

Executive Summary

# Common Ground: GXS and Financial Services Firms Discuss the Future of Connectivity

Observations from a GXS Roundtable Event

During a recent roundtable discussion, GXS and its financial services clients held a rousing discussion about key trends affecting the industry and the complexity faced in serving corporate clients. With representatives from North American and European financial institutions, the discussion aimed to provide thought leadership on key trends affecting innovation:



Treasury and Cash Management, Cards and Merchant Services, Securities, Trade and Commercial Finance, Insurance and Employer Services

**KEY TRENDS  
AFFECTING  
INNOVATION**

- Improving the client connectivity customer experience
- Ever-growing regulatory compliance
- Evolving industry standards

Can financial services firms take advantage of the current climate to transform themselves and use change for competitive advantage?

## Improving the Client Connectivity Customer Experience

Institutions must connect securely and exchange files with payment networks, business partners and commercial clients. It is connecting with these commercial clients—with their incredible diversity and greater openness—that makes them the most difficult to serve.

- **Connectivity complexity.** Everyone agrees that it's not only customers who are afraid to talk about connectivity—but bank sales staff, and even product managers are tongue-tied on the subject. Talk of formats, protocols, handshakes and standards is certainly intimidating, which is a big reason why institutions are slow to retire old platforms or introduce any changes that impact customers. So to shield customers from disruption and avoid migration, institutions have a complex set of connectivity solutions they are maintaining. They also accommodate, as much as they can, native output from their customers' financial applications.

According to one of the institutions, maintaining this complex set of solutions, along with the need to increase investment, was finally the last straw. When faced with a choice of either investing more in their in-house capabilities, or outsourcing, they made the decision to outsource to a third-party integration provider. According to this institution, they recognized that connectivity was not a core capability, and it made more sense to cut their losses and turn to an expert.

Over the past several years, the financial crisis, increased capital requirements, new regulatory compliance burdens and declining technology budgets buffeted financial services firms. Where do these pressures leave them?

Financial institutions must overcome a number of client connectivity and on-boarding challenges across their multiple delivery channels

- **Client onboarding.** Another aspect of customer experience discussed was onboarding. One aspect of onboarding is certainly getting to revenue quickly—keeping the client happy with a quick setup and bankers happy with quick conversion from prospect to paying client. Yet, the bankers in attendance report using lots of paper processes, keying of the same data many times, and multiple months to complete onboarding and testing. Another issue discussed was the value of having an onboarding specialist introduced early on in the process.

Rather than having sales people capturing set-up details, a few banks are using experts in connectivity and product requirements to capture information accurately and communicate more effectively with clients. Which makes sense—getting clients started off with an efficient, error-free experience sends an important message to clients—we are easy to do business with, and you can trust us with your financial transactions.

## Ever-Growing Regulatory Compliance

Regulatory changes around the globe are impacting financial institutions' ability to invest scarce technology resources in new product development and innovation.

- **Diverting scarce resources.** US financial institutions are deep in the thick of Dodd-Frank compliance—and we're so far only working on Phase 1. So there's that—which takes so much time and attention away from moving forward with the business of banking. But there are also other regulatory changes afoot in Europe, which one of the financial institutions from that region shared with the group.



Proposed revisions to the Payment Systems Directive (PSD), aimed at creating efficient, transparent pan-European electronic payments, may impose new reporting requirements. Part of the second directive (PSD2) requires banks to provide financial data to intermediaries, as part of the “fair access” component. The

intent is to level the playing field, but the logistics of including intermediaries in the financial supply chain is enormous for banks. From the banks' perspective, it's like being asked to feed the invaders who are pounding on their castle walls. If this provision is enacted, significant investment will be required to expand reporting, connectivity, and security to include more third-party players who are performing accounting, financial management, and transaction initiation functions on behalf of their corporate clients.

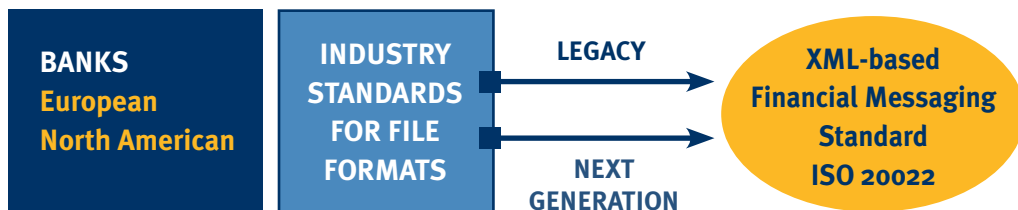
## Evolving Industry Standards

As regulations are ever-growing, industry standards are ever-evolving. The XML-based financial messaging standard ISO 20022 may represent the light at the end of the tunnel. But in the meantime, financial institutions must support both legacy and next generation industry standards for file formats.

Evolving industry standards can be viewed as an expensive burden or an opportunity to drive innovative change

### SEPA driving investment.

Looking to the future, the European banks' focus on payments and rolling out new pan-EU standards and networks has placed those institutions ahead of North American banks. Institutions in Europe have responded to regula-



tors, and although adoption of SEPA (Single Euro Payments Area) has been very slow, particularly for direct debits, it has spawned a wave of investment in payments and other commercial banking services. It is also driving change—both at institutions and with their clients. In a recent session with the GXS Financial Services Customer Advisory Board, the discussion focused on the huge migration underway in the euro area (consisting of those Member States of the European Union that have adopted the euro as their currency) as clients move from domestic payment systems to the pan-EU SEPA payment scheme.

In Europe, there will be fewer standards to support and more XML-based messaging. In North America, XML adoption is increasing, but more slowly. What we expect though is gradual adoption of modern XML standards across treasury and trade services, securities, cards and foreign exchange, which will make it easier for financial services firms to compete with each other for new business. If the barriers to change are lowered, clients may shop their business more often, and commercial client services will become an even more dynamic market.

## Conclusion

At the end of the evening, there was plenty of common ground across the financial institutions. Customers are bewildered and intimidated by bank documentation, testing requirements, and on-boarding processes. There's an across the board need to simplify, and to

*Deploy technology effectively and manage change at a safe, but aggressive pace.*

communicate effectively right from the start. There was also a chorus of ideas exchanged on the role of vendors in the process. What exactly should be expected of vendors (or partners), and how can they help lead the way for client institutions?

This was probably the most important message from the roundtable event: by working together and finding common ground, banks and vendors can help to take the lead in customer experience, standards development and regulatory change—ensuring that as an industry we deploy technology effectively and manage change at a safe, but aggressive pace.

## About the Author



### Jeanne Capachin, Independent Financial Analyst

Jeanne's areas of expertise include the US payments system, treasury management, and the financial technology vendor landscape. Throughout her career Jeanne has taught financial institutions, vendors, and regulators about banking and payment systems issues and trends. She has also participated, on both a national and an international level, in developing training programs and has spoken at a variety of conferences on topics such as industry trends and spending patterns, electronic payment trends, regulatory issues, and strategies for success. As a banker, Jeanne led post-acquisition systems integration teams, managed large operations teams, and led product development efforts.

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Until January 2013, Jeanne was an analyst focused on banking and technology. She worked for IDC Financial Insights and Meridian Research before its acquisition by IDC. As an analyst, Jeanne wrote literally hundreds of research reports, presented to bankers across the Americas, Asia, and Europe; and worked with technology vendors to help improve their success selling to financial institutions.



#### Why GXS For Financial Institutions?

Our financial services customers are business and technology leaders seeking to enhance the flow of information and overcome client connectivity challenges across multiple delivery channels.

With experience in core financial services segments such as cash management, commercial finance, card processing, merchant services, securities and insurance, GXS reduces not only the cost and complexity of client delivery, but also helps accelerate speed-to-market and time-to-revenue.

By operating the largest B2B network in the world, we provide unmatched insight into exchanging and using information effectively. Leveraging our Trading Grid and SaaS applications, our experienced team of specialists takes a proactive approach to solving our clients' current and future challenges.

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