as possible while ensuring corporate customers can access banking products in the manner that best suits their workflows. Ultimately, when it comes to realizing the promised benefits of APIs, FIs that take advantage of the tools already available on the market will save time and money compared to those starting from scratch.

# NEWS & **TRENDS**

## UK **BANKING** DEVELOPMENTS

### U.K. BANKS PRIORITIZE EMBEDDED FINANCIAL SERVICES TO ELEVATE CUSTOMER EXPERIENCES, STUDY FINDS

As consumers look for more FinTech-related services, banks in the U.K. are responding with expanded digital services. Sixty percent of decision-makers from banks and financial services firms reported in a recent survey that their organizations had launched one or more digital products within the past year. Embedded finance was cited as important for elevating their customers' experiences by 55% of these decision-makers, and 69% believe open banking is leading to greater innovation throughout the financial services sector.

U.K. decision-makers see embedded financial services such as buy now, pay later (BNPL) as important, with 44% saying their organization will be making investments in those areas this year. At the same time, they also said regulators have fallen behind: 65% said regulators are not keeping up with trends, and 77% said regulation and compliance measures need to be updated to support the growing popularity of new FinTech offerings.

### U.K. FIs SEEK THIRD-PARTY TECHNOLOGY INTEGRATION SUPPORT

One-third of banking revenues now are generated by new entrants into the U.K. financial services sector, and traditional FIs are turning to modernization strategies such as cloud-based and software-as-a-service (SaaS) subscription models to keep up. Subscription models offer advantages both in terms of cost and speed of deployment. FIs also are looking for third-party integration in the form of off-the-shelf products that offer customized options.

FIs must keep up with the latest developments in blockchain, artificial intelligence (AI) and other emerging technologies, and they require IT service partners that can help deploy integrated and agile solutions. There also is demand for firms that specialize in regulatory technology with organizations' growing need for data privacy, enterprise risk, cybersecurity, financial crime and risk management solutions. Much of the growing demand in the regulatory technology sector has been driven by an increase in nonperforming assets held by FIs due to the pandemic-related economic downturn.

# MEETING NEXT-GEN **BUSINESS BANKING** NEEDS

## OPEN APIs ARE KEY DRIVERS BEHIND BANKING MODERNIZATION

Approximately one-third of all FIs have become dependent on payments processing for income, generating at least half their profits from that channel. This is not exclusive to small FIs, as 86% of large banks generate more than 30% of their income through payments processing. Open APIs that enable legacy FIs to more easily connect to and work with FinTechs serve as the heart of implementing a modern payments hub: 65% of banks said open APIs are at the core of their payments modernization plans.

The drive to modernize is being influenced by a lack of support within legacy systems, which are struggling to keep up with the rapid changes coming to payments processing, as 48% of FIs said the systems are unable to meet either business or customer needs. More than 90% of FIs said payments hubs will be important for helping them to address future challenges related to payments, and 40% said they have a payments hub solution in place. Of those without a payments hub solution, 45% said they plan to implement one within the next five years.

## FISPAN ON HOW LOW-FRICTION BUSINESS BANKING REQUIRES MULTI-PRONGED APPROACH

The growing push for digital transformation has created expectations for low-friction financial services. Clayton Weir, CEO and co-founder of FISPAN, says connected and embedded banking are only going to grow in response to this expectation. Commercial payments in particular add complexity to speeding up the process, which is not simply a matter of the transaction itself, he said. Rather, the analog processes underlying those business-to-business (B2B) payments have to be revisited and recalibrated in order for real-time payments to have a functional impact.

Multiple friction points still must be addressed in how banks relate to the businesses they work with as well as how those businesses interact. Regulatory friction points also are present, and there is a need for regulatory approaches to keep pace with a rapidly changing financial landscape. This especially applies when trying to ensure smaller businesses can take advantage of the developments larger businesses are learning to master and that they are not faced with insurmountable regulatory hurdles.

## FINANCIAL SERVICES ARE BEING TRANSFORMED BY THE OPEN FINANCE PARADIGM

Both businesses and FIs must be able to identify and integrate new forms of service, making collaboration with FinTechs and the development of core partnerships essential to entities aiming to stay at the forefront of open finance developments. Recent research found that 48% of legacy banks see collaboration with FinTechs as a way to access innovative solutions, and 52% see potential for developing disruptive technologies through partnerships. Fifty-seven percent said they expect cost savings from FinTech partnerships, and 25% said such collaboration could make their service offerings more attractive to potential customers.

Neobanks already understand the importance of collaborating with FinTechs, with 44% saying those partnerships represent growth opportunities and 31% saying they reduce the time to market for deploying products. Businesses are turning to FinTechs for help, and 81% consider them integral to their embedded finance strategies. Notably, 87% of startups are looking to FinTechs for integrated financial products, and 42% of startups are collaborating to develop customized solutions.

# Bringing AP and AR up to speed with the digital transformation

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Surveyed CFOs see a lot of potential in AP and AR digitization, but many also see the need for outside assistance to bring their organizations up to speed with emerging trends.[1]

## Share of CFOs who are taking select actions to boost customer lifetime value

CFOs are focused on improving AP and AR processes to raise customers' lifetime value, and digitization is a primary priority. Better utilization of APIs in commercial banking benefits each of the top four CFO priorities.

70% are digitizing multiple AP/AR functions.

62% are making AP/AR more efficient.

70% are making AP/AR more transparent.

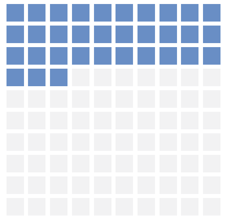
48% are securing customers' financial information.

1 https://www.pymnts.com/study/the-state-of-consumer-disbursements-instant-payment-choice

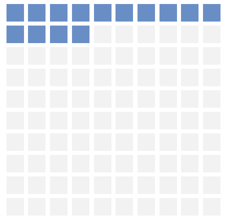
## The importance of AP/AR digitization to CFOs

While the opinions of CFOs vary regarding the significance of AP/AR digitization, none surveyed ranked it as an unimportant priority.

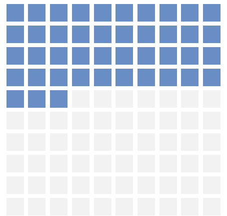
33% find it extremely important.



14% think of it as somewhat important.



53% consider it very important.



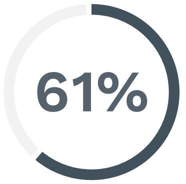
0.5% believe it is slightly important.



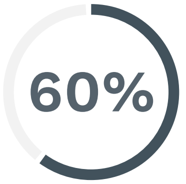
## CFOs' expected benefits and barriers to digitizing AP/AR operations

While CFOs expect significant gains from digitizing AP/AR operations, they also see significant roadblocks, particularly when it comes to their companies' own digital capabilities.

**SHARE OF CFOs WHO EXPECT THESE DIGITIZATION BENEFITS:**




Greater AP/AR transparency




Greater AP/AR efficiencies


Better AP/AR integration

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# ABOUT

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PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

FISPAN

FISPAN's contextual business banking platform makes it simple for banks to offer commercial banking services embedded within ERP and business applications. FISPAN enables banks to provide a best-in-class commercial banking experience by removing friction and adding value to the systems clients rely on to run their businesses every day.

For more information, find us at www.fispan.com.

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