Executive Briefing

Next Generation Host to Host (H2H)

The challenge of customer data on-boarding

Growing numbers

It wasn't that long ago that Host-to-Host (H2H) connectivity between a banks' corporate customer and the bank was solely the prerogative of the largest businesses or government entities. In today's digital banking age this is no longer the case. Businesses of all sizes now seek, and in many ways expect, to automatically connect to their bank for direct payment upload and processing.

Demanding greater automation

These businesses want to carry out the heavy lifting of processing their payment activities require in their own ERP systems, payroll systems, purchase order & invoicing systems. When they complete these tasks in their internal systems, which includes authorization and release processes, they want the payments to be automatically sent to their bank and automatically processed. They don't want tedious manual upload processes. They don't want to have to re-verify or re-authorize payments through online portals.

They expect confirmations from the bank for successful transactions to update their internal systems automatically and exceptions to be highlighted in near real time or even addressed by their bank as a service.

Pressure to compete

Every financial institution's corporate banking business must adapt to accommodate these customer demands or else face the prospect of reducing market share and ever reducing revenues. If one loses the opportunity to process a customer's transactions, then one risks the loss their future cash management business, the credit line business, advisory services, etc.

Hence, it is becoming an increasingly competitive market for banks. Long standing customers are coming under pressure from rival banks to change allegiances or else they are enticed away from the bank by the allure of new payment market disruptors who appear to offer business service innovation and agility.

Pressure on costs

However, in today's business climate, investment in new services is at a premium. Every cent or penny spent must be linked to a tangible Return on Investment (ROI), and with many of the new customers for H2H onboarding being smaller businesses, the cost of the onboarding and the timelines for ROI become a major barrier to success. Consequently, it is an absolute imperative that onboarding costs and time to revenue for new customers be kept to an absolute minimum.

How can this be done? What capabilities are required in a bank's H2H solution if they are to efficiently service market needs in the digital banking age?

Next Generation H2H – the key capabilities

Next generation H2H is based on the provision of a range of functional capabilities that combined, help banks to significantly reduce the time and costs of on-boarding new corporate customers.

Horses for courses, not just one system

H2H has never been, and nor will it ever be, just one big, indistinct system in a bank. Instead, it is the combination, and linking together, of a number of distinct, and consequently, individually critical business and technical functions. Each and every one of these functions plays a critical role in the process, and each has an effect on the

speed and flexibility of the solution. In Next Generation H2H the focus is on making sure that each component in the chain is maximized for speed and flexibility. This leads to the combining of best-of-breed components and the ability to slot newer, optimized functions into the processing chain when available.

Minimize the software footprint

The less processing and software imprint required on the customer site, the better. For Next Generation H2H, the software footprint at the customer site is kept to a minimum. The secure pick-up and delivery of the data is all that is required and any complicated processing can be continually maintained and updated inside the controlled environment of the bank.

Not just files

Until now, H2H has always been about the exchange of files to and from the customer site. This is not the case in the digital banking age. Corporates and banks are now moving to an ever more integrated environment, where synchronous delivery through streaming, web services offer an ever more interactive linking of the parties. The H2H solution needs the flexibility to be able to offer a range of connectivity options, from files to web services.

Not just payments

The H2H channel is no longer a dedicated pipe for payment and cash transactions only. It is a direct communication channel to the corporate for all transaction types. Increasingly, corporates are seeking to send transactions related to Trade & supply chain finance, securities processing, account management, and even credit products. H2H onboarding platforms need to be flexible enough to be able to extend their product coverage to support a multitude of transaction types.

Dictate the format and lose

Banks must not dictate the format they require from their prospective customer. No new corporate customer will want to have to make changes to what they output. To them, it is the bank's problem. 'If you want my business, you deal with my format'. For Next Generation H2H the bank must be able to transform incoming data from any format into what is required by their internal processing engines.

Pre-built & supported standards

Of the many different formats that will be encountered, a large number will be based on various published standards. Be it SWIFT MT, or new ISO 20022 pain and pacs messages, or older EDIFACT formats, SAP or Oracle standards etc. The more of these message standards, as well as transformations to and from them, that can be delivered out of the box the more efficient the H2H platform will be at onboarding new customers. Pre-built & supported message standards save both time and money.

One size does not fit all

Gone are the days when one process can accommodate all customers. Next generation H2H must support the ability to segment the market, that is, to define specific processes and orchestrations for a set of customers, or even for an individual customer.

Speed of development & deployment, quality of deliverables

At the core of Next Generation H2H is the constant development and deployment of function, be it for format transformations, or validation suites, or orchestration flows, or enrichment services, etc. The key to the success of the Next Generation H2H solution is the speed with which these developments can be carried out and deployed successfully.