



Bocconi Students Fintech Society

Transactional Banking

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Transaction Banking – The New Building Block of the International Financial System

Transaction Banking refers to a set of financial services offered to businesses by a banking institution that focus mainly on **cash management**, **international trade** and **securities services**. These services help firms in solving working capital, liquidity problems and manage trade finance deals.

Cash Management

Assistance in cash flows, helping improve **liquidity** situations

Offering **investment** options



International Exchange

Financing imports and exports of the firm

Payments across borders, specifically using innovative software like payments interfaces



Security provision

Better **relationships** between banks and clients and reduced risk

Technological services like **SWIFT** and **H2H** provide the firm a network of banking and funding services



Sources: Retail Banker International, Standard Chartered

The Up and Down sides of Transaction Banking



The Transaction Banking sector presently entails numerous benefits and challenges to all the stakeholders in the market

TB made banking services more **convenient**, **accessible**, and **efficient** for individuals and small businesses.

Payment and Fund Transfer Efficiency

Efficient payment methods, such as electronic funds transfers, online bill payments, and mobile wallets streamline the process of making payments.

Financial Planning and Education

TB platforms assist customers and may provide budgeting tools, financial calculators, educational materials, and personalized recommendations to help individuals make informed financial decisions.

Accessibility

Banks have expanded their reach through digital platforms, allowing customers to perform transactions anytime and anywhere.

TB faces various **challenges** in its operation. Addressing these challenges requires transactional banks to strike a **balance** between innovation, security, compliance, and customer-centricity.

Regulatory Compliance

Banks must navigate complex and evolving regulatory frameworks, such as anti-money laundering (AML) and know-your-customer (KYC) regulations.

Data Privacy

Protecting the privacy of this data is a significant challenge. Banks must comply with stringent data protection laws and regulations, such as the General Data Protection Regulation.

Competition from Non-Banking Players

TB faces competition not only from traditional banks but also from non-banking players such as fintech startups, payment processors, and tech giants entering the financial services industry.

Sources: Mindgate, DBS Banking

The New Era for Transaction Banking



A new era in the TB sector is incoming

Open Banking

Sharing of customer data and payment information between banks and third-party providers. This trend is driven by regulatory changes, such as PSDS2 in Europe, which requires banks to open up their APIs to third-party providers.

Cybersecurity

With the rise of digital transactions, cybersecurity is becoming an increasingly important priority in TB. Banks and financial institutions are investing in cybersecurity technologies to protect their systems and customer data from cyber threats.

Real-Time Payments

Customers demand faster and more efficient payment processing. Real-time payments enable customers to make and receive payments instantly, without the need for intermediaries.

ALTERNATIVES TO TRANSACTION BANKING

Leveraging their expertise in areas such as data analytics, AI, and blockchain, technology firms are also providing alternatives solutions in Transaction Banking. Some examples include:

- **Payments Platforms:** technology firms such as PayPal, Stripe and Satispay offer payment platforms that enable businesses and individuals to send and receive payments online, bypassing traditional banking channels
- **Digital Wallets:** digital wallets, such as Apple Pay and Google Pay, enable customers to store their payment information securely on their mobile devices and make payments using their smartphones.
- **Blockchain-based Solutions:** blockchain technology is being used to develop alternative solutions for Transaction Banking, such as cross-border payments and trade finance. Companies are leveraging blockchain to offer faster and more cost-effective payment processing.

Sources: A new era for transaction banking - The Global Treasurer [<https://www.theglobaltreasurer.com/2022/11/02/a-new-era-for-transaction-banking/>]

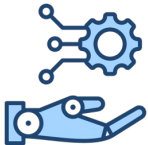
Driving Down Costs in Transaction Banking



What is making TB more convenient?

Automation

By automating routine tasks such as payment processing and account reconciliation, banks can reduce their operational costs and improve efficiency.



Cloud Computing

Cloud-based solutions enable banks to reduce their infrastructure costs and scale their operations more effectively.



Data Analytics

By leveraging data analytics technologies, banks can identify areas where they can reduce costs and optimize their operations.



Artificial Intelligence

AI-based solutions can help banks automate decision-making processes and reduce the need for human intervention.



Sources: Top trends to watch in Corporate & Transaction Banking [<https://www.cgi.com/sites/default/files/2022-09/2022-cgi-voice-of-our-clients-corporate-transaction-banking.pdf>]

Modernizing Transaction Banking



The modernization of TB: service externalization

McKinsey &Company

With ongoing margin pressure and low interest rates making revenue growth challenging, the climate for transaction banking in Europe is extremely severe. McKinsey identified four significant trends that could have a system-level impact on the industry:

- **Advanced Analytics and Machine Learning (AAML)**
- **Distributed Ledger Technology**
- **Fintech Challengers**
- **Payments Services Directive 2 (PSD2)**

Deloitte Consulting

Financial institutions ought to take advantage of a new opportunity to reconsider how work is done and give customers more **power** over the service delivery. To maintain their competitive edge, TB businesses need to progress beyond incremental automation.

With the help of this new model, which we refer to as **service externalization**, customers are enabled to fill many of their needs exactly when and how they want to. To be effective, service externalization, which has little in common with conventional outsourcing, needs the correct technology portfolio - a contemporary core infrastructure enhanced with innovative technologies.

Service externalization has four components, which together can form a potentially powerful portfolio of innovations:

- A **digital front end** designed for maximum user-friendliness and efficacy
- A **core infrastructure** built for agility and resilience
- **Cognitive technologies** for intelligent automation and scalability
- **APIs** (application programming interfaces) to expand banks' strong connections with the ecosystem

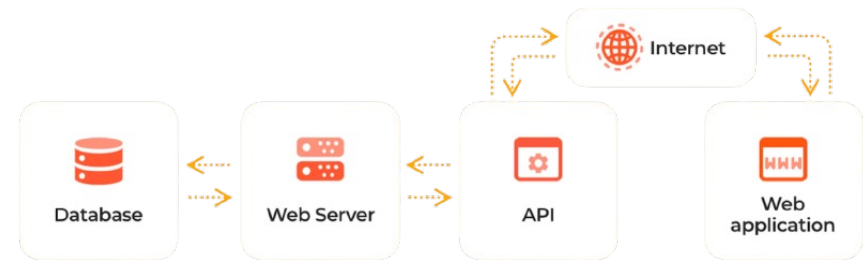
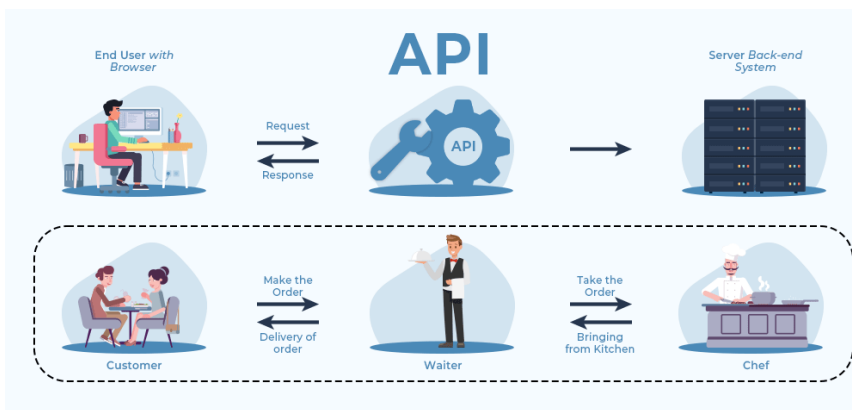
Sources: Technology innovations driving change in transaction banking | McKinsey [<https://www.mckinsey.com/industries/financial-services/our-insights/technology-innovations-driving-change-in-transaction-banking#/>]; Modernizing transaction banking | Deloitte US [<https://www2.deloitte.com/us/en/pages/financial-services/articles/modernizing-transaction-banking-technology-service-externalization.html>]

Introduction to APIs



What is an API?

An API, which stands for **Application Programming Interface**, is a set of defined rules that enable different applications to **communicate** with each other. It acts as an intermediary layer that processes data transfers between systems, letting companies open their application data and functionality to external third-party developers, business partners, and internal departments within their companies. In simpler terms, the API serves as an intermediary between two machines seeking to establish a connection for a specific purpose.



The definitions and protocols within an API help businesses connect the many different applications they use in day-to-day operations, which saves employees time and breaks down silos that hinder collaboration and innovation. For developers, API documentation provides the interface for communication between applications, simplifying application integration.

Sources: What is an API? (Application Programming Interface)|MuleSoft [<https://www.mulesoft.com/resources/api/what-is-an-api>]
What is an API|IBM [<https://www.ibm.com/topics/api>]

Introduction to APIs



How does an API work?

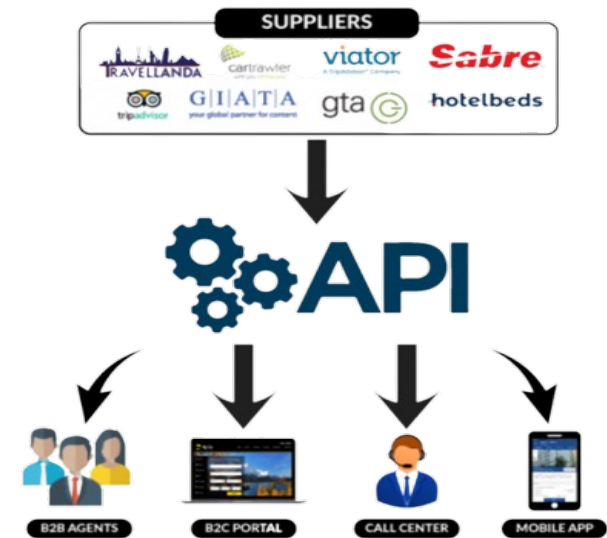
An **API** is an **interface** that allows two separate software components to share data in order to carry out tasks on the internet. A simple way to understand how it works is by looking at some common examples in our daily lives such as logging in to websites by using Facebook or Google profile login details, using maps apps, or making travel booking comparisons. In our example, we will focus on the latter.

A real life example

Travel booking sites aggregate thousands of flights, showcasing the ones that best suit your preferences in terms of departure city and date, return city and date, cabin class, and other variables like seats, or baggage requests.

In order to obtain that information, the application that you are using must interact with the airline's API, giving it access to the airline's data. Then, it takes the airline's response to your request and delivers right back to the travel app.

Moreover, throughout each step of the process, it facilitates the interaction between the two systems, from seat selection to payment and booking, creating a connected experience



Sources: What are APIs and how do APIs work? | MuleSoft [<https://blogs.mulesoft.com/learn-apis/api-led-connectivity/what-are-apis-how-do-apis-work/>]; Top 7 examples of APIs we use in our everyday lives | Turing [<https://www.turing.com/kb/7-examples-of-APIs#:~:text=APIs%20are%20used%20in%20web,Tesla%20to%20provide%20software%20upgrades.>]

APIs and the transformation of transaction banking

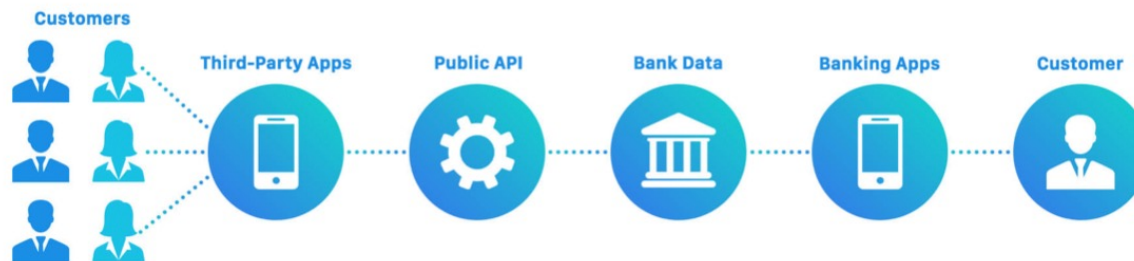


How are APIs transforming transaction banking?

APIs are transforming the financial services sector by providing digital and programmable access to core banking features like accounts, transactions, balances, and payments. This accessibility extends to both internal use within organizations and external utilization by third-party entities.

For instance, APIs empower corporates to seamlessly integrate multiple bank connections into their preferred system, creating a convenient "one-stop shop" for initiating payments, managing all bank accounts, and accessing comprehensive financial data. Compared to traditional channels, APIs offer a faster, more efficient, and cost-effective solution for achieving these capabilities.

Moreover, they offer the necessary security, legal, and regulatory framework to drive the transformation of financial services and reshape the value chain.



Sources: How open banking APIs reshape the value chain | Software [<https://blog.softwareag.com/banking-value-chain-apis/>]
API in banking: definition, types, benefits | SDK.finance [<https://sdk.finance/api-in-banking-types-and-benefits>]

Benefits that APIs bring to the finance sector



Benefits for Companies

Data-driven Decision Making

APIs collect data from various sources and gain insights into customer behavior, market trends, or operational performance. Companies make informed strategic choices, identify growth opportunities, and optimize their operations.

Competitive Advantage

Companies that offer APIs can attract developers, foster an ecosystem of applications and services around their core offerings, and differentiate themselves from competitors. APIs allow companies to stay ahead in the market by leveraging external innovations.

Improve Customer Experience

This integration enhances the user experience, enables personalization, and provides a seamless flow of information across different touchpoints.

Benefits for Consumers

Access to third-party services

APIs enable consumers to access and integrate third-party services and functionalities into their own applications or systems. For example, integrating a payment gateway API allows consumers to accept various payment methods securely without developing their own payment infrastructure.

Seamless Integration

They make it easier for consumers to connect their products or services with external platforms or services, fostering interoperability and expanding their capabilities.

Time and Cost Savings

APIs save consumers time and money by eliminating the need to develop every aspect of a product or service internally. Instead, consumers can leverage existing APIs to access pre-built functionalities, such as maps, social media sharing, or weather data.

Benefits for Banks

Accelerated Innovation

APIs enable banks to innovate faster by leveraging external developers and technologies. Banks can create developer portals and offer APIs that expose specific functionalities, such as account information, payment initiation, or transaction history.

Data Analytics and Insights

APIs provide access to valuable data within the banking ecosystem. Banks can leverage APIs to retrieve and analyze data, detect fraud, identify potential risks, and develop personalized offerings.

Regulatory Compliance

APIs facilitate secure data sharing, consent management, and strong authentication, ensuring compliance with regulatory frameworks.

What are APIs and how do APIs work? | MuleSoft [<https://blogs.mulesoft.com/learn-apis/api-led-connectivity/what-are-apis-how-do-apis-work/>];
Top 7 examples of APIs we use in our everyday lives | Turing [<https://www.turing.com/kb/7-examples-of-apis#:~:text=APIs%20are%20used%20in%20web,Tesla%20to%20provide%20software%20upgrades.>]

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