HP Target Marketing for Wholesale Payments

A financial services industry white paper from HP

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Driving revenue through the use of payments information

There is a significant opportunity for banks to increase payments revenue and/or reduce costs by creatively using information they already have available.

This white paper describes how banks can leverage their correspondent bank network and corporate customer base to:

- Capture payments that are now going to competitors
- Gain new correspondent bank and corporate payments customers
- Identify and reduce revenue leakage
- Retain customer liquidity
- Expand business in new geographic markets
- Develop an "early warning system" to detect threshold shifts in payments business to reduce customer churn and identify emerging opportunities
- Build book transfer volume
- Size customers' payments wallet

The bank is an information network

Payments is the perfect information business because payment messages go well beyond information on the transaction between a bank and its customers. Payment information offers a window into end-to-end business knowledge, including:

- Customers and their payment patterns
- Customers' business counterparties
- Competitor banks
- Correspondent banks

Each of these payment flows gives rise to significant opportunities to capture additional payment volumes through the combination of creative use of payments information with a systematic process to embed payment information analysis into the bank's business processes.

Few banks have institutionalized the use of payments information to drive new business and conduct existing business smarter. Instead, banks have largely focused on operational efficiencies, day-to-day processing, settlement and compliance. While these issues are important, the nature of the process and the associated pressures have not allowed banks to address the revenue increases and expense reductions they can realize through intelligent routing of the transactions.

HP Open Payments Target Marketing System

HP Open Payments Target Marketing (OPTM) is a solution framework that can improve the bank's ability to perform enterprise-wide and real-time functions. The business information required to utilize Open Payments Target Marketing is currently in place at most banks today.

OPTM integrates with bank's existing business processes to drive revenue through the use of pattern analysis and automated alerts. OPTM patterns enable analysis of the payment routing path, and recommend changes to improve operational efficiencies and increase revenue. These patterns include:

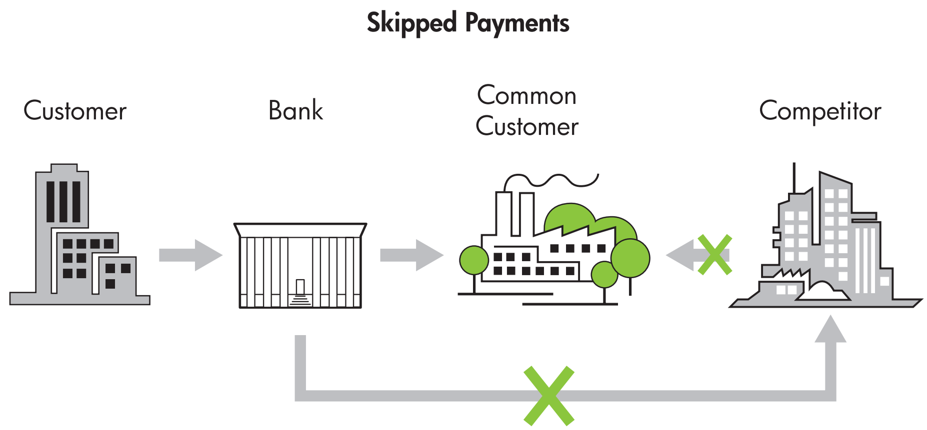
Corporate banking
- Skipped payments with automated alert
- Corporate Intelligence prospect qualification and targeting
- Competitive wallet share analyzer
- End-of-day liquidity retention targeting
- Eurozone inbound opportunity identification and targeting
- Eurozone outbound opportunity identification and targeting
- Cross-currency opportunity identification and targeting
- Network opportunity identification and targeting
- Check to electronic payments conversion opportunities
- Customer M&A business capture
- Geographic market campaign

Correspondent banking
- New business qualification and acquisition
- Wallet sizing and competitive position analyzer
- Threshold-driven "business at risk" warning
- Indirect payment routing identification with automated alert
- End-of-day liquidity retention targeting

These patterns each address specific opportunities to increase revenue, reduce revenue leakage and automate business development efforts.

The next three sections provide an overview of some of these patterns.

Figure 1. Skipped Payments removes bank customer payments to competitors.



Skipped Payments

Skipped Payments identifies revenue leakage from existing corporate customers that are making payments to the bank's customers through their accounts with competitor banks.

Skipped payments occur when the bank's customers are unaware that their business counterparties are also customers of the bank. As a result, they make payments to the accounts of their business counterparties at competitor banks.

Many corporate payment instructions have been in place for years. Since the time the original instructions were established, corporate customers may have merged with other companies that are the bank's customers, or they may have become the bank's customers in their own right or through restructured bank account arrangements.

In spite of the many changes that have taken place with the bank's customers over the years, it is likely that many corporate payment instructions have not been changed. As a result, large numbers of payments that are now being sent to competitor banks could be retained and made on the bank's books.

By identifying these skipped payments, the bank can reduce a major source of revenue leakage as well as provide significant benefits to customers—including reduced costs and reduced time to make and receive payments, enhanced liquidity management and error reductions.

The bank can also increase its market share vis-à-vis competitors and lower its cost base relative to competitors as a result of increased book transfer volume.

In addition to increased transaction revenue and consolidation of customer business, the bank can benefit from retaining customer liquidity on its own books.

Skipped Payments analysis

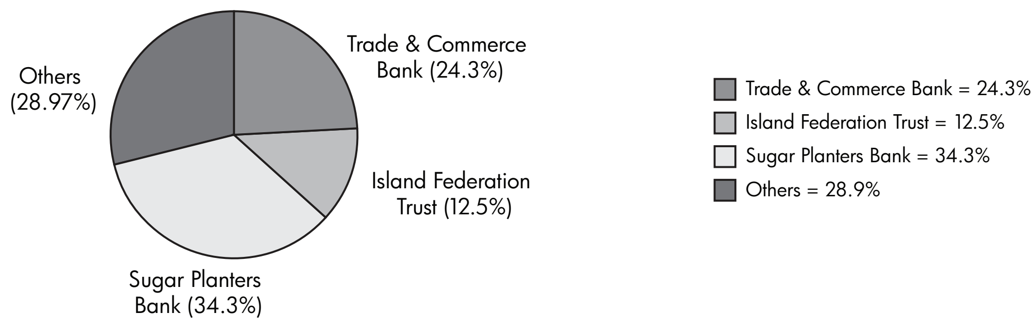
As the diagram above shows, the objective of the Skipped Payments pattern is to identify payments made through competitor banks to companies that are customers of the bank. The Skipped Payments pattern provides the actionable information banks need to migrate these payments away from competitors to their own books.

In addition to displaying the concentration of skipped payments by account party, this screen shows the distribution of skipped payments among competitor banks and whether some portion of the transactions between the account party and the beneficiary are done as book transfers rather than through competitor banks—that is, whether there are split transaction patterns.

Figure 2. The OPTM system shows the concentration analysis for skipped payments.

Payment opportunity monitor (skipped payments)

Percentage distribution of payments made through payee banks



Account party				**Total skipped payments**		
Loki Technologies				105		
Select	**Beneficiary**	**# payments**	**# BTs**	**# Non BTs**	**Payee bank**	**Alert status**
○	Crucible Computers	1	0	1	Founders Bank	**Not called**
○	Crucible Computers	1	0	1	Trade & Commerce Bank	**Not called**
○	Flatland Traders	10	0	10	European Bank	**Not called**
○	Lennox Systems	6	0	6	Credit Bank	**Not called**
○	Lennox Systems	6	0	6	Founders Bank	**Not called**
○	Lennox Systems	8	0	8	Grand Cape Bank	**Not called**
●	Lennox Systems	13	0	13	Island Federation Bank	**Not called**
○	Lennox Systems	37	0	37	Sugar Planter Bank	**Not called**
○	Lennox Systems	25	0	25	Trade & Commerce Bank	**Not called**

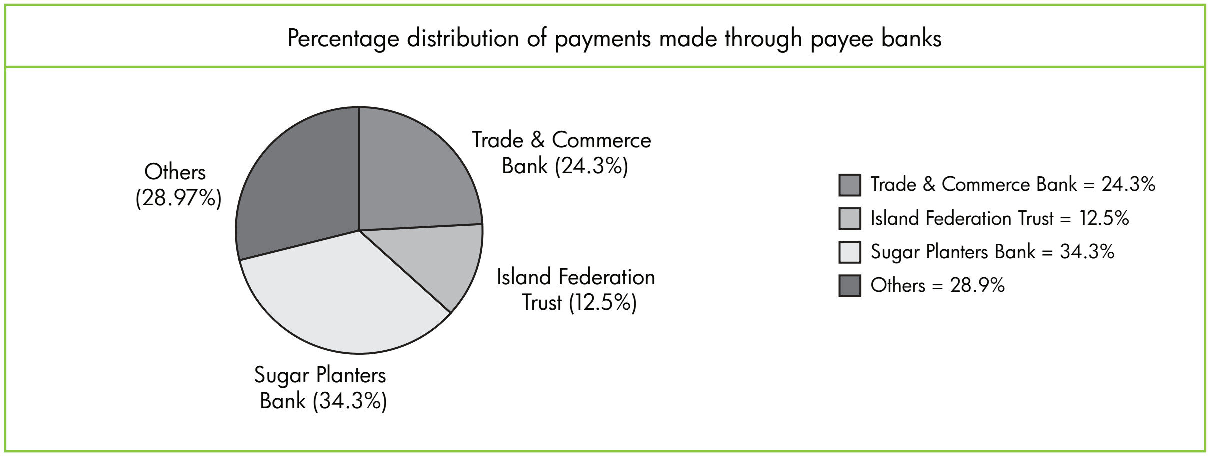
This screen is an entry point for "drill-down" to the individual payment details for each account party beneficiary pair. This drill-down enables the bank to understand how each skipped payment is routed through a competitor bank, as opposed to which transactions the account party is making on the books of the bank.

The Skipped Payments automated alert feature enables the bank to potentially contact each account party to get the beneficiaries' permission to change the payment instruction to make the payment on the bank's books. The system then automatically tracks the responses and initiates a series of new requests and/or alerts.

The OPTM Skipped Payments pattern includes an automated notification system to contact customers and seek their permission to notify beneficiaries of the opportunity to change their payment instructions to receive payment through their account with the bank—instead of through a competitor bank.

Figure 3. The OPTM Skipped Payments pattern with automated notification system.

Payment opportunity monitor (skipped payments)



Account party	Total skipped payments
Loki Technologies	105

Beneficiary	# payments	# BTs	# Non BTs	Payee bank	Alert status
Lennox Systems	13	0	13	Island Federation Bank	**Not called**

Payment amount	Our ref #	Their ref #	Intermediary	Date/time	Alert status
$2518512.00	S057-15740			30-12-06 3	**Not called**

We have received payment initiated by you requesting payment to Lennox Systems through Island Federation Trust.
Please be advised Lennox Systems is also our customer and maintains an account with us.
Sending your payment directly to Lennox Systems's account with us can lower costs, reduce errors and expedite payment processing.
May we have permission to correct Lennox Systems to arrange for a direct credit to their account?

Payment detail
Your reference number: Our reference number: S057-15740
Payment amount USD: $2518512.00. This payment was made on: 30-12-06 3
Intermediary bank:
Your customer: Lennox Systems
Your account with us: 1275293615

Skipped Payments pattern analytics and features

Skipped Payment analytics include:

- Identification of the bank's customers making payments to other customers of the bank through competitor banks, including the number of payments and individual payment details
- Concentration of the opportunity to migrate these payments away from competitors onto the bank's books, that is, which account party/beneficiary pairs provide the greatest business opportunities
- Distribution of skipped payments by competitor bank, that is, which competitor banks the bank will take this business from
- Competitor bank positions with the bank's customers
- Automated alert and tracking
- Sensitivity and ROI analysis of the financial impact of migrating skipped payments to book transfers
- Tracking results versus business objectives

Corporate Intelligence

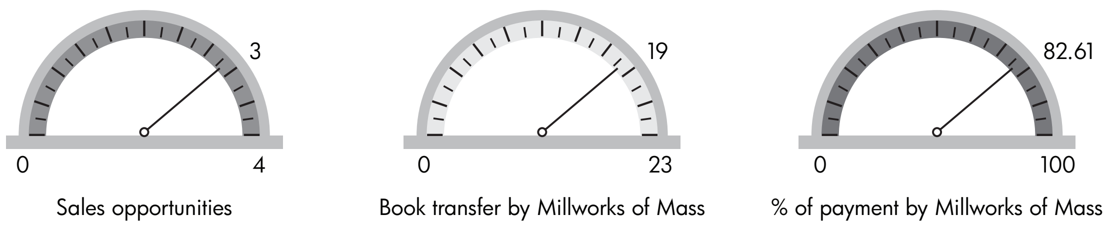
Corporate Intelligence identifies high concentrations of interactions between existing customers and their business counterparties who are not the bank's customers.

Corporate Intelligence provides a multi-dimensional view of these interactions between customers and non-customers. For example, Corporate Intelligence not only analyzes major concentrations of activity between pairs of the bank's customers and non-customers, but also creates a complete view of transactions between all of the bank's other customers who are also making payments to or receiving payments from the non-customer.

In this way, Corporate Intelligence provides comprehensive information to assess prospective customers, including a pro forma activity report to show the level and type of transactions to and from the bank's customers that would arise in the event the prospect becomes the bank's customer.

Figure 4. Corporate Intelligence identifies high-potential prospects.

Payment opportunity monitor (competitive intelligence)



Customer				Total Payments		
Millworks of Mass				1787		
Beneficiary	**# payments**	**Bank customer**	**# BTs**	**# Non BTs**	**Alert status**	**# Pmts bank customer**
Apples Inc.	4	y	4	0	Not called	14
Common Computers Inc.	4	n	0	4	Not called	19
Crucible Computers	7	n	0	7	Not called	29
Energy USA	4	y	4	0	Not called	19
Guta Roses	4	y	4	0	Not called	16
Intercontinental Inc.	6	n	0	6	Not called	35
J&J Manufacturing	3	y	3	0	Not called	18
LPG Partners Inc.	5	y	5	0	Not called	17
Lacto Inc.	6	n	0	6	Not called	31
Metals USA	5	y	5	0	Not called	17
Montana Rail	1	y	1	0	Not called	17
National Electric	7	y	7	0	Not called	2
National Electric	1644	y	0	1644	Not called	2
Property Management Inc.	2	y	2	0	Not called	15
TL Manufacturing	1	y	1	0	Not called	8
Wisconsin Cheese Partners	12	y	0	12	Not called	1
Wisconsin Cheese Partners	16	y	0	16	Not called	1
Wisconsin Cheese Partners	12	y	0	12	Not called	1

Corporate Intelligence also provides information that identifies which of the bank's competitors target customers use.

This analysis provides a powerful tool to focus on the highest priority prospects and to frame a detailed cash management proposal in advance of a meeting with the prospect.

Corporate Intelligence may also be able to link directly to the bank's CRM system. This would provide the additional benefit of assessing which high-priority clients are already prospects. Corporate Intelligence information can be used to prioritize future calls and develop detailed sales information in advance of the calls.

Corporate Intelligence analysis

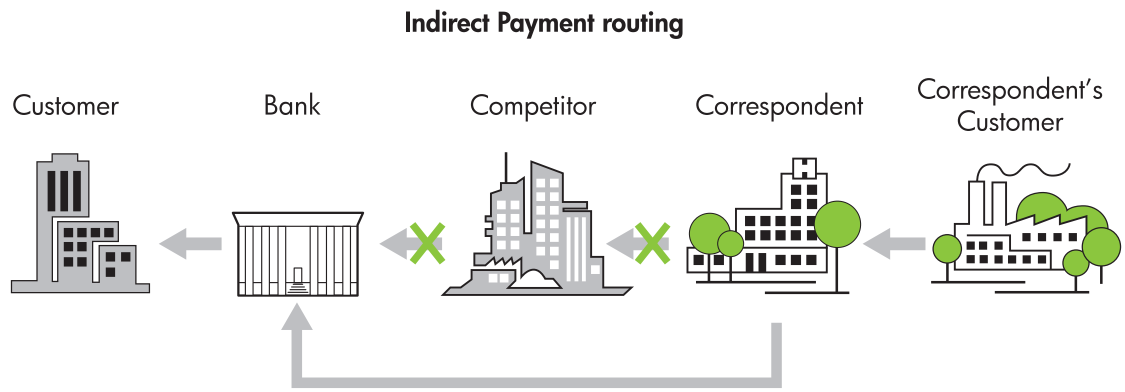
Figure 4 illustrates how Corporate Intelligence identifies high-potential prospects.

- Concentration analysis of all non-customers receiving/making payments from/to the bank's customers
- Detailed cash management profiles of the interactions for the bank's top cash management prospects
- Sensitivity and ROI analysis of the potential revenue associated with conversion of the top cash management prospects to customers
- Tracking results versus business objectives
- Linkage to CRM system

In Figure 4, Millworks of Mass would be a customer of the bank. As the illustration shows, there are seven payments from Millworks to Crucible Computers (which is not a customer of the bank). Since Crucible is not a bank customer, none of these transactions occur on the bank's books.

The bank also has 29 other customers making or receiving payments to/from Crucible. Given this information, the bank can construct a comprehensive pro forma cash management profile for Millworks based on all the payments flows between the bank's customers and Millworks.

Figure 5. An Indirect Payment routing takes away the receiving bank's competitor.



Corporate Intelligence pattern analytics and features

- Identification of all non-customers receiving/making payments from/to the bank's customers
- Concentration of the opportunity to migrate these payments away from competitors onto the bank's books, that is, which account party/beneficiary pairs provide the greatest business opportunities
- Distribution of skipped payments by competitor bank, that is, which competitor banks the bank will take this business from
- Competitor bank positions with the bank's customers
- Automated alert and tracking
- Sensitivity and ROI analysis of the financial impact of migrating skipped payments to book transfers
- Tracking results versus business objectives

Indirect Payments

Indirect Payments identifies payments from the bank's correspondent bank customers in favor of beneficiaries who are also bank customers but are sent via an intermediary competitor bank.

For example, Bank of Asia is the bank's correspondent bank customer. Bank of Asia makes a payment on behalf of its corporate customer to an ultimate beneficiary, which has an account with the bank.

However, instead of this payment going directly from Bank of Asia to the bank as a book transfer, Bank of Asia sends the payment via the bank's competitor. The competitor bank, in turn, sends the payment, via a payment infrastructure such as the Clearing House Interbank Payments (CHIPS) system, to the bank for credit to the bank's customer—the ultimate beneficiary.

The objectives of the Indirect Payments pattern are to:

- Identify major concentrations of indirect payments between customers of the bank and correspondent bank customers.
- Identify and analyze competitor transaction flows from the bank's correspondent bank customers.
- Size the revenue opportunity of converting these transactions to direct payments.
- Provide an automated process to enable correspondent bank customers to reroute indirect payments to go directly to the bank as book transfers.

Indirect Payments analysis

Figure 5 shows the flow from the correspondent bank customer (account party) through the correspondent bank to a competitor bank. The competitor bank, in turn, sends the payments to the bank via a national clearing house such as CHIPS.

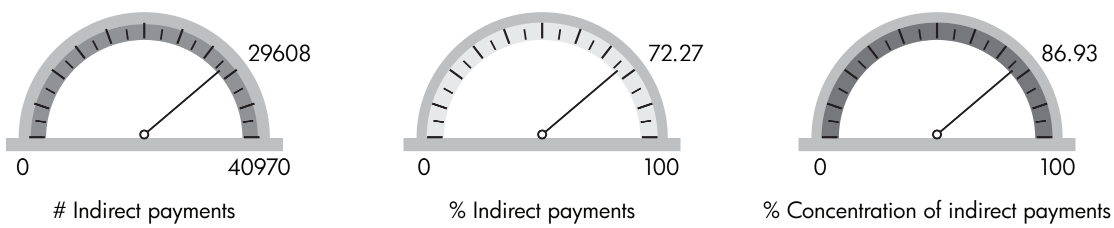
The "Xs" in the diagram illustrate the impact of migrating indirect payments to direct payments—cutting out the middleman competitor and executing the transaction as the bank's book transfer.

Indirect Payments are similar to correspondent bank Straight Through Payment (STP) programs. Indirect Payments can be thought of as Straight Through Payment Routing (STPR). The same operations executives at correspondent banks who are responsible for STP will understand the benefits of routing payments straight through as book transfers versus unnecessarily routing them through an intermediary correspondent bank and an interbank payment system.

Unnecessary indirect routing of payments introduces errors, results in delays and increases costs.

Figure 6. Indirect Payments pattern identifies the major concentrations of indirect payments.

Payment opportunity monitor (indirect payments)



Originating bank	# Indirect payments received	Alerts sent	Alert status
Sugar Planters Bank	4455	0	**Not called**

Select	Account party	Beneficiary	# Indirect payments received
○	AAL International	Drink More Spring Water	22
○	AAL International	Geneva Steel	18
○	Big Bell	Lewis Group	19
○	Alternative Energy Inc.	Forrest Products Inc.	21
○	Alternative Energy Inc.	Maniquest International	19
○	Apples Inc.	Hammerhead Paper	24
●	Auto Parts of NJ	Hoffman Ltd.	2
○	Auto Parts of NJ	Hoffman Ltd.	20
○	Auto Parts of NJ	R&R Inc.	1
○	Auto Parts of NJ	R&R Inc.	16
○	BASJ Industries	Croftman Bows	24
○	BASJ Industries	Lewis Lace	19
○	BASJ Industries	Metals USA	16
○	Ball Home	Cane Security Systems	19

As shown in Figure 6, the Indirect Payments pattern identifies the major concentrations of indirect payments between correspondent bank customers and the bank's customers. For example, Sugar Planters Bank has routed 24 payments from its customer, Apples Inc., to the bank's customer, Hammerhead Paper.

The gauges at the top of the screen show the number of indirect payments, indirect payments as a percentage of total payments and the concentration of the opportunity.

Subsequent screens and analytics identify the competitor banks these indirectly routed transactions flow through. The system features an automated alert system to notify the correspondent bank about indirectly routed payments and tracks whether the payments have been re-routed.

Indirect Payments pattern analytics and features

The Indirect Payments process could potentially be streamlined by removing the intermediary correspondent bank (the competitor). The end result would be increased cash management and reduced expenses. Indirect Payments analytics and features include:

- The number of indirect payments and indirect payments as a percentage of total correspondent bank payments
- Distribution of indirect payments by correspondent bank
- Analysis of the concentrations of account party/beneficiary pairs for the top correspondent banks
- Indirect payment details including information on intermediary banks
- Concentration of indirect payments by the bank's competitor banks
- Indirect payment details by the bank's competitor banks
- Sensitivity and ROI analysis of the financial impact of migrating indirect payments to book transfers
- Tracking results versus business objectives

The benefits of Open Payments Target Marketing

OPTM can help the bank target the most compelling revenue opportunities and significantly enhance existing business processes.

Incorporating OPTM as the bank's payments business can:

- Focus resources on the most qualified and profitable prospects.
- Leverage the bank's existing customer base to target high-priority opportunities for new business.
- Engage prospects with the benefit of comprehensive information on their business patterns and revenue potential.
- Decrease leakage of revenue to competitors and increase book transfer critical mass.
- Identify at-risk customers before they leave the bank.
- Develop intelligence-based business objectives and track success against these objectives.
- Understand the bank's position vis-à-vis competitors for existing customers and prospects.
- Achieve quantifiable, sustainable business benefits through the systematic use of OPTM tools.

The HP advantage

Today, HP business technology is at work in the world's top 200 banks, top 50 brokerages, top 25 insurance carriers, and over 130 of the world's stock exchanges. With a rich heritage spanning more than 30 years, HP has developed an intimate understanding of the financial services industry. A wide portfolio of solutions and services leverage proven expertise, and powerfully align the resources of people, processes and technology to create a competitive edge. HP is renowned for thought leadership and innovation, and has a proud track record of designing, implementing and supporting technology environments so that financial institutions get the most from their investments. This is *the HP advantage*.

Technical requirements

- Two CPU HP NonStop servers, S-Series through to Integrity NonStop server and NS/1000 (H06 and higher or G06 and higher)
- Minimum 8-disk array, ultimate configuration dependent on the amount of customer data used for analysis
- iTP WebServer, Pathway and NonStop SQL/MP

Note: Other technical requirements to be finalized on site with customer.

HP Services

Leading financial services institutions worldwide rely on HP Services to design, select, build, integrate, manage and support the technology environments that power their businesses. With over 69,000 staff in 170 countries, HP Services offers consulting and integration services so that institutions can realize the full potential of their business technology environments, outsourcing services to help reduce operational costs and drive better alignment between business strategy and the technology, and technology services to offer technical insight into areas, such as process excellence and resource flexibility.

The total portfolio of individual services covers virtually every aspect of business technology throughout the lifecycle. Examples of these services include:

- **Application modernization**—HP offers a full range of mainframe transition services, current and future business need assessments, strategic and technological roadmaps for change, and monitoring services for the evolved application environments.
- **Mission-critical support**—Onsite consulting and technical support is available at whatever level of service the organization desires, including Operational ITSM to help benchmark IT processes against others.
- **Business Intelligence**—HP provides a comprehensive suite of Business Intelligence services that focus on Strategy and Planning, Information Integration, Information Quality and Information Delivery.
- **Security**—HP uses a lifecycle approach to protecting financial institutions from threat scenarios, as well as streamlining information access for staff, customers and partners.
- **Financial Services**—HP has a complete array of leasing and financial lifecycle management packages that help financial institutions achieve the lowest total cost of ownership.

For more information, visit www.hp.com/go/paymentsystems

4AA1-5376ENW, September 2007

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