Virtual Accounts: Closing the Service Gap in Corporate Banking

Banks are taking advantage of virtual accounts to answer the needs of corporate customers

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Introduction

The banking industry is experiencing a period of radical change. In the retail space we have seen disruptors reshape expectations of what effective banking looks like. This has triggered an era of competition and service transformation that is improving the banking experience for consumers across the board.

Traditionally, corporate banks are slower to innovate, a source of frustration for corporate clients who are looking for the same transformation they see in their personal accounts. As this survey finds, many treasurers have considered switching their banking suppliers – a red flag that financial institutions need to better understand and serve their customers.

It's clear that corporate banks need to evolve to retain their customer base. We have been working with Ovum to understand how banks plan to tackle this challenge, and the critical role of virtual accounts in doing so. Through surveying both banks and corporates, we are delighted to reveal to you the findings of this research which maps corporate banking services against the needs of treasurers, highlighting where the mismatches lie and identifying how banks plan to address this.

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Product Manager

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Summary

In brief

European corporate banks are beginning to come to grips with the rapidly evolving needs of their corporate customers, with planned enhancements over the next 18 months addressing key areas of cash visibility and management. A key enabler in this is the provision of virtual account services, allowing corporates to create and manage account structures more closely aligned to their business needs.

Ovum view

Corporate banking services have long lagged behind the requirements of the corporate treasurer, a situation highlighted in recent years as consumers moved to online and mobile banking: treasurers and finance professionals found that they often had more control over their personal banking than their business accounts.

This increasingly means that corporate customers are considering changing their banking suppliers, and banks are finding it harder to attract and retain their business. However, with the advent of real-time payment infrastructures and API-based open banking, corporate banking service providers are embracing the opportunities created to address these issues – often with more enthusiasm than some retail banks.

Banks now see virtual accounts as a mechanism for tackling the frustrations of corporate customers and adding more of the services that will retain them, from simpler reconciliation of payments and receivables to improved cash flow forecasting.

Deployed properly – with comprehensive capabilities rather than simple sub-account structures – virtual accounts can be a powerful tool for both banks and their corporate customers, leading to a new and more positive phase in relationships between the two camps.

Key findings from corporates

- 50% of European corporates have considered moving their main banking relationships in the past year.
- 42% would like to consolidate their accounts to fewer banking suppliers.
- Accuracy and granularity of cash forecasts is cited by 40% of corporates as their biggest cash management challenge.

Key findings from banks

- 62% of banks say that it is more challenging to retain and win new business than a year ago.
- 94% of banks say that providing virtual account services will enable them to win new business.
- 95% of banks see virtual accounts as a way of enhancing their service offerings.

Banks are moving closer to corporate needs

Current service provision is out of kilter with client issues

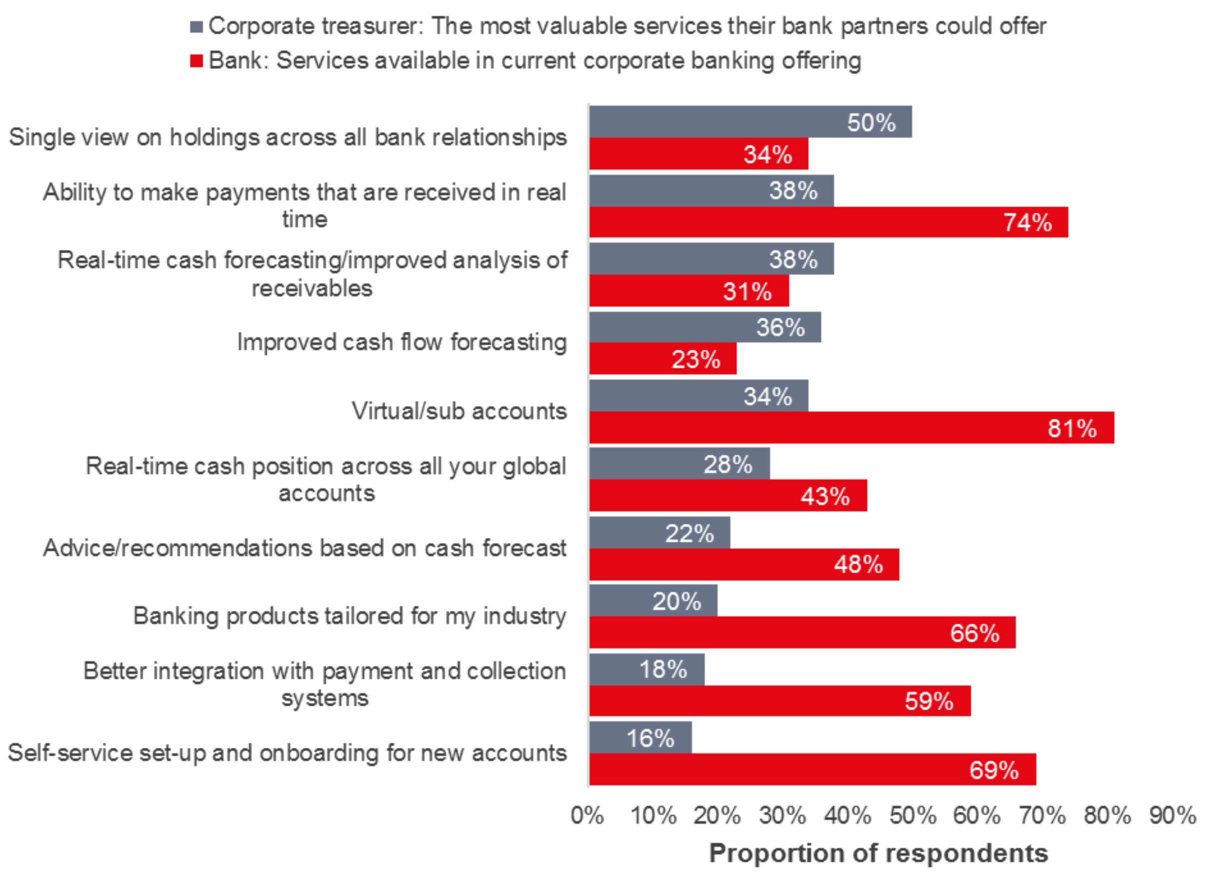
Corporate banking services have yet to benefit from the digitalisation of banking that has been taking place in the retail and consumer sectors, where a combination of internet and mobile banking technologies, API-based open banking, and real-time payments has revolutionised customers' relationships with their banking service providers.

A similar revolution is underway in the more complex world of corporate banking as banks respond to the needs of increasingly disgruntled corporate clients to answer their most pressing questions relating to their cash positions and management.

To discover more about how banks are going about this, Ovum was commissioned by Cashfac to conduct interviews with relationship managers at corporate banks in Europe and North America about their current services and planned enhancements over the next 18 months and compared this to what finance professionals within corporates in the same countries most want.

The results show that the current position (Figure 1) is that banks have capabilities in areas that corporates see more as hygiene factors, such as self-service set-up, but are not providing some of the most valuable services requested by corporates – notably a single view of holdings across multiple bank relationships, real-time cash forecasting, and improved cash flow forecasting.

Figure 1: Current bank services do not align with corporate treasurers' needs



Source: Ovum

Planned enhancements are closing the gap between banks and corporate clients

The good news is that banks' plans for service enhancements are focused on closing this gap, and the future position (Figure 2) shows a greater alignment between both sides' interests.

For instance, while the ability to have a single view of holdings across all global relationships is still top of the corporate wish list, it has also moved into focus for the banks. With 39% stating that they will have this capability in 18 months and 34% stating that they already offer this functionality, it suggests that 73% of banks are or will be addressing the business problems of their corporate clients. These areas include real-time cash positions, real-time cash forecasting, and improved cash flow forecasting where virtual accounts have a positive role to play.

This is an important inflection point for banks and corporates, but banks' relationship managers should be aware that their clients are not looking to implement virtual accounts *per se*, but as a powerful enabling tool to address the operational cash management challenges they face.

The positive news is that banks recognise the opportunity offered by virtual accounts: 80% of banks believing they are addressing needs in this area and 19% saying they intend to means that in 18 months' time, nearly all banks (99%) will be offering virtual accounts.

Figure 2: Planned service enhancements show banks moving in the right direction

Source: Ovum

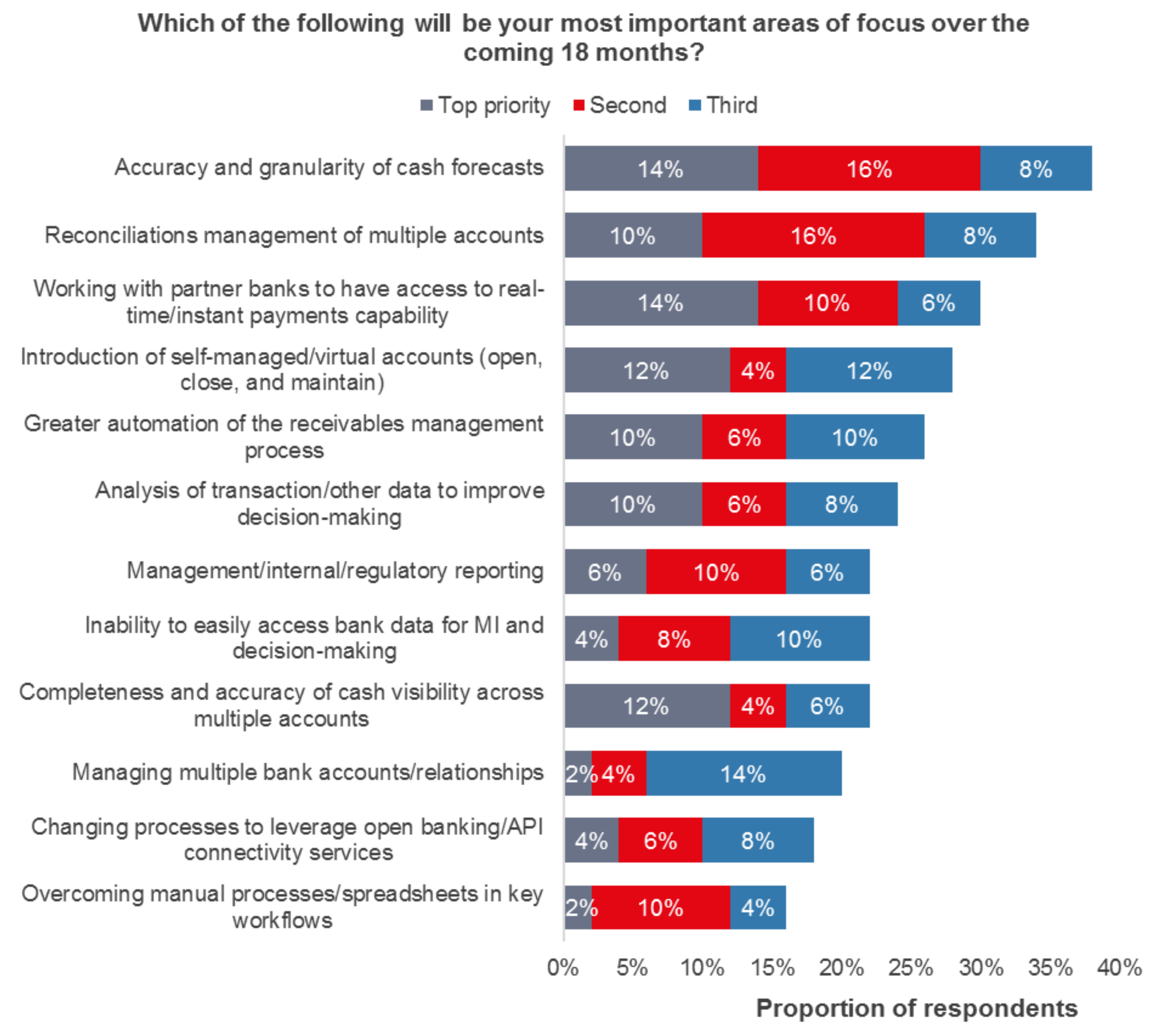
Corporates want to extract more data for accurate forecasting

Asked to prioritise the importance of cash management challenges, corporate treasurers reveal a mixed picture, with some enabling capabilities featuring high on the list, such as real-time payments, which was cited by 14% as a top priority.

Strip out those one-time events – which are more to do with upgrades to domestic payment infrastructures and technology trends such as API-based open banking – and there is a clearer picture of the business problems they face.

In their planned service enhancements, banks show that problems such as the accuracy and granularity of cash forecasts, which is a top-three concern for 38% of respondents, and reconciliations management of multiple accounts (34%) can be addressed by the combination of real-time account data, open banking, and virtual accounts.

Figure 3: Accuracy and granularity of cash information are treasurers' top challenges



Source: Ovum

Corporates want to consolidate their banking relationships

As well as having to contend with incomplete data on their cash positions, all corporates have multiple banking relationships – the average number of banking relationships among the corporates surveyed was six, rising to eight for French and German respondents, with Spanish corporates averaging four.

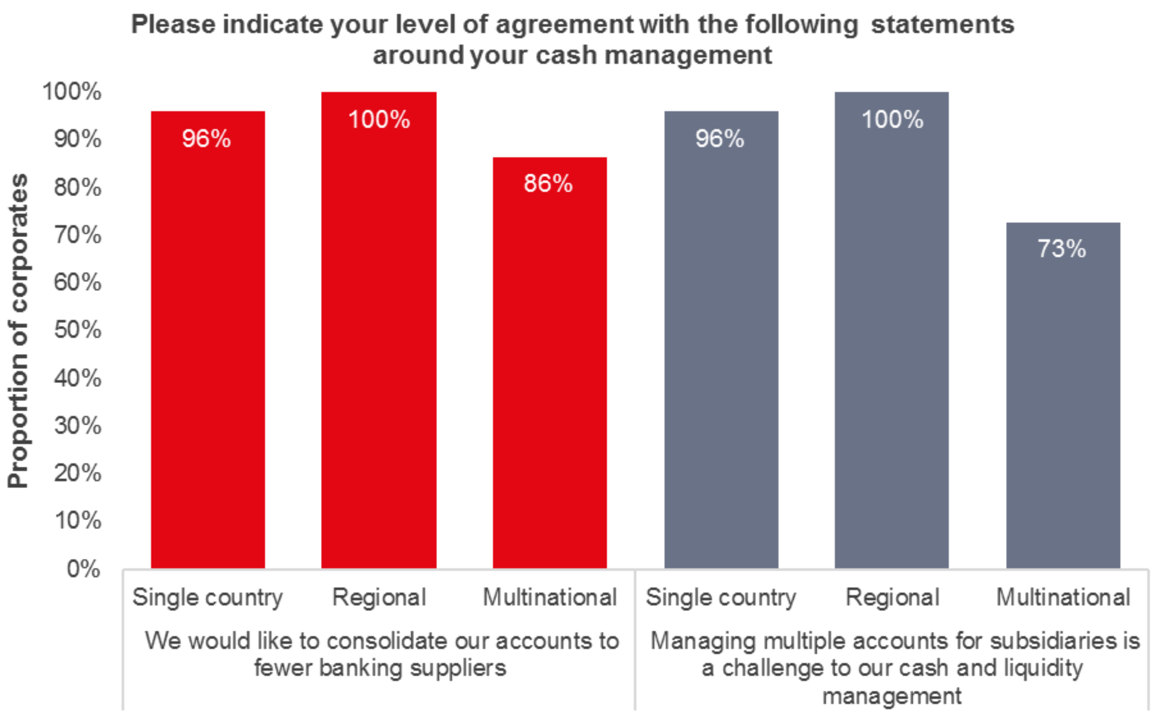
Naturally, they would like to simplify this and reduce the complexity, adding to the competitive pressures forcing banks to improve their service offerings – not least of which is that 50% of the European corporates surveyed said that they had considered changing their principal banking services provider in the past year.

There is some variation in treasurer attitudes between the type of corporates: asked if they would like to consolidate to fewer suppliers, 100% of those operating across a region said yes, compared to 96% of those operating in a single country and 86% of multinationals (Figure 4).

A larger variation showed up when they were asked whether managing multiple accounts for subsidiaries is a cash and liquidity management challenge for them; only 73% of multinationals agreed that it was, compared to 100% of pan-regionals and 96% of single-country operators.

This suggests two things: firstly, and unsurprisingly, multinationals have built up capabilities to deal with these issues. Secondly, banks should look at their pan-regional corporate clients as most in need of improved services to retain their business.

Figure 4: Corporates are looking to simplify their structures



Source: Ovum

Banks see virtual accounts as an opportunity

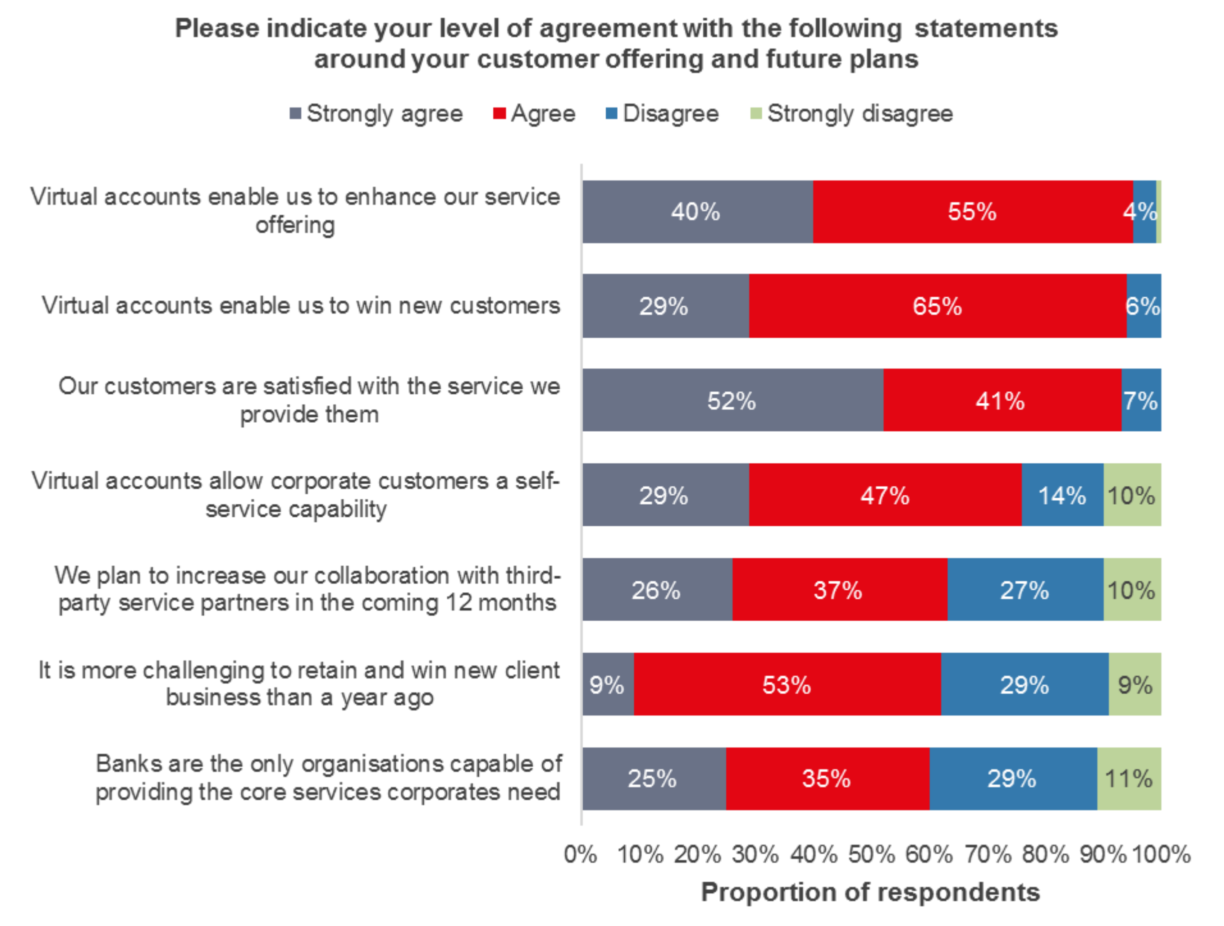
Enhanced services to win and retain clients are banks' focus

Given all the above, the figure of 99% of banks that say they intend to offer virtual account services in the next 18 months is explained less by customer demand than by the fact that they largely (95%) see the ability to use virtual account structures as something akin to a development platform that will allow them to enhance their service offerings (Figure 5). This fits with the earlier observation that the majority of banks are recognising the need to address the business problems of corporate clients in areas such as real-time cash positions, real-time cash forecasting, and improved cash flow forecasting where virtual accounts have a positive role to play.

They also believe that virtual accounts are a key factor in winning new business, with 94% agreeing that this would be the case. With 62% saying that it is more challenging to retain and win new client business, virtual accounts are clearly a substantial weapon in that struggle.

Furthermore, 76% think that virtual accounts allow clients to have a self-service capability. While this might be a good thing for the corporate, it also helps to reduce the bank's cost base.

Figure 5: 95% of banks see virtual accounts as a way of enhancing services



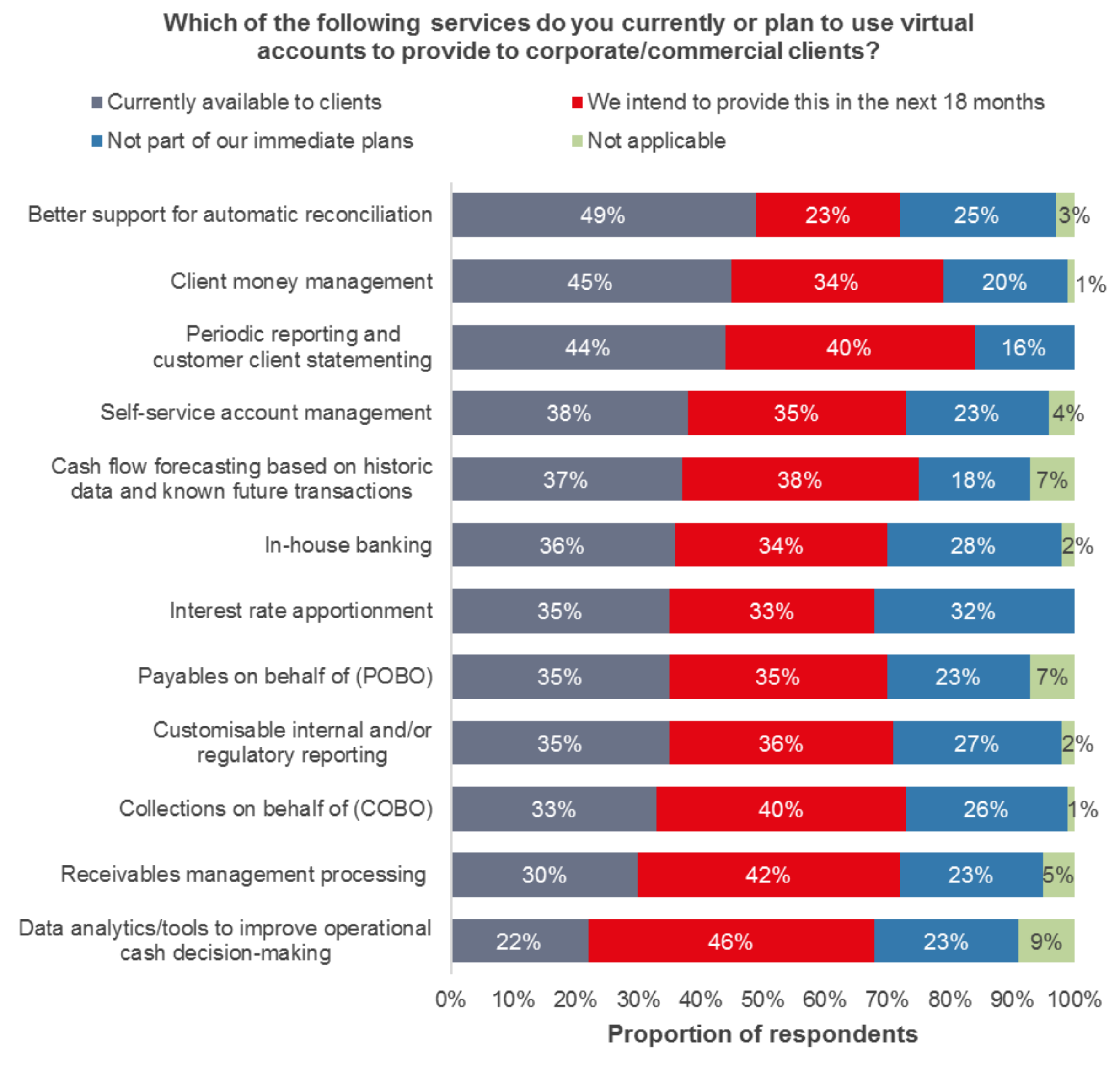
Source: Ovum

Service improvements underpinned by virtual accounts

Topping the list of the service improvements that banks intend to provide in the next 18 months (Figure 6) are some of the capabilities that corporates are most crying out for, largely focusing on using data to improve cash and liquidity management services, which are becoming important competitive differentiators. This reinforces the message that banks are recognising the needs of their corporate clients and finding that virtual accounts are a powerful tool in addressing them.

Data analytics tools to improve operational cash decisions are planned by 46% of banks (and currently only provided by 22%), with receivables management processing planned by 42%. Periodic reporting and customer client statementing, as well as collections on behalf of (COBO), are planned by 40%.

Figure 6: Banks are using virtual accounts as a development platform for service improvement



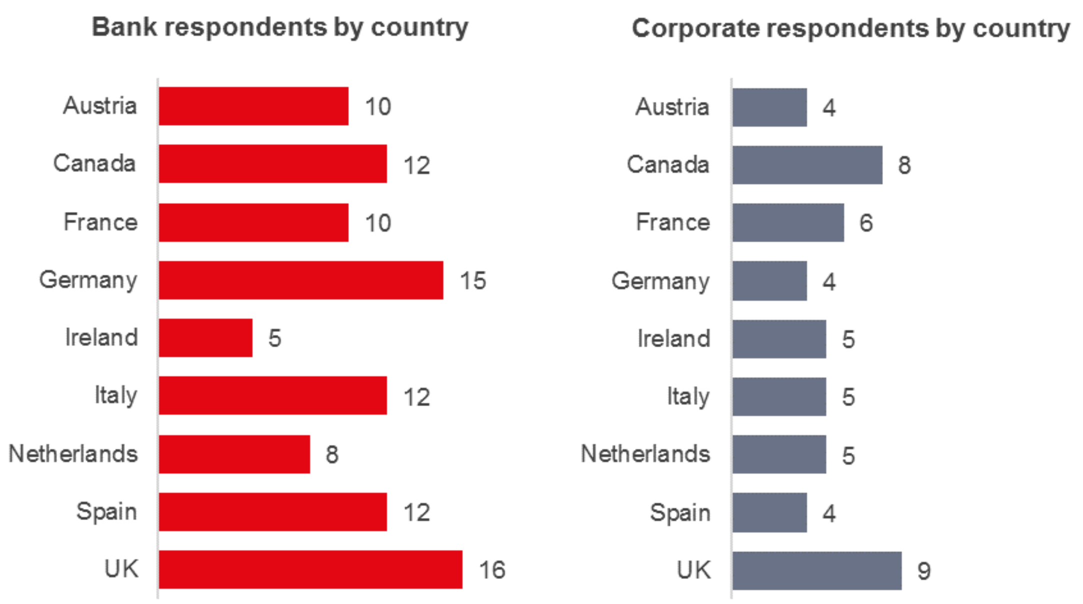
Source: Ovum

Appendix

Methodology

Ovum interviewed 50 corporate treasurers and 100 corporate bank relationship managers in Europe and Canada during March and April 2018.

Figure 7: Survey respondents by country



Source: Ovum

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We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Ovum's consulting team may be able to help you. For more information about Ovum's consulting capabilities, please contact us directly at consulting@ovum.com.

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