

NEXT-GEN COMMERCIAL BANKING

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JUNE/JULY 2022



■ FEATURE STORY

Bank Of America on how ERPs can help organizations optimize AP and AR processes

PAGE 06

■ PYMNTS INTELLIGENCE

How deployment of ERP systems can help streamline AR and AP processes

PAGE 14

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Read the previous edition



■ JUNE 2022
Next-Gen Commercial
Banking Tracker®

TABLE OF CONTENTS



04 EDITOR'S LETTER

PYMNTS' Thought Leadership Team on how companies are implementing ERP systems to streamline AR and AP processes and how these solutions are proving increasingly vital to their success as they struggle with late payments



10 Q&A

Insights from Matt Naish, head of product strategy at FISPAN, on why embedded banking is becoming an essential feature of ERP systems and how companies can leverage these solutions



18 NEWS AND TRENDS

The latest headlines from the next-gen commercial banking space, including why payment delays of more than six months are plaguing many businesses in China and how a new partnership will allow TD Bank to provide commercial banking services embedded within clients' ERP systems and accounting software



06 FEATURE STORY

An interview with Michael Bosacco, global head of advisory for Bank of America, on how FIs can benefit from connecting with corporate clients' ERP systems to optimize their AR and AP processes



14 PYMNTS INTELLIGENCE

An in-depth look at the benefits of ERP systems for businesses in streamlining their AR and AP processes and the current challenges firms face in adopting the technology



22 ABOUT

Information on [PYMNTS.com](https://pymnts.com) and FISPAN



EDITOR'S LETTER

NEXT-GEN COMMERCIAL BANKING TRACKER®

Few processes are more pivotal to a business's functionality than those governing its accounts receivable (AR) and accounts payable (AP) operations. A recent [study](#) revealed that legacy AR and AP tasks such as manual invoice validation, paper documentation and other costly, time-consuming and error-prone processes plague nearly one-third of businesses worldwide. The result is contributing to an unprecedented crisis of late payments — many of them more than six months overdue — and cash flow troubles that [threaten](#) organizations' very existence.

Automating AR and AP processes through enterprise resource planning (ERP) solutions has [become](#) the gold standard for companies seeking to streamline operations and cut down on manual tasks and errors. The key piece that is [missing](#) from ERP systems, however, is banking integration. While ERPs can help firms produce invoices and execute payments, employees must typically still log in to bank portals or visit bank branches to reconcile and fulfill payments. With 40% of companies [naming](#) an inability to validate invoices as the reason for late payments, the consensus is growing that companies need not only ERP solutions but also banking integration within these systems.

Fortunately, digital AR and AP technology providers offer embedded banking solutions that can integrate easily with existing ERP and accounting software. The resulting fully integrated systems can automatically send and receive payments and apply them to invoices to expedite reconciliations, [boosting](#) efficiency, streamlining cash management and offering a better client experience.

This edition of the Next-Gen Commercial Banking Tracker®, a PYMNTS and FISSPAN collaboration, examines companies' implementation of ERP systems to streamline AR and AP processes, the benefits they can enjoy from doing so and the challenges that are currently delaying adoption. These solutions will be increasingly vital to allowing businesses to participate and succeed in the digital economy.

Thought Leadership Team
PYMNTS.com

Bank Of America On How ERPs Can Help Organizations Optimize AR And AP Processes

THE CONNECTIONS BETWEEN FINANCIAL INSTITUTIONS (FIs) AND THEIR CORPORATE CUSTOMERS MAY BE LESS PHYSICAL THESE DAYS, BUT BUSINESSES ARE INCREASINGLY LOOKING FOR BANKS THAT ARE COMMITTED TO SERVING IN PARTNERSHIP WITH THEM.

Commercial clients want solutions that ensure their financial transactions' speed and safety and can improve their organizations' operational efficiency, cash flow and reconciliation.

ERP systems have been a game-changer for some firms by reducing the need for manual AR and AP tasks, but banking is still a critical missing piece from many of these systems. Banking integrations with ERPs have been slower to take off, leaving many businesses today using ERPs to produce invoices while accessing bank portals separately to fulfill and reconcile payments. Friction caused by this disconnect is something corporate leaders are looking to do away with as they reassess their digital transformations.

"It has been a very common thread over the past 18 months [for] clients [to reimagine] how they're leveraging technology they already have," Michael Bosacco, global head of advisory for [Bank of America](#), told PYMNTS in a recent interview. "On the other side of that, operational inefficiencies were exposed because they don't have the technology to support something like the event of a pandemic."

At many firms, he said, senior executives' conversations revolve around ensuring the integrity of their operations along with the strength of their balance sheets. A bank's ability to connect with client ERPs is paramount as companies look for banking partners that can help them gain greater workflow transparency and traceability.

THE CHALLENGES OF ERP ADOPTION

ERPs’ benefits are rarely debated, but connecting ERPs and financial services is not as easy as pressing a button. One of the major barriers to adoption is risk, Bosacco said. Digital banking still carries inherent risks, and both firms and FIs avoid putting all their trust into one solution when it comes to their financial health.

“Clients want to ensure that their transaction services are always on, [that] they do not fail and that they are constantly monitored, so if there is a change in direction as it relates to a flow or there is a gap in processing, clients are informed right away,” he explained.

In addition, instead of investing large amounts of money in infrastructure, many banks are looking to collaborate with FinTechs that provide platforms that can easily connect

with client ERP systems. Bosacco said he has seen many mutually beneficial partnerships in the last year between FinTechs and banks.

Another challenge is the number of ERP systems on the market and the importance of ensuring that the bank’s system “speaks the same language” as the client’s. With so many different machines that need to communicate in different languages and currencies, maintaining connections with ERPs can be complicated.

“The challenge that banks have is that they can’t be all things to all clients, so they have to ensure that they’re reaching the masses by developing products that are general enough to cater to the majority of their clientele,” Bosacco said.

THE FUTURE OF ERPs AND BANKING

With continued advancement of application programming interfaces (APIs), open banking and cloud technology, Bosacco said he foresees a future in which clients feel more secure about granting third parties access to more information. That will permit ERPs to enhance the interoperability of transactions and improve remittance details and back-end operations so that firms will see the benefits of connecting their systems with banks.

“I suspect that as more of these systems move to the cloud and [with] the advancement of distributed ledger blockchain, somebody’s payment, which is someone else’s known receipt, will be completely connected in the transaction,” he said.

APIs, for example, can help payments and reconciliation processes by requesting more data from client computers, thus cutting down on missing remittance information and avoiding the need for phone calls or emails to follow up on receipts.

“With everything going into the cloud, it creates more of an open environment,” Bosacco said. “With that, organizations are going to be able to make better, faster and more informed decisions.”

There will always be firms that desire face-to-face interactions with their bankers, but the digital revolution in business is compelling companies to recognize the benefits of banking integration with ERPs. As swift, secure and transparent digital banking becomes increasingly essential to companies’ bottom lines, it will be incumbent on banks to connect and partner with their corporate clients on every level.



Q&A

MATT NAISH

Head of product strategy initiatives



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How are legacy manual and paper-based accounting processes affecting companies' bottom lines in the current economic climate?

“It's been estimated that writing a check can cost between \$4 and \$20 based on the price of the check and shipping. With most of the world going both digital and paperless, using paper-based processes is costly and, especially when it comes to the check example, by many accounts, will eventually become obsolete. You don't want to be the last FI holding on to bygone processes.

Check usage is currently on the decline, which makes it the perfect time to consider digitizing payments. There are many processes still being done manually that otherwise could be automated — digitizing payments being one of them. FIs still using legacy systems on the back end that don't tie in well with a company's ERP platform [remains] a problem in the financial industry, which makes making digital payments more difficult to do. However, there are cloud-based finance solutions that exist, are easy to implement and can actually solve these problems.”

How can incorporating ERP systems help businesses streamline their AR and AP processes?

“Incorporating ERP systems would allow businesses to enable faster and more streamlined payments experiences for their clients — something their corporate clients are asking for and even expecting in our digital-first world, especially [since the pandemic's onset], when so many aspects of our lives have already gone virtual and digital.

By digitizing AR and AP systems, businesses can obtain necessary efficiencies to help reduce overhead, be more responsive to shifting customer demands and gain a better understanding of key metrics such as AR turnover. All this access to data and customer metrics would also support them right away as well as properly position them for long-term growth.”

Why is banking integration becoming an increasingly essential feature of ERP systems, and how can companies avail themselves of these solutions?

I think businesses know they need to use these emerging technologies to enhance their treasury management, for example, but companies are also undergoing challenges when it comes to actually integrating these tools.

ERP systems are effective at what they are meant to do and actually do a lot for any organization utilizing them. ERP tools cover a [range] of day-to-day business activities from accounting and procurement to project management and supply chain operations. The gap that really exists is banking and treasury management functions, which are an essential part of running a business. Automating an FI's day-to-day operations can support many aspects of the business, provide overall time savings, enable paperless initiatives and allow for increased organization. Businesses can gain the ability to better manage payables, receivables and ever-important cash flows.

Businesses should reach out to their current commercial banks for ERP-based integrated banking solutions. Banks and FIs, on the other end, should consider either creating these integrations in-house or reaching out to FinTech companies that are experts in this area to support their digitization strategies.

How do you see the role of ERP systems and embedded banking changing across the business landscape in the years ahead?

First, let's define embedded banking. Embedded banking is incorporating specific financial services into non-banking software products, such as ERPs. Where do I see the landscape changing in the years ahead? Quite simply, embedded banking will continue to grow in both size and scope over the coming years and pave the way for a new way of banking. I believe it is up to FIs to meet their customers where they are, which means extending banking services beyond the proverbial 'firewall' at the bank and into the systems those customers use on a daily basis. After the expansion of AR and AP, I think you will see a continued march toward embedding more financial services into ERPs, such as lending, account origination, banking analytics and customized advice, all based on the unique needs of each bank customer.

How Deployment Of ERP Systems Can Help **Streamline AR and AP Processes**

Perhaps nothing is more critical to the success of an organization than the AR and AP processes it employs. A recent [study](#) revealed that 35% of finance leaders worldwide find their organizations plagued with time-consuming, legacy AR and AP processes such as manual invoice validation and paper documentation. These tasks can lead to costly errors and late payments, resulting in fines, tarnished reputations and credit, as well as cash flow issues throughout the organization.

Firms have long sought to [automate](#) their processes via ERP solutions that can reduce manual tasks and errors. While ERPs have traditionally helped streamline operations, direct connections to banking systems have been slower to take root. As a result, many firms still [endure](#) what has been coined a “two-screen problem,” a situation in which ERP systems are used to produce invoices and execute payments, but employees still must log in to bank portals or visit bank branches to reconcile payments and handle other banking transactions.

Solutions exist that can cut down on frictions, and banks are introducing financial tools that firms can embed directly into their ERP. The result is a fully integrated

system that can automatically send and receive payments and apply payments to invoices to help expedite reconciliations, eliminating the need for a human “branch” between operations and banking.

This month, PYMNTS Intelligence takes a close look at ERP systems’ advantages over traditional AR and AP processes and whether these systems are fulfilling executive expectations. It also examines some of the challenges inherent in adopting ERP solutions.

EXECUTIVE EXPECTATIONS WHEN IMPLEMENTING ERPs
IN AR AND AP PROCESSES

Company executives have reason for concern about their manual AR and AP processes. A recent PYMNTS [survey](#) found that 95% of firms saw their average monthly payables surge in the past year, with some 73% of companies experiencing increases in monthly AP volumes of between 31% and 50%. Approximately 10% of companies said their current AP and AR platforms could adapt to a 100% increase in monthly payables. Sixty-seven percent of businesses that process at least 2,500 payables a month said automated systems are “very” or “extremely” important to increasing the number of payables, and 98% of firms felt their growth goals would be threatened by an inability to handle the necessary AP volume.

Businesses are [demanding](#) more integrated services from their banks, and embedded banking within ERP systems is on the rise — especially cloud-based

ERP AP solutions, payroll services and treasury management systems. Of those companies with automated AP systems, 78% [told](#) PYMNTS they had seen noticeable improvements in real-time integration of AP data into ERPs, but low levels of automation and connectivity with banking are the rule. Some 64% of firms surveyed in a recent [report](#) said they had not fully integrated their treasury management systems with their ERPs, and 79% did not have systems integrated with their banks, resulting in having to perform manual transactions and reconciliations. Digital banking products that integrate into clients’ existing business platforms have been shown to [boost](#) efficiency, streamline cash management and offer a better client experience.



Share of firms that saw
their average monthly
payables surge in the past year

THE CHALLENGES OF ADOPTING ERP IN AR AND AP
PROCESSES

While the consensus on AP automation’s benefits is growing, many firms find digitization challenging, particularly smaller businesses. Some 60% of CFOs in a PYMNTS [survey](#) said they question the technical expertise of their in-house staff to support too much digitization, and nearly half said they were concerned about not having fully integrated ERP platforms. This latter figure rose to 65% for those at the smallest firms. Cost was another concern for 37% of those surveyed, again disproportionate for smaller businesses.

Trust in technology also remains a hurdle, especially as ERP systems move more and more to the cloud. One in three companies distrusts the public cloud, according to one [report](#), insisting on keeping certain functions on-premises rather than investing in cloud options.

The digitization and marriage of ERP and financial processes may be daunting to some companies, but many digital AR and AP technology providers offer collaborative platforms that integrate easily with existing ERP and accounting systems. These solutions will be instrumental to businesses’ success as payments modernization becomes essential to participating in the digital economy.



NEWS & TRENDS

SLOW PAYMENTS **PLAGUE** BUSINESSES

LONG PAYMENT DELAYS FOR CHINESE COMPANIES AS ECONOMIC SLOWDOWN PERSISTS

Economic growth in China this year is projected to slow by nearly half compared to 2021, resulting in payment delays of more than six months for many businesses, according to a recent [report](#). Out of 13 different business sectors, nine reportedly have suffered an increase in delays, including those referred to as ultra-long payment delays (ULPDs) — debts of more than six months' duration, which are never paid 80% of the time. Agriculture and food businesses led the list, experiencing a 43-day increase in delays compared to last year. Construction had the highest share of respondents reporting ULPDs exceeding 10% of their annual turnover at 56%.

Economic growth is expected to shrink to nearly 5% this year, down from just above 8% last year, the report said. Commodity prices have skyrocketed, led by a general economic downturn and fed by factors such as supply chain disruptions, recent COVID-19 outbreaks and subsequent restrictions in China. Companies in China expect a continued downturn, the report noted, with just 44% anticipating sales to recover this year, a decrease from 65% in 2020. In addition, just 27% of Chinese companies forecast improved cash flow, a drop of nearly half from 2021.



U.K. BANK LENDING TO SMALL BUSINESSES REACHES RECORD LOW AS LATE PAYMENTS RISE

Another recent [report](#) notes that despite small businesses experiencing a cash flow crisis, banks in the United Kingdom are floating fewer loans to these firms than ever. The Federation of Small Businesses reports that lending to small businesses has reached a record low, warning that the environment will worsen as small businesses downsize even further due to late payments from customers. Less than 10% of small firms applied for bank loans in Q1 2022, and of those that did apply, less than half were approved.

Surveyed small businesses indicated that securing financing from banks is difficult, with just 19% claiming the availability of credit as “good.” More than 40% of businesses that applied for loans said they were doing so to manage general day-to-day cash flow issues. Just 21% were borrowing to upgrade equipment, 19% were using the money to expand business operations and less than 5% were planning to spend for recruitment purposes. Some 61% of small businesses reported late payments in Q1 2022, with nearly 10% experiencing late payment of invoices for the first time. The all-time low in lending to small firms contrasts sharply with bank lending to large corporates, the report said, which has grown considerably since the beginning of this year.

AP/AR SOLUTIONS AND IMPROVEMENTS

TD BANK, FISPAN TEAM UP TO PROVIDE EMBEDDED BANKING FOR CORPORATE CLIENTS

Meanwhile, in an effort to offer robust embedded financial services for commercial clients, TD Bank has entered into a deal with FISPAN, a FinTech company specializing in embedded banking platforms, according to a recent [report](#). The collaboration will be official later this summer and will bring simple and secure banking experiences to commercial banking clients, leveraging features typically seen in online consumer banking tools.

The relationship will allow TD Bank to provide commercial banking services embedded within firms' ERP systems and accounting software, the report said, and will support payments, reporting and reconciliation platforms for the bank's commercial clients. Clayton Weir, FISPAN's CEO and co-founder, said that taking the banking experience into clients' operational software will propel TD Bank into the future and drive efficiency for its commercial clients. Paul Margarites, TD Bank's head of United States commercial digital platforms, added that the FISPAN solution requires no investment in technology upgrades to install or operate the system.

TECHNOLOGY INVESTMENTS FUEL OPTIMISM FOR SMALL BUSINESSES DESPITE CHALLENGES

A new [survey](#) from Chase reports that roughly half of U.S. small business owners feel more optimistic about their future prospects than last year, thanks to investments in robust technology infrastructure and contingency plans to manage unexpected disruptions. The financial giant surveyed 1,000 small business owners about strategic and financial priorities, and 60% said they are confident about having made the right technology investments to ensure success. Seventy-three percent said they plan to adopt new technology in the next year, and 48% have implemented plans in case of future disruptions similar to the pandemic.

When asked what they consider the most important features of a financial partner, 83% of small business owners named being easy to work with, followed by having easy-to-use online platforms at 82% and providing easy-to-contact live support at 81%. In terms of business checking accounts, 82% of respondents said an easy-to-use online or mobile banking interface is essential. Similarly, the most important attributes in payment processing solutions, according to those surveyed, were ease of use for their customers and employees at 84% and protection of customer and business data at 82%.

CONSUMER SPENDING, DIGITAL SALES DRIVE SMALL BUSINESS EXPANSION DESPITE INFLATION, SUPPLY CHAIN CONCERNS

Inflation is a leading worry for small business owners, but many still [plan](#) to expand their businesses despite the increasing inherent costs, according to a new [study](#) from Bank of America (BoA). Sharon Miller, president of BoA's small business and head of specialty banking and lending, said that consumer spending is fueling businesses despite inflationary concerns, with firms investing in themselves to capture pent-up consumer demand. April BoA data showed that consumer spending increased 25% from last year.

Nearly 90% of the 1,000 small business owners surveyed said inflation is affecting their business, and less than one-third expect the U.S. economy to improve, down from 50% last year. Supply chain issues also continue to plague small firms, with more than three-quarters saying the problem is impacting their business.

Nevertheless, 62% of small companies said their businesses had recovered from the pandemic, with 48% crediting consumer spending for the recovery. Fifty-seven percent said their organizations have taken measures to reduce future risks, including focusing on digital sales, investing in new technology and diversifying revenue streams. Sixty-four percent are hopeful of revenue increases in the coming year.



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FISPAN’s contextual business banking platform makes it simple for banks to offer commercial banking services embedded within ERP and business applications. FISPAN enables banks to provide a best-in-class commercial banking experience by removing friction and adding value to the systems clients rely on to run their businesses every day.

For more information, find us at www.fispan.com.

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