

financial

DEFINING TRANSACTION BANKING



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Mobilising cash

If cash is king, then by adding mobile devices to the financial supply chain, companies could substantially reduce processing times and labour costs resulting in substantial cost savings for those companies looking to accelerate what today are largely manual tasks. **Nigel Woodward** of Intel Corporation, **John Burton** of Petra Financial and **Ross Macdonald** of Palmtree Technology put the case for mobility in corporate cash management.

Generation X and Y, Twitter, Facebook, and other social media all echo the same thing – mobile automation, computing on the move and ‘always connected’. As we emerge from 24 months of recession, there is an air of growing optimism as the markets look forward. Technology, which has been maturing steadily as online and cloud computing are now looking for homes in our day-to-day personal, consumer and, corporate worlds. Consumer demands are established, and are a combination of function, form and fashion. The next frontier is without doubt, the business environment.

Some of the statistics are eye watering. In the consumer space there will be almost five billion mobile devices in circulation by the end of 2010 versus approximately two billion users connected to the internet by PCs or fixed devices – with about the same number who have a bank account. By 2014, it is predicted that there will be more than 900 million mobile financial services users doing some sort of regular transactions. The challenge is to define the functions and processes that can be enhanced by the addition of mobile. Whilst we don’t want to just see technology

looking for a solution to fix, evolution will lead to “mobility” increasingly entering our workflows. Depending what “generation” we are, we either embrace test or resist the change that comes with innovations such as mobile. What we need, and are committed to, is objective analysis of what existing processes can be leveraged and inserted into the mobile value chain.

Not everything can or should be moved onto a mobile device. The most rapid take up will be in areas of new adoption. The telco’s and mobile operators are leveraging mobile take up, and already we have seen lives and livelihoods being enhanced across the African continent by using the mobile device as part of trade, cash remittance and payment processes leapfrogging fixed communications from the beginning, and providing secure, wide area domestic, and cross-border remittances of cash and/or stored value. More than 100 million people globally will use their mobile phones for international money transfers by 2013, according to a new study by Juniper Research. These cross-border mobile money transfers are expected to surge over the next two to three years, especially in

expatriate worker remittance corridors such as the Philippines/Middle East and Mexico/US where the largest value of remittance flows come from.

The Juniper report also predicts that mobile international transfers will increase in frequency as users become more accustomed to the process, exceeding one per month per person by 2013 on average globally. The opportunity for national and international money transfer services providers is estimated to exceed USD 5 billion by 2013. The same study forecasts that the top three regions, namely Western Europe, North America and Africa & Middle East, will account for more than 75% of the global international mobile money transfer gross transaction value by 2013. There are other studies with forecasts that greatly exceed these, so this may indeed be a conservative estimate.

Mobile savings

This same prediction of growth and take-up can be applied also to inter-corporate money transfers and cash management information reporting. The challenge for traditional banking is that these technologies are offering process capability that disrupts practices that have been established literally for decades, and which have placed banks as the central hub in all corporate payment activity. On this basis many functions have inbuilt lethargy – faster communication (from a mobile handheld as opposed to arrival at a fixed desk or location could cut hours or days off processing time). Processing time amounts to increased labour costs, and in the context of “cash is king” lost interest and lost opportunity cost from depositor’s access to liquidity meant poorer money management.

The authorisation function clearly lends itself to a mobile process insertion. Information can be clearly displayed around balances, transaction status, available forex rates– all that is needed often is sign off and clearance to pay, requests for more information, or to initiate the next phase of the transaction. The financial implications of

improved efficiency and money management are vast. If we consider the global supply chain, and the ability to introduce expedient authorisation, the saved time, and hence cash management benefit is significant. So, for example, we can assume that 25 counterparties within a complex global supply chain each accelerating their manual-based activity by a day would equate to USD 2.8 billion in cash savings. This is based on a conservative cost of funds across the estimated USD 5 trillion of value moved in shipping containers annually, and emphasizes the real value to be gained.

If we take this scenario of world trade a step further and add mobile, global trade finance is currently priced on credit risk – however the risk is actually largely operational – the risk of goods arriving at the destination in an acceptable condition as contractually agreed between exporter and importer. Operational risk is not yet factored into finance pricing – yet Basle II clearly calls for its inclusion. Add mobile computing into the financial supply chain implementing devices into the transport system, and the information available for trade finance risk assessment is taken forward to a new paradigm – operational as well as credit risk. Factor this into the effect on cost of funds, or insurance premiums, and the benefit when applied to total global trade creates the opportunity for billions of dollars in savings to be redistributed between counterparties.

These kind of opportunities can be envisaged in many places across global business today – the trend will not only be for a wholesale shift to mobile, but an integration of mobile into existing workflows and step-by-step evolution and improvement thereafter. This clearly demonstrates that the subject is not one of technology for technology’s sake – rather it is squarely financial return through cash management. The success of this relies in it not being invasive. The smart focus today is on ease of use, simplicity, and design, with the ergonomics of mobile processes



designed to work on the many mobile devices we are using today.

User experience, functionality, and form has been the focus of leading mobile financial services experts at Petra Financial, whose Touchstone Mobile is readily available as an application for the Apple iPhone and iTouch, Blackberry devices, Windows Mobile, Symbian and browser-based phones with Wi-Fi and 3G capabilities. In addition, the web-based solution runs over Wi-Fi and 3G networks to offer the same functionality on any smart phone with a web browser.

Touchstone Mobile is a true mobile wallet that would be attractive to banks and their corporate clients. Touchstone Mobile allows the user to initiate and release payments and transfers across their own accounts or credit cards, and to other payee accounts; view balances, statements and transactions on their business and personal accounts and credit cards; load multi-currency stored value cards for business, personal or family member spend and share funds between them; and be able to link to relevant market data – all intuitively and securely through encrypted data transmission.

Another unique feature is the Touchstone Portal

that offers all of the functionality of a web portal, but configured for the mobile application. This portal fits within the banks infrastructure, but connected to existing business and operational systems, integrating with them in a number of ways that best suit the bank and the existing technical architecture. The portal provides the ability for a user to register and manage their account on-line, download applications, get support and answers to frequently asked questions and the ability to personalise their banking services. On the bank side the portal allows administrators to manage users, access rights, STP settings for transaction processing, whether it is international or domestic and take advantage of all of the functionality within the Touchstone Portal for a mobile banking user.

Petra Financial's experience in financial services gives the advantage of not naively shoehorning consumer techniques into business practice. Operating as a secure portal within the banks firewall, Touchstone fully routes and validates transactions with STP (straight-through processing) whilst also allowing the bank to control how that transaction is managed. Having its own integration layer allows Touchstone to create fully-validated SWIFT transactions that can be sent directly to the SWIFT network, or to the

back office for verification and release and can also be configured to create message types for any local clearing network.

The ubiquity, power and desirability of devices such as the iPhone and “apps” have driven the awareness of intelligence and capabilities of smart phone devices in a business context. This provides a perfect environment for innovation around this user interface, which has been largely ignored in the past. The iPhone has created increased user acceptance, the feasibility, and desire for mobile financial applications. This combination is already driving the market for mobile banking / money transfer / payments on smart devices.

But is mobile secure?

Clearly security is a serious issue, and the answer depends on judgement and supporting the specific functions with the appropriate level of security. Just like lending and credit assessment, the market is already dynamically allocating transactions to mobile channels proportionate to the perceived risk and available protection. Security considerations do continue to be the primary obstacle to growth because the subject to date has been a complex science, with too many opinions and no clear consensus of a standard – PKIs, where or whether should central repositories reside, additional hardware dongles, challenge and response cards, tokens and certificates to remember ID and passwords.

Today security is cumbersome, often expensive, reliant on third parties and difficult to scale. For take up to achieve critical mass and thereby mass acceptance of the use of the mobile for financial transactions – a security solution needs to incorporate the following attributes:

- Stateless (no physical manifestation – either a dongle or software download);
- Secure against all known threats (validated by third parties);

- Simple (easy to use with minimal user training /education);
- Readily available (self serve registration on-line/SaaS solution);
- Easy to integrate into mobile applications;
- Not be reliant on third parties for authentication.

The presence of embedded GPS (Global Positioning System) chips allows for additional security features based on location to be incorporated into the authentication process at no cost. A geo-location factor such as the orientation of the user could be part of the multi-factor authentication for secure log-in/registration.

Working in this space is PalmTree Technologies, with their LIVE Ensure service capability, which takes a different approach to security that is non-invasive and significantly easier to implement and operate than techniques dependent on peripherals. Palmtree Technologies take a market approach to security – the issue is cross-function and geographic – not case by case based on individual transaction types. Taking identity at market level, cloud thinking is a key construct for LIVE Ensure for tying access and usage policies to provisioning/monitoring systems that span external and internal processes. A multi-factor authentication process sets the stage for transactional security that assumes the bright lines of traditional security technology are approaching obsolescence.

Without doubt mobile is the new frontier for ‘compute’. Technology is providing the supply ‘push with cloud computing, service provision, Web 2.0, online messaging and low end CPUs, to name a few. Technology ‘push’ may not always align with business demand ‘pull’, but when one considers the environmental factors of post-recession, renewed vigour in innovation, user generational changes, and existing manual inefficiencies having costly finance implications – it is only a matter of time – not ‘whether’, just ‘when’. Major returns are available for the early adopters. ■