codat

Scaling mid-market commercial banking

The product strategies driving growth across payments, cash management, and working capital

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Introduction

One major growth engine for global banks in recent years has been and continues to be transaction banking. Key to this success has been the combination of cash management solutions, payments, trade finance, treasury management, and foreign exchange services. This approach has enabled banks to shift from a product-centric strategy to one that better aligns with the needs and priorities of corporate treasurers and creates natural cross-selling opportunities.

Transaction banking

Helping businesses optimize cash flow creates natural cross-selling of high-margin products

Treasury

- Liquidity & deposits
- Securities

Payments

- Cash management
- Cross border & FX
- Correspondent banking
- Merchant services

Trade finance

- Supply chain finance
- Trade finance

While commonly associated with large multinationals, the majority of transaction banking units serve all corporate segments.

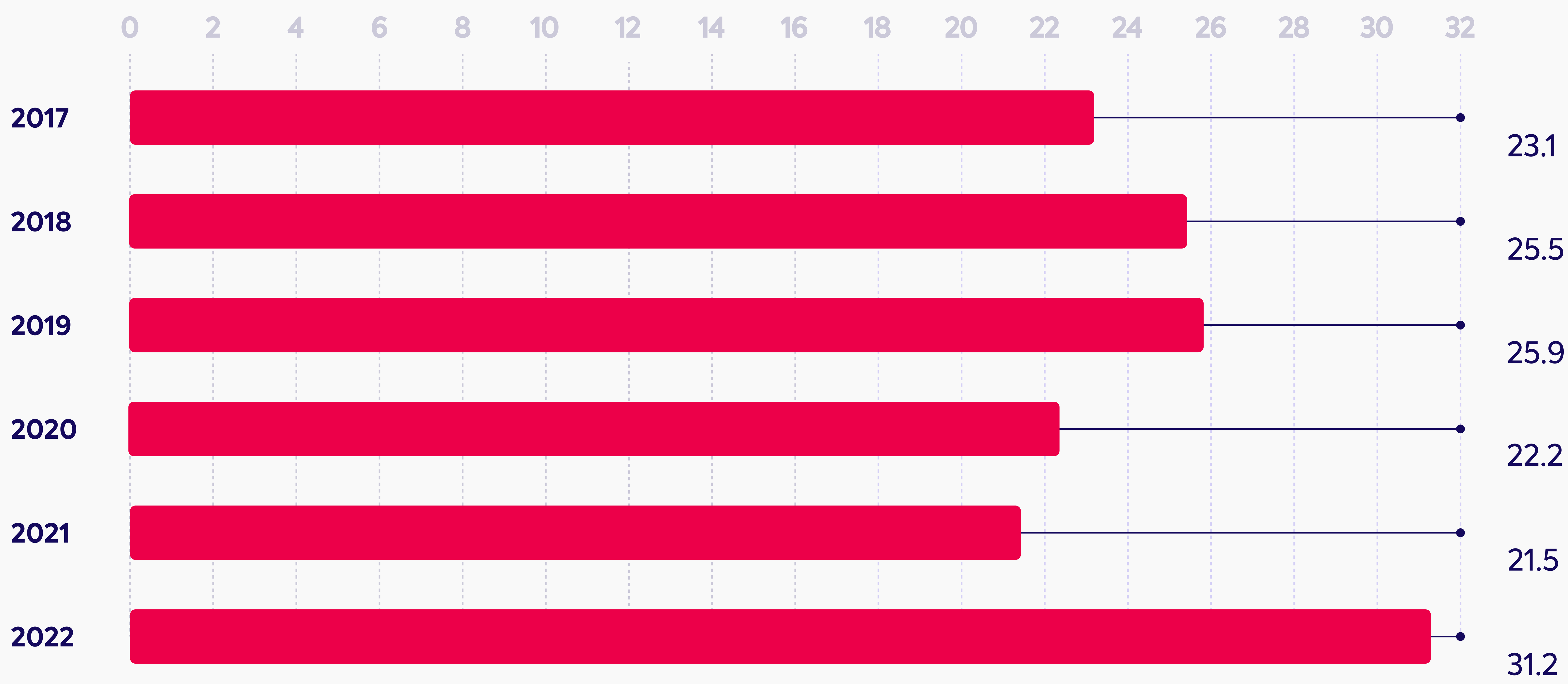
With increasing competition at the top and the opportunity to bring high-touch, advanced products to a new audience through digitization, commercial bankers are turning to the mid-corporate and middle-market segments as potential sources of growth in 2024 and beyond.

In this report, we examine the practical measures taken by global banks to replicate their successes in the mid-market. We outline how market leaders are growing revenue per customer by selling closely related product lines via a more scalable, self-serve, and personalized model and offer insights on how you can do the same.

A sleeping giant

The significance of transaction banking has continued to grow throughout the past few years. Recent data shows that transaction banking is increasingly a key contributor to overall business banking growth. According to **Coalition Greenwich**, the world's 10 largest transaction banks posted a combined revenue of $15.6 billion from cash management and trade finance in the first six months of 2022. In the first half of this year, transaction banking revenues reached an all-time high.

Cash management services revenues by year*



Compromises cash management revenues at the 10 largest transaction banks: Banks of America, Barclays, BNP Paribas, Citi, Deutsche Bank, HSBC, JPMorgan, Societe Generale, Standard Chartered, Wells Fargo

For instance, **HSBC** has repeatedly seen a 7% annual revenue increase from transaction banking for the past four years. Meanwhile, **Barclays** experienced a significant 52% rise in transaction banking income in 2022. Goldman Sachs' 2022 annual report revealed that transaction banking deposits played a significant role in the growth of its overall deposits. It's no surprise, then, that **analysts** now consider transaction banking to be one of the highest contributors to a bank's price-to-earnings ratio.

It also explains why improvements in transaction banking are now central to many banks' 'multibillion-dollar technology spends,' according to **The Financial Times**. **HSBC,** for one, recently invested 19% of its operating expenses – around $6bn – in technology to enhance digital transaction banking capabilities and plans to increase this to 21% in the coming years.

Strategies for unlocking deposit growth

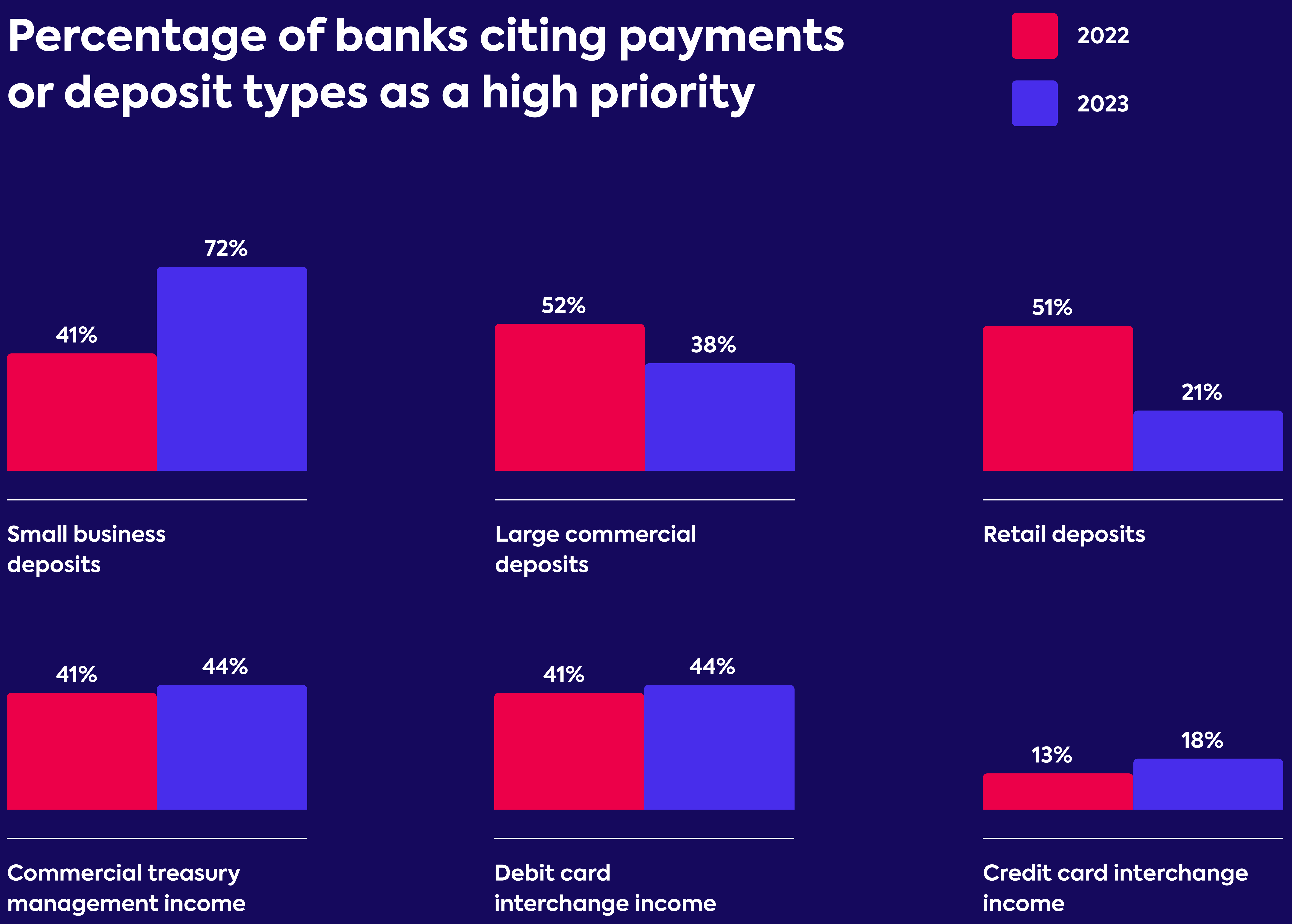
"Deposits represent one of a bank's most critical resources and are among the most important revenue streams for corporate transaction banks around the globe."

— McKinsey, On the cusp of the next payments era: Future opportunities for banks

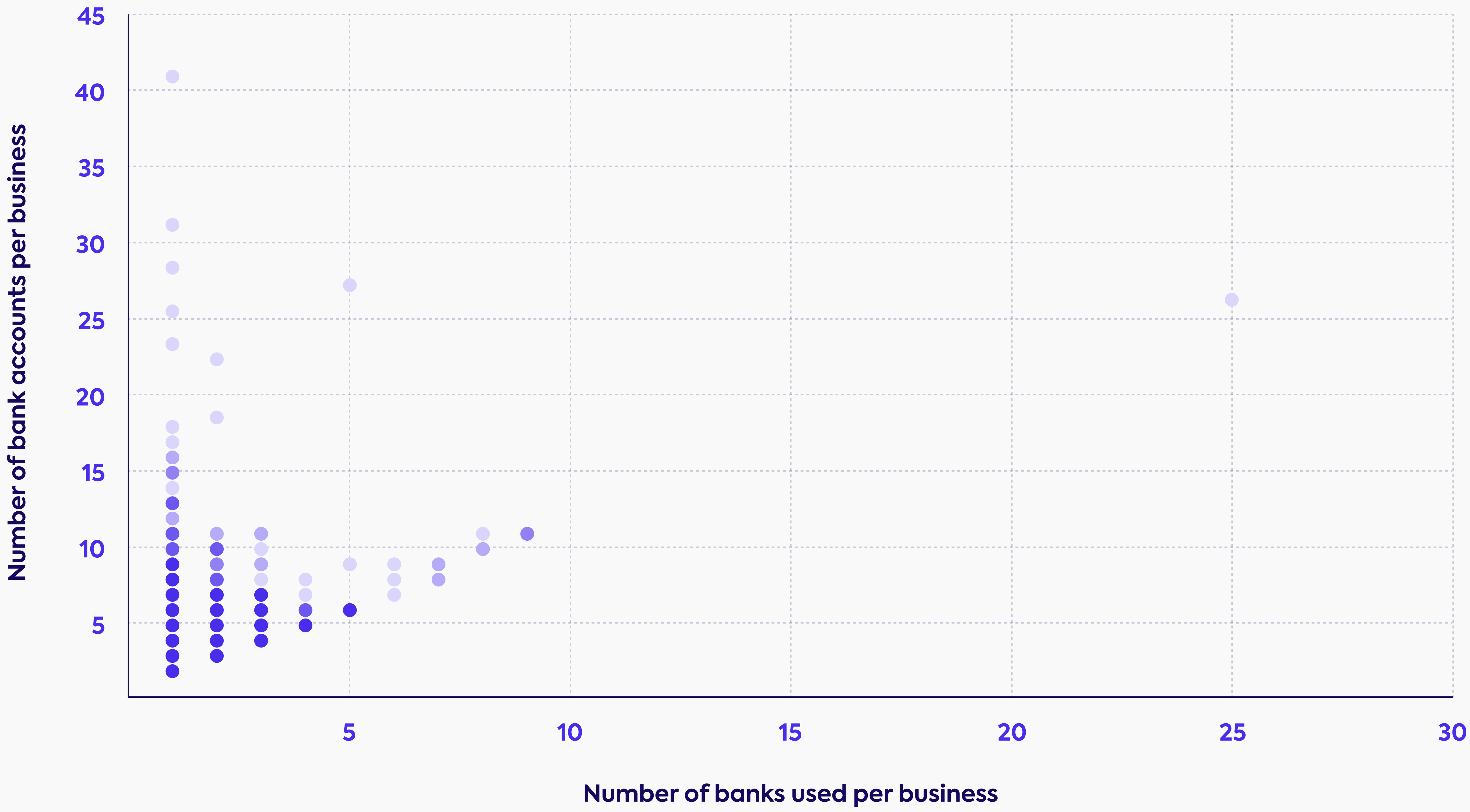
For some time now, banks have been focused on extending client relationships beyond non-interest-bearing checking accounts in an effort to increase average revenue per customer. One way this is playing out is through the expansion of commercial banking services, which have proved highly effective in helping banks secure sought-after deposits in the face of central bank interest rate increases.

In this competitive environment in particular, smaller mid-market businesses offer banks a highly attractive source of sticky, low-cost deposits that are unlikely to change across rate cycles. In most cases, the balances businesses hold in non-interest-bearing checking accounts are seen as 'funds in motion,' meaning they are crucial for carrying out their daily activities, as they provide the necessary funds for company-wide operations.

Percentage of banks citing payments or deposit types as a high priority



There's just one problem. Businesses today typically rely on several banks to manage and protect their money, intensifying competition for deposits among banks. In fact, data shared from within Codat's platform reveals that the average SMB has four distinct bank accounts and that this number is increasing over time.



Businesses with multiple bank accounts keep 78% of their balance and carry out the majority of transactions via their primary account. It's this primary account that is of greatest value to the bank.

However, with bank diversification becoming commonplace and businesses becoming more discerning about where they park their cash, banks are having to work hard to prove their value. particularly when it comes to mid-market customers.

Below, we explore the various tactics leading banks are taking to do just that and offer insights into the most effective approaches that are being employed to drive drive banking revenues from mid-market businesses.

3 tactics used by leading banks for mid-market engagement

Below, we explore the various tactics leading banks are taking to replicate their success in the mid-market and offer insights into the most effective approaches that are being employed to drive growth and improve customer experience.

1. Creating a central command center for businesses

> "The winners in small business financial services over the next decade will not look like today's bank. They will take a customer-centric approach and deliver not banking products per se but rather easier financial workflows, simple smart analytics, and actionable advice."
>
> — Alenka Grealish, Reinventing small business banking, part 1

Overview

As early as 2020, industry experts were predicting that banks would need to fundamentally rethink their frameworks to remain competitive, shifting from selling banking to selling solutions to client workflow pain points.

Fast forward a few years, and banks are doing precisely that. Many are implementing new platform models and single-view portals in an effort to cultivate stronger ties with customers. This involves embedding themselves deeper into the SMB's everyday workflow by offering free, value-added services such as data analytics dashboards and cash flow forecasting tools.

This approach has proven to be highly effective in building trust and developing a competitive advantage. According to a survey conducted by Accenture, more than 50% of business clients believe that value-added services, specifically ones that provide immediate insight into their cash flow, are beneficial.

What actions are the innovators taking?

BANK OF AMERICA

Bank of America's CashPro platform offers businesses a central place to view all account activity and carry out transactions. It even provides access to third-party bank accounts through multibank reporting and payment capabilities. To date, the platform has experienced huge success, fulfilling $655 billion in payments in 2022 alone.

CommonwealthBank

The Commonwealth Bank of Australia's Daily IQ 2.0 integrated digital platform gathers data from its pool of 1.2 billion monthly transaction records. This enables businesses to create future scenarios based on current financial and industry data and monitor their performance in real time.

AMERICAN EXPRESS

American Express launched Business Blueprint earlier this year, a free digital hub for small businesses that provides cash flow insights, digital financial products, and easy management of business cards.

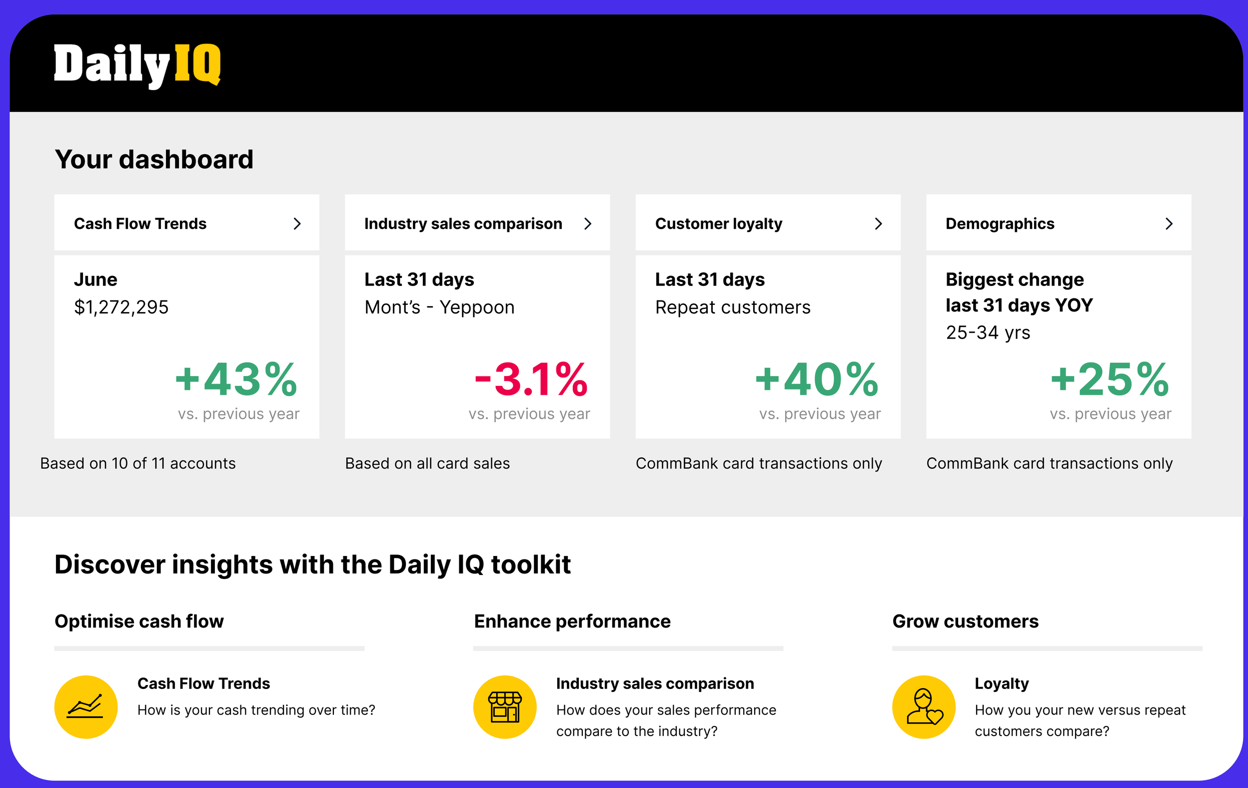
CHASE

Chase for Business provides Chase Customer Insights, a platform for business intelligence and analytics. It enables businesses to track daily sales, understand customer demographics and behavior, and compare their performance against competitors.

Strategies for implementation

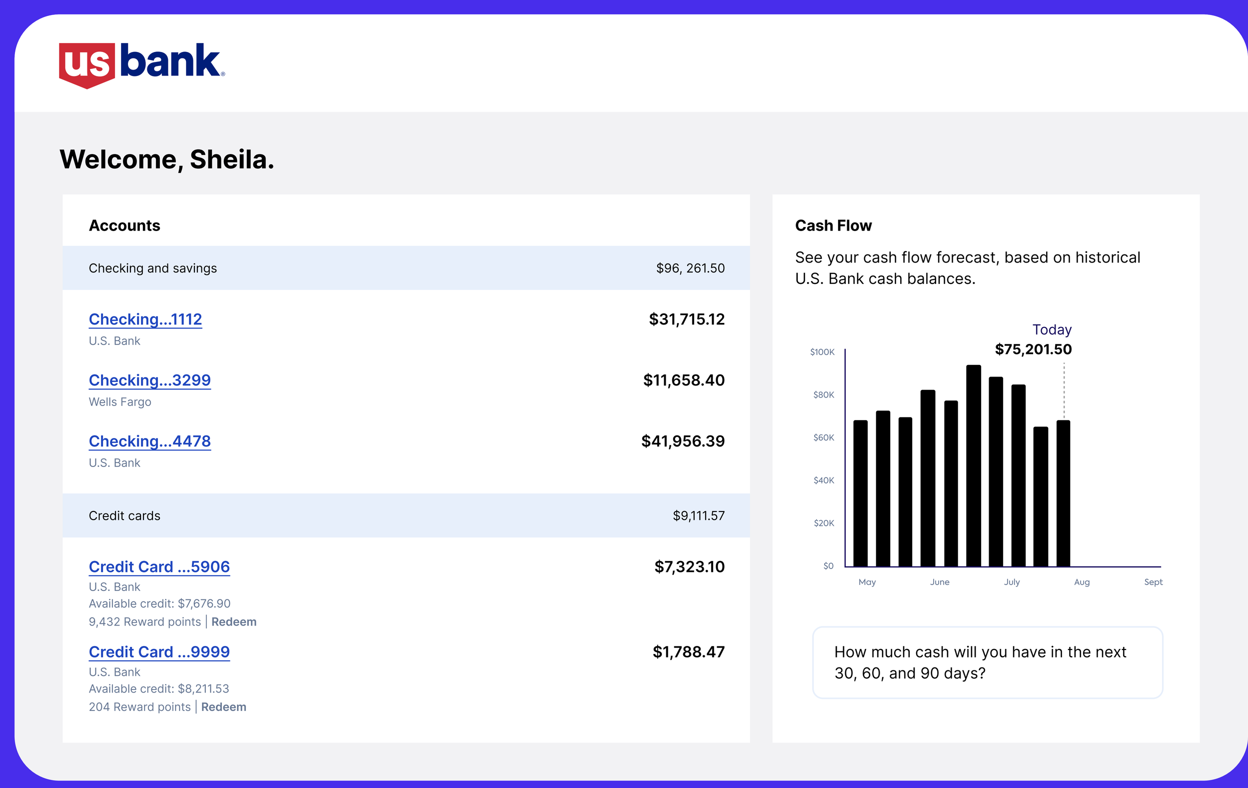
Start by assessing the needs of your current clients and evaluating the competitive landscape. Some of the most popular insights provided by top business banking dashboards in the market today include:

Spending behavior, demographics, and industry benchmarking



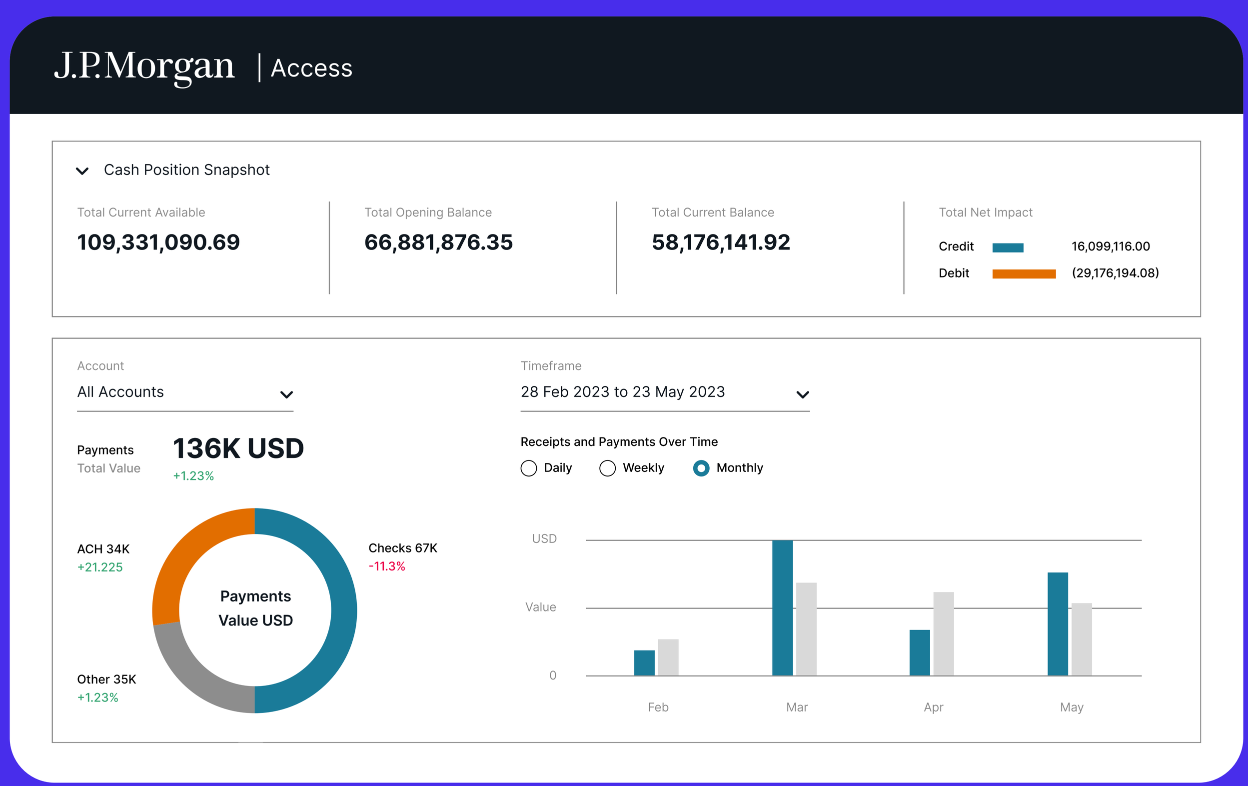
Source: The Commonwealth Bank of Australia Daily IQ 2.0

Cash flow trend comparisons



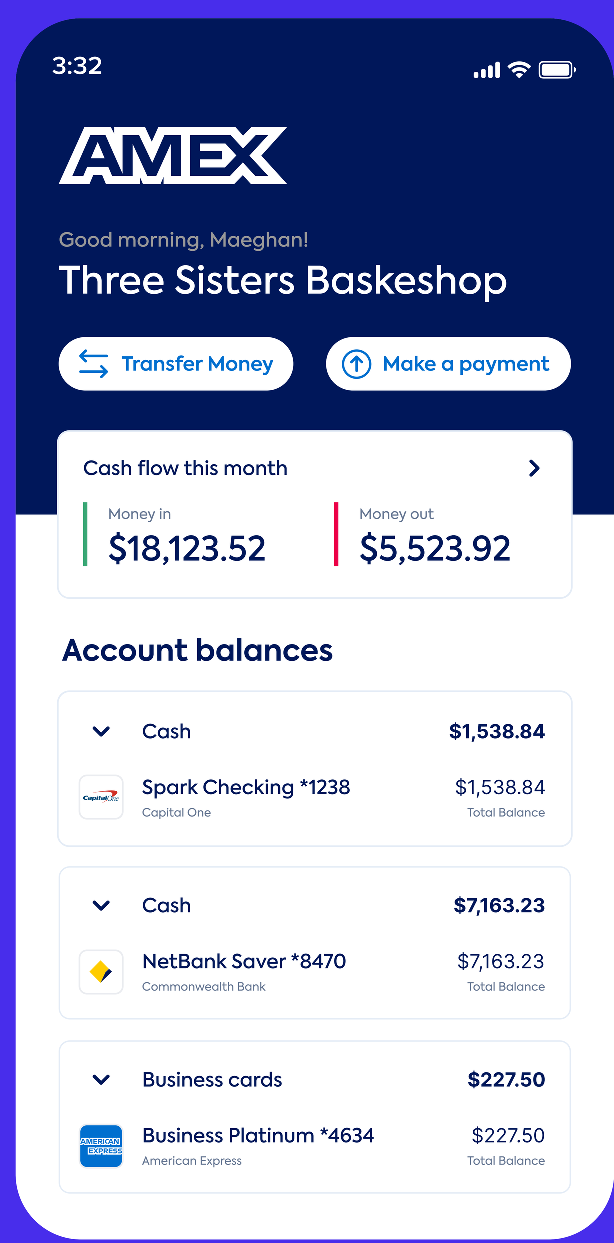
Source: U.S. Bank Business Essentials dashboard

Forecasting and scenario planning



Source: J.P. Morgan Access

Comparisons of balances across connected bank accounts



Source: American Express Business Blueprint

Consider which of these you want to draw inspiration from and where you can differentiate your offering. For example, a common feature of SMB insight tools is connecting third-party data sources, such as business bank accounts or accounting and ERP software. Consider the feasibility of building this functionality through open APIs or using an external API provider to minimize ongoing maintenance and maximize efficiency.

More generally, customer-facing financial analysis tools, particularly those predicting future financial positions, are outside of most internal product teams' expertise. Consider exploring what providers like Backbase, TreasurUp, Personetics, CoBa, and Monit can offer in the way of a fully white-labeled dashboard solution before embarking on building a new tool in-house.

2. Scaling virtual card usage for B2B payments

Overview

The cost of serving clients should be proportional to their potential value to the bank. Therefore, when looking to extend transaction banking services from larger corporates to mid-sized businesses, banks need to employ a greater degree of automation to do so profitably.

Mid-market clients typically carry out fewer, lower-value transactions but are still subject to highly manual and time-consuming onboarding processes that incur substantial labor expenses for the bank.

Take, for instance, the supplier enablement process for most commercial card programs (i.e., the process of identifying target suppliers to migrate onto commercial cards as part of spend enablement campaigns).

Both banks and their clients stand to benefit from the initiative, but execution can prove challenging for a number of reasons. Firstly, sharing details on how they spend with the bank can be a difficult and time-consuming task for customers. Moreover, the information received by the bank is often incomplete, inconsistent in format, and only represents spend for a particular time period.

With the emergence of API technology that banks are now familiar with for identity, credit, and risk processes, these issues can be resolved. However, it requires a solution that can deliver large, complex data sets with the same level of ease and immediacy that banks expect with Open Banking solutions.

With an ongoing connection to a customer's spend data, banks and their partners can target the right suppliers with the right message at the right time. This includes reaching out to suppliers currently experiencing late payments from their customers, which are due and outstanding as of today.

Below are some examples of providers taking an innovative approach to growing virtual card usage.

What actions are the innovators taking?

BANK OF AMERICA

DBS

Mastercard's Supplier Enablement Platform is used by a number of the top commercial banks in the US to address the complexities of the spend analysis and supplier enrolment campaign process by offering Salesforce-like functionality.

Bank of America recently extended its supplier enablement portal to more regions. It uses automation and AI to provide clients with better data, workflows, personalization, and reporting for optimal working capital management.

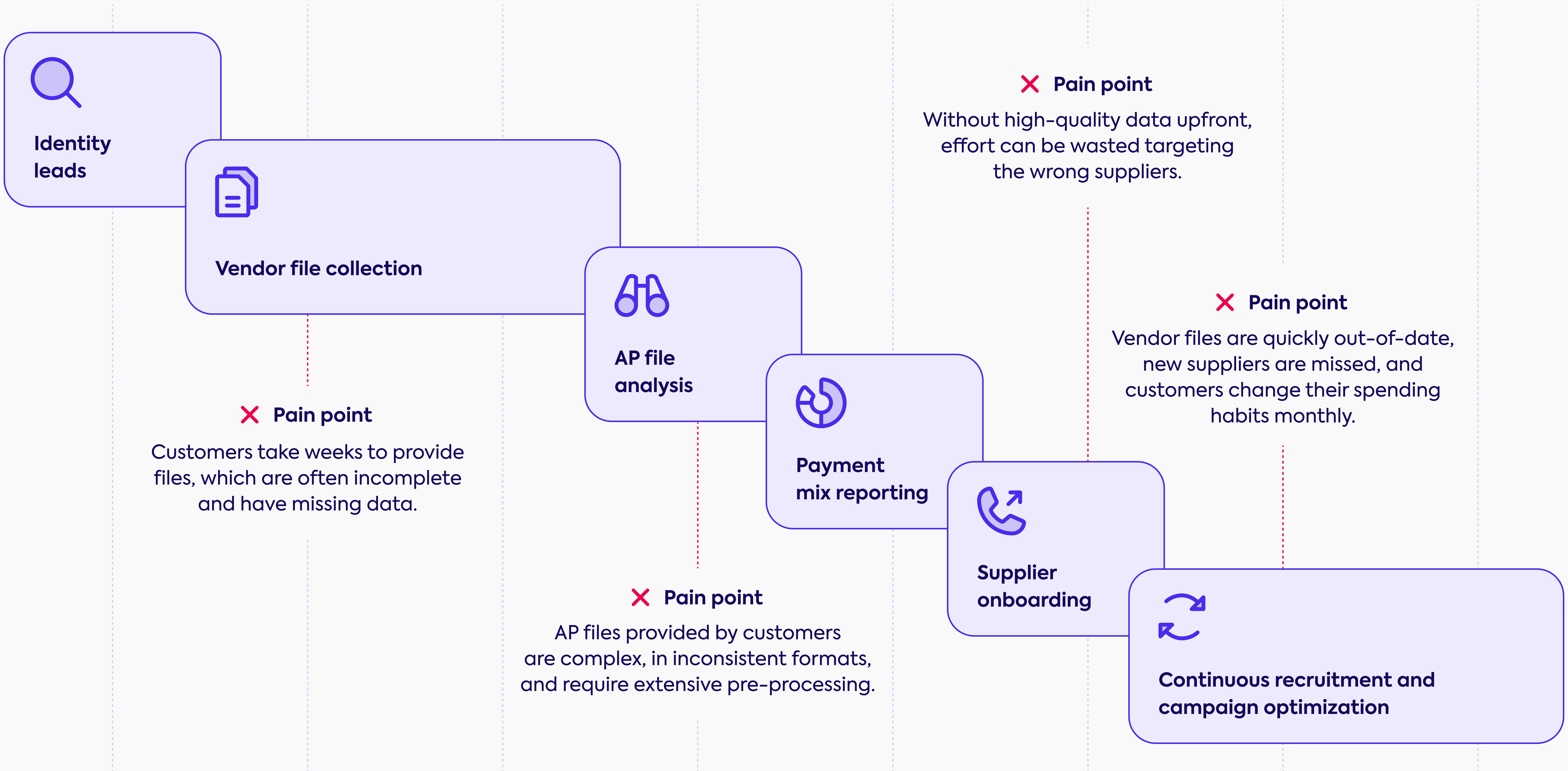
DBS Bank recently launched a digital portal designed to reduce onboarding time for its supplier finance program from two weeks to a matter of minutes. The result was a 30% increase in their supply chain finance book YoY.

Strategies for implementation

Begin by mapping out the current process for onboarding suppliers and identifying the bottlenecks. Is your vendor file collection process being slowed down by customers taking weeks to provide information? Are the files provided full of errors or inconsistencies requiring extensive reprocessing, and is this negatively impacting conversion? Perhaps inaccuracies in data lead to targeting the wrong suppliers, or files become quickly outdated due to clients' ever-changing spending habits. Calculate the cost of these inefficiencies to identify the main opportunities for improvement.

An example of a supplier enablement process

Supporting a customer in scaling a commercial card program requires exchanging high volumes of data over many months.



Redesign your process to make it more efficient and standardized. Consider ways to automate the data collection process to eliminate the need for endless back-and-forth email exchanges. Once again, assess your integration capabilities and consider whether there's a way to stream the required information straight from the source to boost conversion rates and minimize human errors.

Invest in new technology solutions like supplier portals and workflow automation, and consider partnering with a provider like Codat to help you streamline the entire onboarding process, from collecting and analyzing data to managing and reviewing it on an ongoing basis.

Codat's solution can reduce time to value and increase sales conversion rates. This can ultimately lead to greater revenue and reduced costs for your card and payables program. Additionally, it can greatly improve your customer's experience and their expectations around rebates and rewards.

3. Offering an integrated accounts payable process

Overview

The accounts payable sector presents an alluring opportunity to banks looking to increase transaction revenue. After all, the global transaction value of the B2B payments market is **predicted** to exceed $111 trillion by 2027, up from just over $88 trillion in 2022. Consequently, banks are increasingly leveraging account payable automation as a powerful tactic to enhance the average revenue per customer.

However, banks are no longer competing simply with each other, but they are also in direct competition with fintech and tech players in a quest to win over small business clients who value convenience and affordability above all else. For instance, **Intuit** recently launched QuickBooks Bill Pay to automate the AP process for businesses, replacing a previous embedded option to pay via Melio.

This presents a distinct unbundling risk for banks as they are no longer able to rely solely on account ownership as a means of retention. According to **McKinsey**, the winners of this 'new era of payments' will be those who are able to develop new business lines in order to differentiate themselves and retain customers within their service ecosystem. Take a look at some of the ways leading transaction banks are achieving this below.

What actions are the innovators taking?

BANK OF AMERICA

Bank of America Complete AP streamlines the Accounts Payable process by automating everything from receiving invoices to executing payments. The solution is embedded directly into the customers' accounting or ERP system, giving them full visibility and control while reducing the need for time-consuming manual processes.

AMERICAN EXPRESS

American Express is creating an end-to-end B2B platform by building capabilities and partnerships with BillTrust and Versapay, and shows further ambition through the acquisition of **B2B payments automation system, Nipendo**.

DBS

DBS Singapore has DBS MAX, a collection solution that delivers automated AP and AR features to its merchant clients.

Strategies for implementation

Start by clearly defining business goals, identifying your ideal customer profile, and establishing the resources and skill sets you'll require. For example, is there a particular industry or size of business that you are targeting? Do they typically have an in-house finance team, or will your solution be used by non-financially savvy business owners?

Is your primary goal to use the additional functionality as a driver for new customer acquisition or to increase spending from existing customers?

Conduct a thorough needs assessment to understand your target audience's pain points, such as the specific inefficiencies in their current accounts payable process. For example, are your target customers typically dealing with large volumes of payments? If so, will they require functionality to make batch payments, or will the ability to pay invoices one by one suffice?

Then, determine the required functionality to meet those needs and whether you have the necessary resources and skill sets to build a solution in-house. Here are some key factors to consider:

How will you pull unpaid bills from the client's accounting system and then itemize the record of goods purchased or services provided by a supplier?

How will you enable vendor bills to be created within your digital banking platform and then synchronized to clients' accounting or ERP systems?

How will you retrieve a list of accounts that can be mapped, enabling clients to determine which account their payment should be reconciled from?

How will you integrate payment origination into this seamless experience?

How will a bill payment be pushed to the client's accounting platform and then reconciled against the bill, marking it as paid?

The accounts payable process is complex, and building a solution in-house requires a team of specialists, including product managers, technical architects, engineers, and quality assurance consultants—as well as experts with in-depth knowledge of bookkeeping principles and accounting data behavior.

Alternatively, consider partnering with a turnkey API provider that offers standardized connections to multiple accounting and ERP systems through a single integration, making it easy for you to get an accounts payable automation solution up and running quickly. A partner can also handle the complexities of integrations, including registration, authorization, standardization, and ongoing connectivity.

Conclusion

After experiencing some early triumphs, major banks are enhancing and extending their commercial banking offerings to further accelerate growth. More and more are prioritizing the expansion of transaction banking-style services to mid-market clients. This focus is both timely and smart as it ensures a reliable source of low-cost deposits amid growing competition.

The banks that are achieving the most success are integrating themselves more deeply into the daily workflows of SMBs and providing value-added services like business insights dashboards, cash flow forecasting tools, and embedded invoice payment capabilities. They are also discovering efficient ways to serve lower-value clients by investing in back-office automation, improving overall customer experience in the process.

By increasing their role in customers' daily financial operations, banks stand to increase customer engagement and perceived value, in turn giving them greater opportunities to cross-sell additional services, not to mention the revenue uplift from increasing payment volumes.

While the benefits of early adopters are already showing on the bottom line, the wider market must now focus on the hardest part of capitalizing on the commercial banking opportunity: implementation.

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About Codat

Codat provides business data APIs for lending and embedded accounting automation.

Our specialized infrastructure connects banks and fintechs to all the major accounting, banking, eCommerce, and payments platforms their customers use to turn building connected features from their biggest challenge to their greatest differentiator.
To learn more about our platform, get in touch via our website or the email address below.

www.codat.io info@codat.io

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