



# Servicing Interest and Currency Risk Management for Small and Medium Size Businesses (SMBs)

*An innovative perspective on the opportunity for commercial banks to gain a competitive advantage by providing FX/MM services to SMBs over the web.*

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## Introduction

According to a February 2010 report by the Aite' Group LLC<sup>1</sup>, the overall satisfaction rate of U.S. small and medium-size businesses (SMBs) with their primary banking institutions has decreased over the last three years.

Based on a survey of 283 small business executives, the report found that the most significant declines in customer satisfaction were in the ratings of service, online banking application ease-of-use, and the ability of financial institutions to understand the specific needs of their customers. Thirty-one percent of the executives surveyed stated they "definitely" or "probably will" switch to a new financial institution over the next two years.

This downward trend in customer satisfaction is not solely a U.S. problem. Recent industry research conducted by IDC Financial Insights found the same issues are affecting European banking institutions. Certainly, a component of customer dissatisfaction is the continuing fallout from the 18-months of economic turmoil and dramatic market adjustments, which undeniably caused banks to be inwardly focused.

These negative forces, in combination with other global, regional, and local factors are creating both challenges and opportunities for commercial, retail and wholesale banking institutions, as well as wealth management firms. These institutions now understand that a product development-driven approach to banking will not answer all market opportunities and that a bank's value will be measured by its ability to attract, service and retain customers.

The paper will describe methods to better service an increasingly important and competitive market, the SMB customer. Specifically, how providing currency and risk management services to SMB customers over the web can improve customer satisfaction and retention and lead to new business models and revenue opportunities for large and regional banks.

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<sup>1</sup> Aite' Group LLC is a leading independent research and advisory firm focused on business, technology and regulatory issues and their impact on the financial services industry,

## SMB Customer Satisfaction: Room for Improvement...and Leadership

Customer satisfaction is trending negatively across the financial services sector, especially within the small and medium business (SMB) segment. Despite a heightened focus on the SMBs by large and regional banks since 2007, SMB customers rank their disappointment with their primary banking institution as 'high' with one-third ready to find new providers.

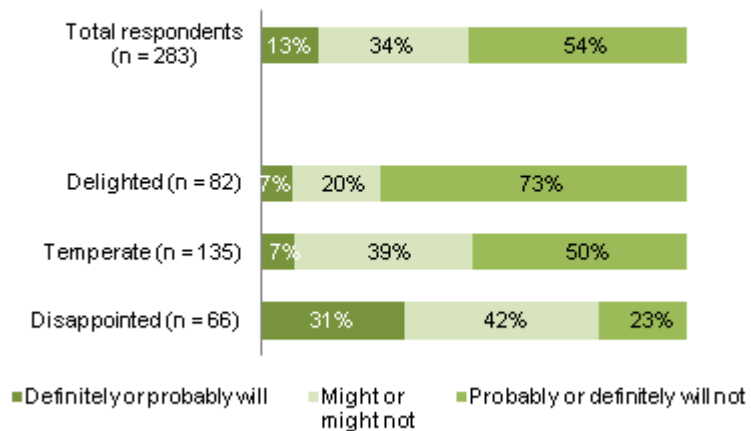
At the core of their dissatisfaction is a lack of customer service, a disinterest by providers in delivering integrated product and service offerings, and a general misunderstanding by providers of the changing business, operational, and treasury models of SMBs.

Specifically, many SMB customers are increasingly looking to leverage corporate treasury and finance resources more proactively as a component of their larger revenue generation and top-line business activities.

SMB customers, especially those working with the large and regional banks, have had little or no benefit from innovation in the areas of online treasury-and-cash management. Since individual SMBs do not typically generate high volumes of trades within individual product classes, extending online services to them never seemed worth the banks' investment.

### Q. How likely is your business to look for or enter into a new banking relationship in the next two years?

(Source: Aite Group)



### Online Services and the SMB Channel

According to IDC Financial Insights<sup>2</sup>, banks should focus investment in three primary areas to support growth and sustainability:

- Client service
- Innovation
- Information Technology.

Note that product development is not on the list.

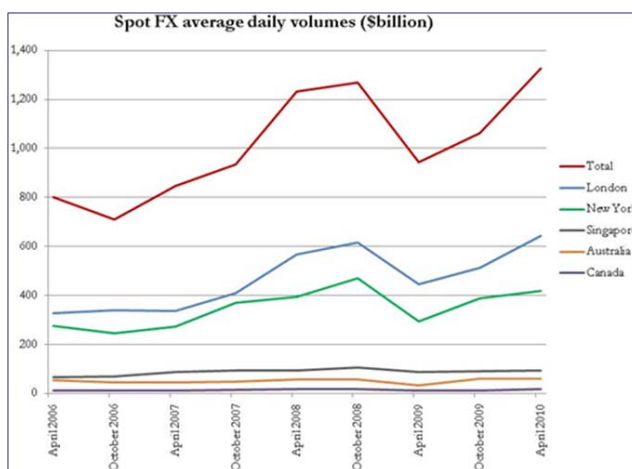
The exercise of mapping these primary investment areas against a 'to-do' list that includes cutting costs with automation wherever possible, improving customer satisfaction, and enabling self-service brings the focus to the Web.

This focus is further sharpened in other published research that suggests a strong desire among all customer segments for innovative online trading products and services. These data points, combined with the general understanding of the efficiencies and cost-reductions that result as self-service increases and processes are pushed further downstream to end-users, puts the spotlight on online services as an area where costs can be eliminated and revenues increased.

We would like to add that with implementing online services and online deal capture, downstream handling costs and operational risks are decreased substantially – bringing measurable business value in addition to increased customer satisfaction.

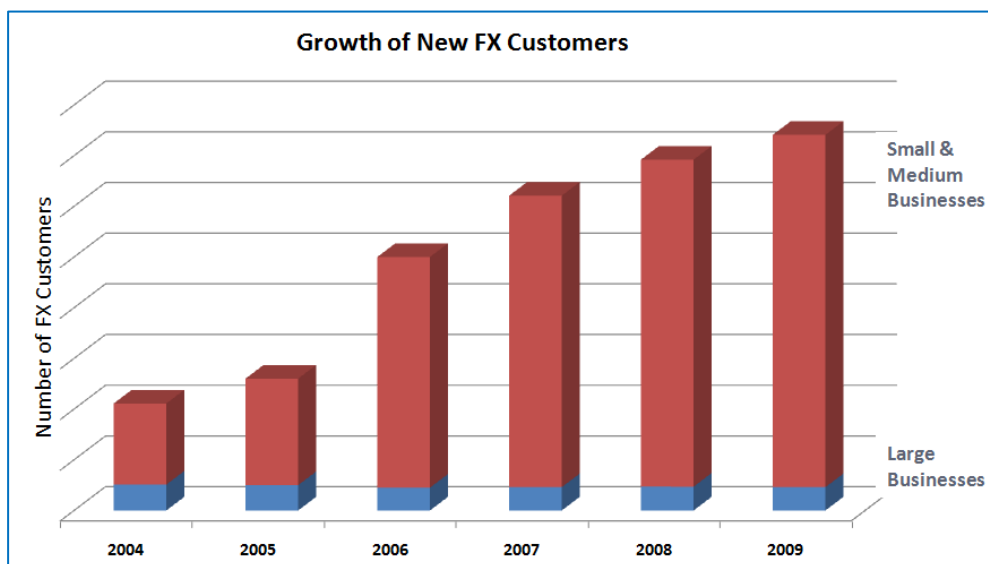
### Why FX/MM?

FX trading volume has climbed aggressively in most geographies over the last several years. During this time, treasury and cash management organizations in companies of all sizes showed an eagerness to expand their cash management capabilities and reduce risk of exposure to the global FX markets and increasingly volatile interest rates (credits).



<sup>2</sup> EMEA Banking 2010 Top 10 Predictions: The Year of Intelligence, January 2010

As the markets and industry emerge from the shadow of the recession, users and analysts are again identifying online trading and services as a major growth area. Instruments such as foreign exchange and interest rate management products continue to be the most interesting across the financial markets landscape. Nowhere is this truer than with SMB customers.



As the chart from a large commercial bank above shows, SMBs are taking a much stronger interest in FX trading for currency and interest risk management. Offering rich, easy-to-use on-line FX/MM services to SMBs is an ideal way for financial institutions to grow—and retain—its customer base.

## Improving Customer Service and Competitive Differentiation with On-Line FX/MM Services

### Build versus Buy

While customer demand and principles of efficiency highlight the SMB sector as a prime market for online FX/MM trading products and services; line-of-business analysts, e-commerce professionals, and software developers understand the challenges involved.

Specifically these teams understand the complexities of software and the costs of customization. Each type of user comes with different requirements and levels of patience and aptitude. This diverse set of characteristics, piled on top of an already complicated set of established processes, ever-changing compliance standards, and aging middle- and back-office infrastructures makes it difficult to roll out on-line FX trading to the various internal and external stakeholders.

Traditionally, designing, developing, deploying and maintaining an online FX trading system would begin with a classic discussion of 'build' versus 'buy.' 'Build' offers a greater ability to design the system to work smoothly with existing technologies and hard-code a bank's best practices, IP and competitive advantages into the software. Unfortunately, 'build' also typically requires significant training, comes with long development cycles, and requires proper documentation practices.

A 'buy' decision will reduce development cycles and time to market thanks to pre-built processes and common integration capabilities, but can severely limit customization and competitive differentiation. Keeping pace with rapid evolutions in browser technology, mobile computing and security threats are additional factors that weigh against traditional 'buy' decisions.

Additionally, many turn-key FX software or white-label partnership options are designed for use by professional FX/MM traders. They are too complicated for members of the finance and administration organizations within most SMBs to learn and use.

Hence, the ideal approach to developing on-line FX/MM trading services is to take a "hybrid approach" that combines the fast time to market of turn-key with the flexibility and control provided by custom-built solutions.

The Nexaweb FX Accelerator enables such a "hybrid" approach.

### Hybrid Software “Accelerators” – the best of build and buy

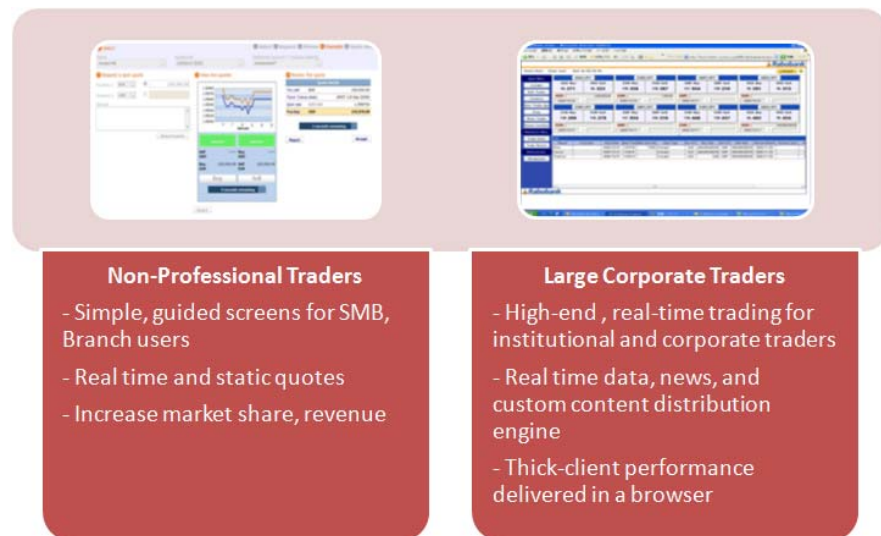
Over the past few years, the line between ‘build’ and ‘buy’ have become less rigid thanks to the maturation of open source technologies, and with SOA projects beginning to return value through application integration, re-use and time-to-market. Still, limitations with each approach often equate to costs and can limit innovation or require a willingness to assume the risk of over-invention.

Nexaweb has devised a unique software development offering called an “Accelerator.” An Accelerator is a complete rich internet application (RIA) framework built and customized with the Nexaweb Enterprise Web Suite and open-source Java and Ajax components. User interface, application business logic and middle-tier connectivity are decoupled making it easy to integrate with a company’s existing back-end systems or user-facing web portals and even mobile devices.

### Customizing Accelerator Software Applications

The Accelerator-based application can be customized in any way—look and feel, business logic, systems integration, etc.—via high-level software development tools and wizards, or at the code level. In the banking context, this means utilizing components of an existing trading platform (back-office, middle-tier, and third-party data integration) to deliver a new on-line trading solution that reuses workflow, business logic and UI configuration elements from legacy internal systems.

Furthermore, a single-source Accelerator application can be customized to support multiple, diverse user channels, ranging from inexperienced FX traders working for SMBs to more experienced customer service agents and professional traders within the bank.



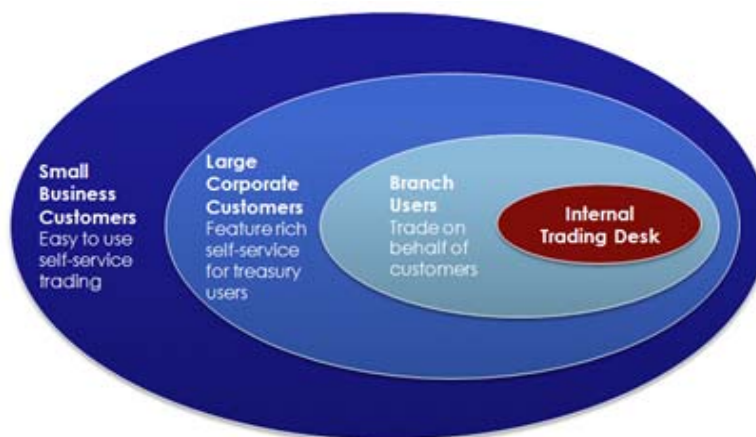


## The Nexaweb FX Accelerator

The Nexaweb FX Accelerator is a customizable treasury management services platform expertly engineered to reduce costs, increase efficiencies, and extend the market reach of institutional trading solutions in a way that helps SMBs. The Nexaweb FX Accelerator software enables commercial banks and other financial services providers to create a rich client services environment for currency and interest risk management, available for use over the web for users such as:

- Finance and administration personnel within SMB customers
- Sales agents and branch networks of banks servicing SMBs

Its key differentiator is rooted in the underlying philosophy that “product delivery” is not going to do the job for banks with an ambition to be competitive in treasury management services for SMBs. A full service concept integrating pre-trade, trade and post-trade services is supported by the FX Accelerator.



SMBs are looking for services and transparency in markets that they are less familiar with than are large enterprises. Trading interest derivatives like swaps or swaptions may be financially smart for them at a certain point in time – it is never going to be a good solution if they don't know what they are up against and what the value effects are in changing markets.

The FX Accelerator extends typical trading-room assets: information, trade-capture and valuations via the web without replication of the logic. It is a natural extension of treasury front-office applications as used by banks and brokers. It also connects to systems further downstream to electronically distribute settlement confirmations and report cash balances.



It helps users understand the markets and products that are available for hedging exposure and offers ultimate convenience in deal capture along with transparent post-trade services that include valuation services and online collateral reports. The self-service application provides each customer with the level of services they require, without significant costs to the bank from providing those services.

Additionally, the FX Accelerator fully supports external sales channels, agents and white-labeled partnering arrangements.

Sales margins on trades are separately accounted for, and both trade (bid-ask spread) and sales margin are separately configurable. The trade engine supports an agent-client hierarchy in which agents can trade on behalf of their clients.

FX Accelerator features include:

- Highly configurable portal windows (portlets) that stream personalized market data, financial news, research, market opinions and product information to a person's web browser.
- A deal capture engine that can be tailored to fit different user profiles from inexperienced, part-time traders to experienced traders.
- Data and pricing engine that feeds the deal capture engine and information portlets. The engine comes with adaptors to leading financial data providers such as Bloomberg and Reuters and offers tools to manage data vendor costs and services levels.
- A customization framework for easy integration of the solution with existing customer-facing portal technology and with existing back-office systems that handle cash management, collateral management, electronic confirmations, valuation services, real-time cash balances and others.

Nexaweb FX Accelerator benefits:

- Improves customer service and retention. Customers can manage their positions more easily and profitably via self-service FX trading over the web. It shortens and eases clients' risk management processes.
- Increases income. Combining real-time market information delivery with simple-to-use self-service trading creates an incentive for customers to conduct more FX and MM trading, and trade-related income to the bank.
- Increases control. Pricing and services are configurable down to individual clients. With the built-in management controls, banks have full control over

margins and risks in the sales processes. All individual trades are auditable within the deal capture engine.

- Improves downstream processes. By applying coherency and other checks at the first input of the trades, downstream STP is fully supported and lowers both operational risk and processing costs.
- Optimizes value of technology. Based on customizable, turn-key software components, the solution offers a better user experience, much faster time-to-value and lower cost of ownership than internally built or professional FX trading systems.

Trading and dealer features and functions include:

- Comprehensive, multi-currency treasury products
- A customizable 'trading blotter' UI complete with real-time quotes and charting
- Multiple trading options including FX Spot/Forward, Swap, Limit Order, MM Loans and Deposits, etc.
- Flexible customer, product, and service group administrative functionality
- Dealer intervention, Customer self-service, and Branch user interfaces
- Rules-based trade routing
- Automated settlement and fulfillment notifications
- Suite of customization tools to create the exact fit for your business.

## Conclusion

SMBs are eager to find a suitable financial services provider that addresses their services requirements. Analysts agree that in order to survive this new reality, bank and financial firms must focus on cost reduction, efficiency, IT modernization and effectiveness beyond product delivery.

The Nexaweb FX Accelerator offers a customizable Foreign Exchange (FX) and treasury management platform to help capture the online treasury management opportunity that exists among the small to medium corporate banking customer segment.



## Next Steps

If you would like to learn more about the Nexaweb FX Accelerator, please visit [www.nexaweb.com/FX](http://www.nexaweb.com/FX).

You can contact us directly to schedule a discussion about your needs and other Nexaweb FX Accelerator customers, etc. To contact Nexaweb, please email us at [sales@nexaweb.com](mailto:sales@nexaweb.com) or call one of our locations below.

### **Worldwide Headquarters**

Nexaweb Technologies, Inc.  
3 New England Executive Office Park, Suite 150  
Burlington, MA 01803  
Tel: 781-345-5500

### **Nexaweb Japan**

Nihon Nexaweb KK  
7F Bureau Ginza, 4-1-12, Tsukiji, Chuo-ku,  
Tokyo 104-0045, Japan  
Tel: +81 (3) 3541 5061  
<http://www.nexaweb.co.jp/>

### **Nexaweb Europe**

Herengracht 478  
1017 CB Amsterdam  
The Netherlands  
Tel: +31 (0) 20 262 182 0