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Virtual Accounts and Virtual Account Management

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Virtual Accounts

Transaction or wholesale banking as we have known it for decades is changing, due to the impacts of the digital revolution and the ever-intensifying pressures from several stakeholder groups:

Regulators expect banks to be more prudent in their financial and risk management, and also to relinquish their strong hold on account management services by opening up their account management systems to third parties. The pressure on banks to comply with regulators' requirements is reflected by banks making this one of the top priorities in their strategic agendas.

Business customers are demanding their banks change in line with the external realities, and expect to be offered contemporary products that support their own strategies and growth agendas.

Shareholders are anxious about profitability: low interest rates have made it increasingly difficult for transaction banks to maintain profitability given the large cost burden that comes with transaction banking. Also, the market has seen moves recently where banks simply withdraw from the transaction banking industry because they no longer can sustain operations in it profitably.

Looking across a transaction bank's product portfolio, customers require banks to offer them cash management products that will allow them to optimize their working capital and short-term funding and liquidity needs. Traditionally, these customers have benefited from conventional cash pooling solutions such as notional pooling and cash flow forecasting. Nowadays, buoyed by increasing costs and the desire to have deeper insight into – and exercise greater control over – their liquidity positions, these corporate customers are seeking alternative solutions. Their primary objectives are to rationalize their financial accounting structures, further streamline their reconciliation process for both payments and collections, and improve their liquidity risk management.

In light of these demands from customers, banks are exploring new innovations in the transaction banking space. One such innovation is virtual accounts, a concept that we examine in this paper. It is important to note that virtual accounts are not new: products of this type have been in the market for around 20 years, serving specific purposes for corporate and SME customers. Yet the changes in market dynamics with respect to regulation and customer requirements, coupled with the drive by banks to achieve greater operational efficiency, have created a widely-held view that virtual accounts may now be a highly promising market proposition for today's transaction banks.

The promise of Virtual Accounts

So, what are virtual accounts? Also referred to as 'shadow accounts', they are essentially non-physical accounts that can be used by clients to optimize their working capital processes. Looking more closely, from a European perspective, this category actually includes two different product propositions being offered by banks: virtual IBANs and virtual account solutions.

Virtual IBANs are a mechanism to improve straight through reconciliation of receivables for corporate clients. Under such an offering, a bank would open a series of dummy IBANs for its client. Underlying each of these virtual IBANs is a real physical account (held in the bank's ledger) to which the payments made to these virtual accounts are routed. With this arrangement in place, the client then has the flexibility to assign these IBANs to its individual suppliers, so that when a supplier makes an electronic payment it would automatically go into the relevant virtual IBAN.

Once the payment hits the bank's core banking system, a virtual account engine maps the payments made to these virtual IBANs to the real account number, enabling the funds to be cleared to this physical account. The virtual IBANs are also captured in the account statements, allowing clients to identify the payment originators and thereby simplifying their reconciliation process. This type of product also eliminates the need to reconcile receivables information manually. Given the flexible nature of this offering, many clients are open to assigning one virtual IBAN per supplier per geography, using the receivables information from the account statements to help them achieve improved working capital efficiencies.

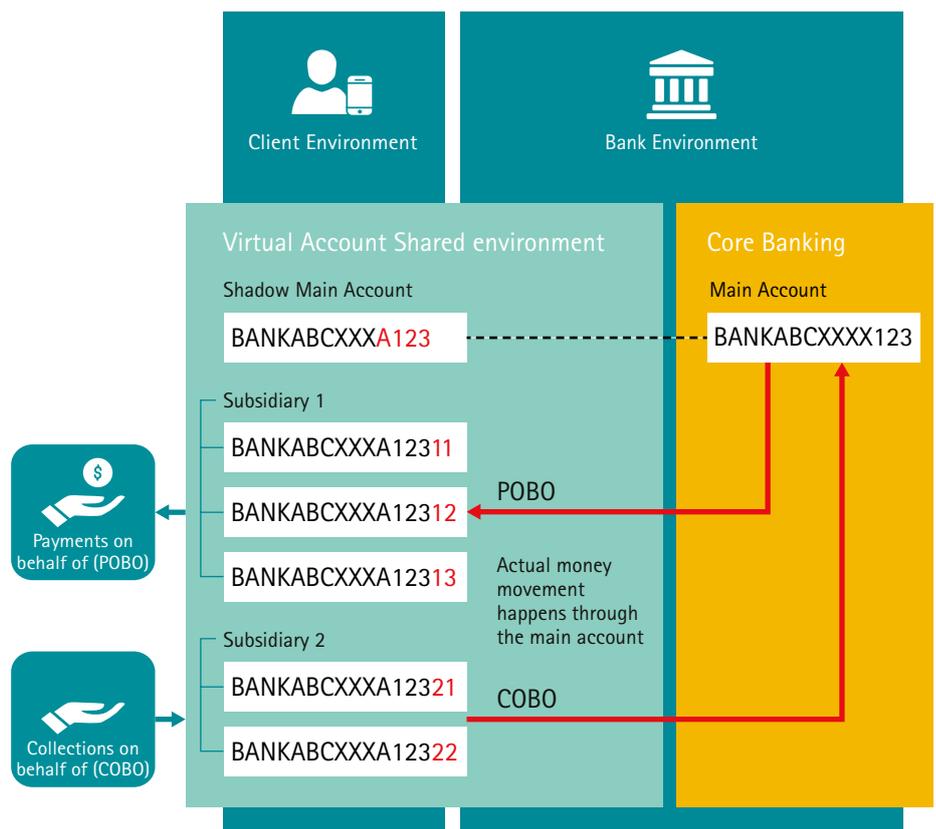
By contrast, **virtual account solutions** are a more comprehensive offering, providing clients with a cost-effective means of centralizing their accounts payables and receivables. With this type of solution, clients gain the flexibility to design and open complex shadow account hierarchies for a real physical account maintained in the bank's physical ledger, in line with its business needs. With virtual accounts, banks retain control of the underlying bank account while allowing corporate clients to manage the virtual accounts that are driven off it. Self-servicing capabilities allow corporates to define their virtual accounting structures in line with their business needs, with flexibility to do so at a legal entity or a business unit level and even for more complex constructs such as joint ventures.

With the virtual accounts in place, clients can then use them to make payments on behalf of (POBO) and receive collections on behalf of (COBO) the main physical account. Since these are just shadow accounts, no physical movement of

money happens between these accounts and the main account. Virtual accounts of this nature are usually administered using market-ready virtual account management solutions that operate in the working environments of both the bank and the client. We'll say more about virtual account management systems later in this paper. Figure 1 illustrates how virtual account solutions work.

With the actual movement of funds taking place through a single main account, clients could theoretically run their entire operations with just one physical bank account, thereby enabling them to transform their approach to cash management and how they make and collect payments. This type of offering generates benefits including improved reconciliation and working capital management at lower cost, since hardly any labor-intensive account opening or closing administration activities are required. Virtual accounts also provide clients with much more self-service facilities and control.

Figure 1: Schematic of a typical virtual account solution



Client segmentation and analysis

For the purposes of this paper, we've applied the following criteria to identify the target client segments who would be most interested in virtual accounts offerings from banks:

- On average more than five banking relationships
- More than 100 accounts held across different banks in total

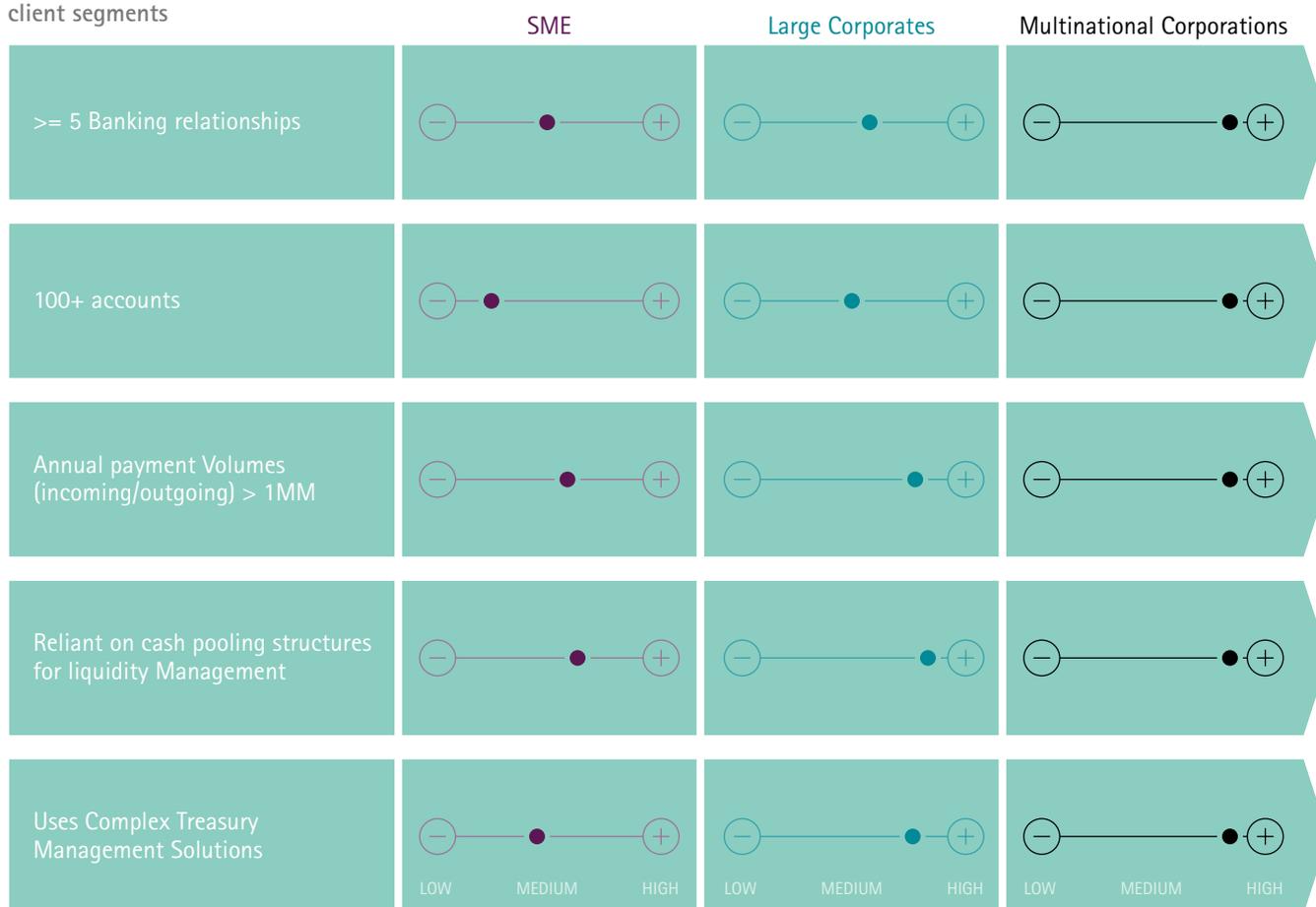
- More than one million transactions annually for inbound/outbound payments
- Reliant on cash pooling products for managing liquidity
- Usage of complex treasury management systems – e.g. ERP systems, treasury workstations, or software-as-a-service (SaaS) solutions.

Based on these criteria - three key client segments for transaction banks is shown in figure 2.

As the diagram shows, virtual accounts are great for corporate groups – being suitable for a few SMEs but typically large corporates and multinationals. If a corporate group or holding company can centralize its cash position, the liquidity otherwise trapped locally in complex bank account structures can be freed, thereby substantially improving the available working capital.

Figure 2: Target client segment most likely to be interested in virtual accounts offerings from banks

Identified criteria for target client segments



**Analysis based on gtnews survey for Transaction Banking, 2014

Source: Accenture Research

The value proposition of Virtual Accounts for the target client segments

While promising tremendous benefits, operating a virtual account environment will require significant time and effort both from banks as well as their customers. For the client segments identified as the best targets, virtual accounts offer the following compelling value propositions:

Substitute for cash management offerings

Virtual accounts offer a great value proposition for large corporates who do not have an in-house bank/treasury center, as virtual accounts offer a far cheaper alternative option: the possibility of creating cash positions at an inter-subsidary level and the flexibility of offsetting netting positions provide corporates with a compelling value proposition to perform advanced cash management at lower costs. Box 1 provides a comparative analysis between the different cash management offerings.

Centralization of treasury functions

Today's myriad cost pressures on profitability mean corporates and multinationals have a burning need to centralize their treasury functions. This is essentially true for global firms with a large subsidiary network who feel the need to have a 360-degree view over the liquidity and treasury positions across their business centers. Virtual accounts offer a compelling value proposition for these corporates, as it eliminates the need to maintain an extensive network of physical accounts, while at the same time providing transparency to the working capital positions.

Viable alternative to other liquidity management offerings

While banks have been beefing up their risk-weighted assets in light of the new regulatory pressures, current Basel III accords have introduced new liquidity coverage ratios, forcing banks to set aside additional liquidity reserves. Under the Basel III rules, banks will not be able to compute these liquidity ratios by netting the outstanding balances of accounts (e.g. in notional pools). Since the ratios would have to be based on the gross value of individual accounts, banks have been challenged with placing additional provisions against the individual accounts. This in turn forces banks to increase costs (e.g. on notional pooling offerings), leaving corporates looking for alternative cash pooling solutions that would allow them to optimize their cash management costs (e.g. interest compensation).

Virtual accounts help to address these issues. By their nature, virtual accounts mean netting is no longer necessary since all the funds are concentrated on one account. With no challenges stemming from netting and overdrafts, virtual accounts act as a convenient alternative for corporates – offering them a cheaper way to manage their cash management structures, and at the same time providing banks with the flexibility to meet the Basel III requirements while continuing to help their clients optimize their cash management costs. Box 1 provides a comparative analysis of the different liquidity management offerings.

Increased cost efficiencies

Virtual accounts eliminate the costs of opening and closing physical accounts by theoretically reducing the number of accounts to few centralized ones. For corporates this improves reconciliation processes, which currently often involve a great deal of laborious manual work. Virtual accounts also offer improved credit control due to the availability of timely and accurate reconciliation of collection information, thereby delivering a clearer credit picture of customer accounts at both the individual and overall level.

Increased STP reconciliation

Virtual accounts variants – virtual IBANs – help corporates increase their STP rates in reconciliation, in turn improving their days sales outstanding (DSO) and increasing the working capital available. Virtual IBANs improve STP reconciliation as the process becomes automatic, while also allowing a reduction in the number of current accounts and a reduction in costs for a corporate.

Rationalization of accounts and banking relationships

By enabling a massive reduction in the actual number of bank relations and bank accounts, virtual accounts simplify overall cash management in the customer's organization.

Box 1: Comparative analysis of different liquidity and cash management tools

	Virtual Accounts	Zero Balance Account	Target Balancing	Notional Pooling	Payments/ Collections Factory	Inhouse Bank (IHB)
Description	Also referred to as 'shadow accounts', virtual accounts are essentially non-physical accounts which can be used by clients to optimize their working capital processes.	A checking account in which a zero balance is maintained by automatically transferring funds from a master account to maintain minimum balance.	Sweeping balances of accounts worldwide to a predetermined level.	Notional balancing of amounts without physical movements of cash.	A payments/collections factory is an internal organizational capability (usually for corporates) where all payments and collections activities and processes are centralized often at a subsidiary level.	An IHB offers services which can include the provision of FX, interest-rate, liquidity, intercompany-liability or funding management.
How it works	Flexibility of open/design shadow account hierarchies for one physical account. It may also be possible to manage virtual account solutions internally to support automated payment reconciliation and advanced cash management solutions.	Company funds are concentrated into one operating account from which disbursements are made to maintain a zero balance.	An automatic process which concentrates end-of-day balances from a source account to a target account.	Notional pooling aggregates a company's accounts to a net balance notionally, not physically.	Internal and centralized team collect, manage, execute and report on a company's receivables and payables.	A bank is set up by the (parent) company with a banking license to offer banking services to subsidiaries and parent company.
Benefits	<ul style="list-style-type: none"> • Centralization of treasury functions • Viable alternative to other liquidity/cash management tools • Increased cost efficiencies • Increased STP reconciliation Rationalization of accounts 	<ul style="list-style-type: none"> • Increased investment opportunities • Reduced manual work • Permits easy tracking of transfers and reconciliation • Better visibility of cash position • Lower cost of pooling 	Similar to Zero Balance Account	<ul style="list-style-type: none"> • Single liquidity position • Money does not physically move • Subsidiary autonomy • Interest optimization • Legal/tax separation of separate subsidiaries • Reduced transfer fees 	<ul style="list-style-type: none"> • External and internal economies of scale • Efficient/effective liquidity management • Improved and harmonized processes • Streamlined reconciliation • Fewer external dependencies • Reduced risks from stronger internal controls and security 	<ul style="list-style-type: none"> • Similar to Payment/Collection factory but including: • Improved utilization of cash (intercompany lending/funding) • Lower costs of funding • Providing supplier credit to most important partners
Disadvantages	<ul style="list-style-type: none"> • Investment/time to implement a VAM solution to a bank's IT landscape • Not available in all geographies 	<ul style="list-style-type: none"> • Loss of subsidiary independence • No (external) incoming receivables clearing • Accounts must be held at the same bank & currency • Legal/tax implications • Expensive product 	Similar to Zero Balance Account	<ul style="list-style-type: none"> • Heavily regulated • Account per currency held at same bank • No incoming receivables clearing • Expensive product 	<ul style="list-style-type: none"> • Dependent on internal controls • High set-up costs • Loss of local autonomy (in some models) 	<ul style="list-style-type: none"> • Similar to Payment/Collection factory but including: • High legal/tax implications which need to be taken into consideration
Recommendation	Beneficial for any organization that uses multiple bank accounts; greatest benefit is for those who have a decentralized bank account structure with trapped liquidity. Useful for setting up POBO or COBO model.	ZBA is recommended when levels of income and debt are similar and corporates have relatively low amount of physical bank accounts; a robust solution for managing incoming receivables is not required.	Similar to Zero Balance Account	Recommended for large, decentralized corporates holding cash in different countries and currencies across tax disparate regions.	Organizations that are starting from a decentralized, multi-banked basis, seeking as their priority, control, visibility and standardization over their payment and collection flows.	Recommended for companies who want to reduce their dependency on their banking partner(s) and want to better utilize and manage their cash/debt and increase visibility.

The value proposition for banks

While virtual accounts offerings enable corporations to reduce their banking fees and streamline their cash management flows, they also present local banks with a potentially serious competitive threat. This is because large universal banks in other countries will be able to compete in their local markets without building a physical presence, and can aggressively commoditize payments services, driving down local bank revenues.

Here is a summary of some of the key value propositions that virtual accounts offer to global banks serving large and multinational corporates:

Reduced OPEX

An opportunity to significantly reduce the internal operating costs of being a transaction bank. This benefit relates both to the costs of support staff within the bank (client service and operations) as well as to the cost of (IT) infrastructure.

Lower provisions

An opportunity to launch a product that will enable customers to continue to have debit balances on their accounts without banks having to take these into account for their RWA calculations.

Client retention

Virtual accounts can enable banks to protect themselves against revenue losses from notional pooling. As previously highlighted, Basel III will likely make notional pooling more expensive as an offering. With a high degree of reliance of notional pooling structures (as opposed to physical pooling), banks can look at virtual accounts as a viable alternative offering.

Client centrality

An opportunity to drive customer centrality through self-service. Across the financial ecosystem, banks have been digitizing key business processes with the aim of empowering the customer with better service and choice. A virtual accounts offering enables customers to configure, monitor and manage their internal accounting structures at will, replacing a process that to date has been burdensome for banks. This focus on 'self-service' can help banks drive customer centrality in servicing.

Client acquisition

The bank can increase its coverage and discover new client segments. As argued earlier, today's corporate clients have been seeking out innovative solutions from the marketplace. With virtual accounts being a relatively new proposition in Europe, the banks who become first movers in this space are likely to benefit from potentially new customers and increased revenues.



Comparison of global bank offerings

As mentioned earlier in this paper, virtual accounts solutions are not a brand new phenomenon, having already been offered by banks in central Europe and Asia Pacific.

Virtual accounts have also been widely adopted by insurance companies, pension funds and asset managers for segregation of clients' funds. Although the current offerings from banks in western Europe are not yet comparable to those available in regions such as Asian Pacific, several banks active in

Europe already have virtual accounts in their portfolio of offerings. Box 2 provides more detail.

Box 2: Comparative analysis of the different virtual account bank offerings in Western Europe¹

				
Differentiator	<p>DB has developed ARM (Accounts Receivable Manager) for SEPA, a cash management solution to help corporates streamline receivables management.</p> <p>With ARM's support for virtual accounts, it is no longer necessary to hold multiple bank accounts (e.g. for separate BU's). Furthermore, ARM strives for 100% reconciliation on incoming (SEPA) credit transfers.</p>	<p>UC Virtual Accounts offers a company-wide overview of the financial status without complex account structures which includes flexible handling of bank accounts as well as efficient liquidity optimization.</p> <p>The optional Premium Collection feature offers improved management of incoming payments.</p>	<p>Using the EMEA Virtual Account Management solution from BofAML, corporates are empowered to classify and categorize any kind of transaction from direct debits to outgoing (SEPA) credit transfers. This provides corporates with the ability to organize their transaction data in previously unthinkable ways.</p>	<p>BNP provides the ability to create and maintain a structure of virtual accounts as part of a broader suite of liquidity management solutions which helps corporates manage and centralize liquidity on global, regional or local level.</p>
Locations (West Europe)	<p>Netherlands Germany UK</p>	<p>Information unavailable</p>	<p>Information unavailable</p>	<p>Netherlands* France* Belgium* Italy* Portugal* Germany Spain Switzerland UK</p>
Value Drivers	<ul style="list-style-type: none"> Operational efficiencies Reduce costs Reduce days sales outstanding Increase customer satisfaction 	<ul style="list-style-type: none"> Optimization of in-house bank and payments factory value Cost savings 	<ul style="list-style-type: none"> Local market & regulatory adaptation 	<ul style="list-style-type: none"> Reduce costs Optimize working capital Centralize liquidity Improve credit risk monitoring Improve client satisfaction
Differentiator	<ul style="list-style-type: none"> Define automated payment routing rules Easy to use DB GUI Winner Best Overall Bank for Cash Management Best transaction services house in Western Europe 	<ul style="list-style-type: none"> With the Premium Collect feature, you can speed up payment reconciliation and reduce manual interaction Easy to use UC GUI Customize daily reports #1 Bank for Liquidity Management in CEE #1 Cash Mgmt House in CEE 	<ul style="list-style-type: none"> Open, change or close large numbers of virtual accounts efficiently Easy to use GUI from Tieto Enhanced remittance information & reconciliation 	
Partners			<p>Underpinned by VAM software from Tieto, one of the largest IT service providers in Europe</p>	

*Roll-out in 2016



Virtual Account Management

What is Virtual Account Management?

In light of the interest in virtual accounts along leading banking and financial institutions, we will now take a look at virtual account management (VAM) platforms – an innovative market proposition that provides corporate clients and banks with an “out-of-box” solution to create, manage and monitor virtual accounts.

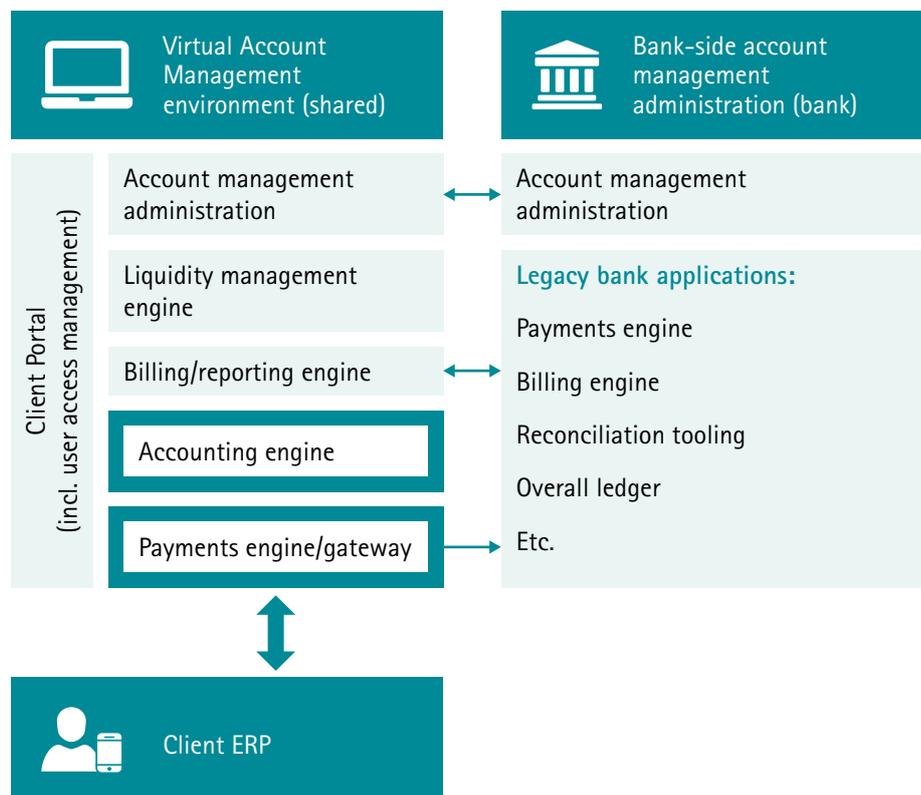
Built around a “self-service” proposition that empowers the client to configure, define and manage virtual accounts through an online channel, these platforms allow clients to make payments from and receive collections to virtual accounts. They are also easily configurable with a client’s ERP/Treasury Management system, and offer ease in reconciling A/R & A/P information.

Meanwhile, on the bank’s side of the relationship, the VAM platform integrates easily with the core banking platforms, providing a near-real time link between the accounts holding actual money and the virtual accounts in the virtual account environment. And because VAMs can easily integrate with banking channels, they allow banks the flexibility to offer a VAM user interface out of their online banking channels to initiate payments and generate management information reports.

At a high level, a VAM solution will generally consist of the following main components:

- A portaled channel component to access the VAM platform, including role-based access controls similar to current portal environments (this will possibly be integrated with a bank’s online banking channel)
- A core virtual account management engine which enables self-servicing of (multi-currency) account administration – including creation, modification and deletion, and the definition of complex account hierarchies
- A payment engine module, optionally including FX capability to enable cross-currency transfers between accounts in the VAM
- A billing engine, enabling banks to design a pricing setup which – among other things – takes into account the non-movement of funds
- A self-service liquidity netting solution, allowing clients to set up cash management pooling structures (similar to those they operate within the bank today) and outline interest conditions and special conditions
- An accounting engine of sorts in order to keep track of the inter/intra-group transfers made by customers (essentially a loan administration capability)
- A reporting module allowing clients to download valuable management information on payables/receivables – enabling them to facilitate reconciliation with ERP systems and supporting a host of compatible reporting standards.

Figure 3: A schematic of a typical virtual account management (VAM) platform

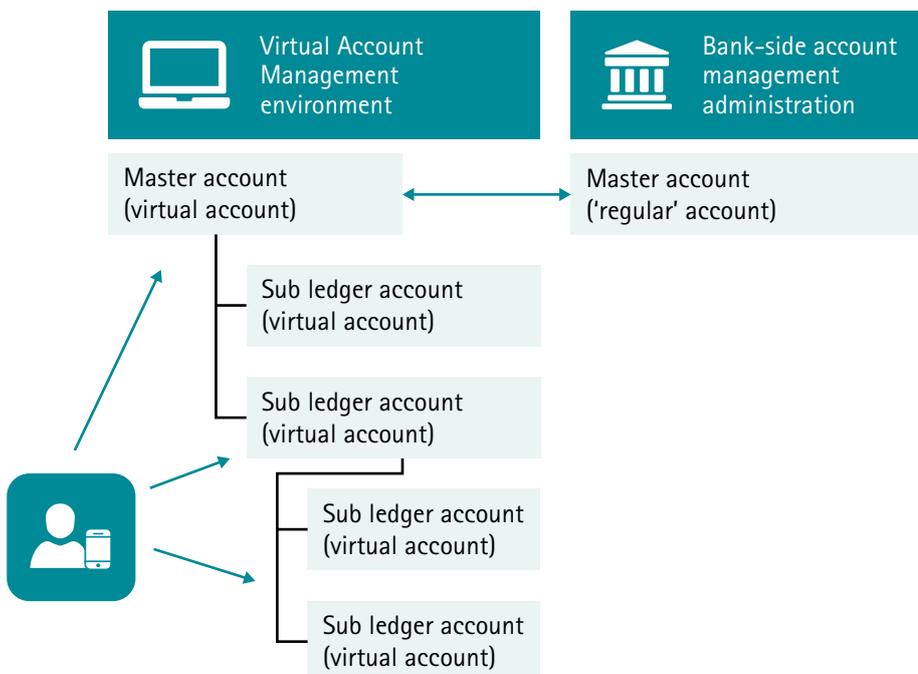


In contrast to the current heavy reliance on banks' operations for the cumbersome administration of physical accounts, the "self-servicing" feature in VAM platforms helps drive a superior client experience, by enabling virtual accounts to be opened and administered by the client in real time outside the traditional banking processes and environment. VAM also allows clients to rationalize the number of real accounts held with the bank, and gives the flexibility to open and close virtual accounts quickly and easily. Customers can define their account hierarchy in the virtual environment through the VAM user interface, including defining complex account hierarchies based on their specific business needs, without the need to maintain these complex structures with their banks.

Typically, there will be one master account maintained at the bank, against which the entire new hierarchy will be mapped in the VAM environment. All physical movement of money will generally be made out of this account. However, multiple accounts are possible in cases where some local discretion with regards to funds is needed, or if third party accounts are involved, as in third-party target balancing, for example. The account hierarchy will be locally maintained at the VAM while the master account at the VAM is synchronized with the bank's account management systems. A VAM solution is also able to provide clients with information around the virtual accounts being used for the A/R and A/P transaction streams. These types of reports will also be a custom feature out of the VAM, offering clients easier reconciliation of data.

With the account hierarchy complete, the customer can add additional features itself, such as periodic payments or cash concentration.

Figure 4: The account hierarchy in a typical virtual account management (VAM) platform



Available market solutions

Here is a brief summary of some of the virtual account management solutions that are readily available on the market today.

1. Montran's virtual account management system

Montran's VAM system supports virtual cash pooling and virtual in-house banks. It also has a client self-service offering – with VAM being offered to clients through a web-based UI that allows them to administer their accounts, liquidity positions, funds and treasury positions. The solution is based on open system architecture, and supports a standard browser-based "thin client" user interface.

2. Cashfac – Virtual Accounts Solution

Cashfac's VBT delivers virtual bank account solution with fully bank-active, flexible account hierarchies, automated allocation and reconciliation of transactions. Connected to corporate clients' ERP systems, it is capable of segregating and managing expected and actual payments and remittances, thereby delivering detailed cash flow forecasting. It is also equipped with tools to allow interest rate and credit limit management, sweeping, pooling and the ability to tailor statement production.

Using the solution, a single bank account can be virtualized into thousands of bank-active virtual bank accounts. When a payment is made against a virtual account, the solution automatically creates a bank instruction that is immediately reflected on the virtual and real bank. Cashfac's VBT supports target balancing, including taking into account the value of transactions in the pipeline, and proactively eliminates redundant bank balances. Cashfac enables integration with both bank systems and client-side systems (ERP) with pre-packaged bank drivers, Cashfac's APIs and mapping technology.

3. Tieto's virtual account solution

Tieto's VAM solution is offered to banks as a separate module that can be layered on top of a bank's core banking application. It offers to map every physical customer account to a shadow account – with each

shadow account being able to maintain a hierarchy of virtual accounts. Payments to/from from the virtual accounts can be manually configured by customers, with the corresponding credits/debits first being posted in the main accounts after which they are reflected in the virtual accounts.

4. D+H Global CASHPlus Receivables Management

This solution only supports clients with COBO functionality, and enables enhanced streamlining of account receivables. At this point, the solution does not offer a comprehensive virtual account solution and provides no POBO support.

Bank solution versus ERP solution

Given the importance of virtual account management solutions to clients, recent market trends² have shown both banks and ERP solution providers competing to offer these types of propositions to their corporate clients.

Established ERP solution providers are well positioned to offer these kinds of solutions, given their good understanding of VAM solutions and technological know-how in managing complex integration implementations with client ERP systems. However, our view is that technical implementation is just one of the drivers for a client. Given the associated expertise required in complex accounting cash pooling structures and the administration which comes on the back of these accounts, we feel that banks are better positioned to offer VAM solutions. This view reflects the fact that they have a thorough understanding of the complex accounting structures and liquidity constructs of their clients, and are well equipped to support smooth account migrations. This will generally be an area where an ERP solution provider would struggle given that they are not close enough to their clients in managing their accounting structures. In the coming period, we feel there will be increased competition between banks and ERP solution providers to offer such solutions, and clients will often choose the partner who will offer them the biggest benefits in terms of improved service levels and reduced time to market.

Innovation in the marketplace: VAM will become multi-bank

To date, most of the virtual account management solutions available in the market have been restricted to supporting clients in a single banking environment. This constraint means that clients are able to rationalize their accounting structures only to a limited capacity, not meeting their need to centralize their treasury structures across multiple banking relationships. Given that most large corporates and multinationals operate in a multi-bank environment (relationships with 10 or more banks) with the number of accounts exceeding 100, it is our view that a market innovation such as a **multi-bank virtual account management platform** will allow clients to rationalize their accounting structures across multiple banks, providing them with an integrated overview of all their liquidity and working capital positions and enabling them to greatly optimize their working capital structures.

A multi-bank VAM platform is essentially a VAM solution that allows clients to create and administer virtual accounts across multiple banking relationships. The benefit of such a solution is that clients will be able to leverage one VAM platform for all their virtual account needs – leading to a much smoother client implementation and service experience, while also providing clients with increased flexibility in configuring and defining virtual accounts. Equipped with business rules and country-specific boundary conditions, these multi-bank VAM solutions will ensure clients are able to define complex accounting structures across subsidiaries and business operations, in ways that are often limited by single-bank VAM solutions. With PSD2 regulations providing opportunities for access of accounting information to third parties, a multi-banking VAM solution will be able to mirror the account information across multiple banks providing customers with an overview of the virtual accounts maintained under different banks.

A bank offering such a solution can also take a lead in providing clients with a VAM user interface through its corporate banking channels, enabling the client to view and administer virtual accounts maintained with other banks.



Impacts of Virtual Account Management on banks' operating models

Provided it is taken up by corporates, virtual account management could have a profound impact on the operating model of transaction banks and the transaction banking industry as a whole, by significantly reducing the investments (infrastructure and network) required to be active in the industry.

Theoretically, this would lead to a substantial increase in the number of banks active in transaction banking, a development that would eventually be beneficial to clients seeking corporate banking services.

Essentially, virtual account solutions are a new product offering, and virtual account management is the enabling platform/channel to support these products. Mapping this to Accenture's view on the core components of a bank's operating model, the impact of virtual accounts is felt across the bank – as shown in Figure 5.

Here's a closer look at the impact on banks' operating models:

Virtual Accounts are a new product: revolutionary from the outside looking in (no more traditional bank accounts!), a new account type from the inside looking out. In the escalating battle for customers in the digital world, it's very important for banks to think carefully about the positioning of this product in their entire product portfolios and the pricing model attached to the product. The fact that a VAM platform is likely to require its own billing capability may offer banks the possibility to experiment with new pricing models as well.

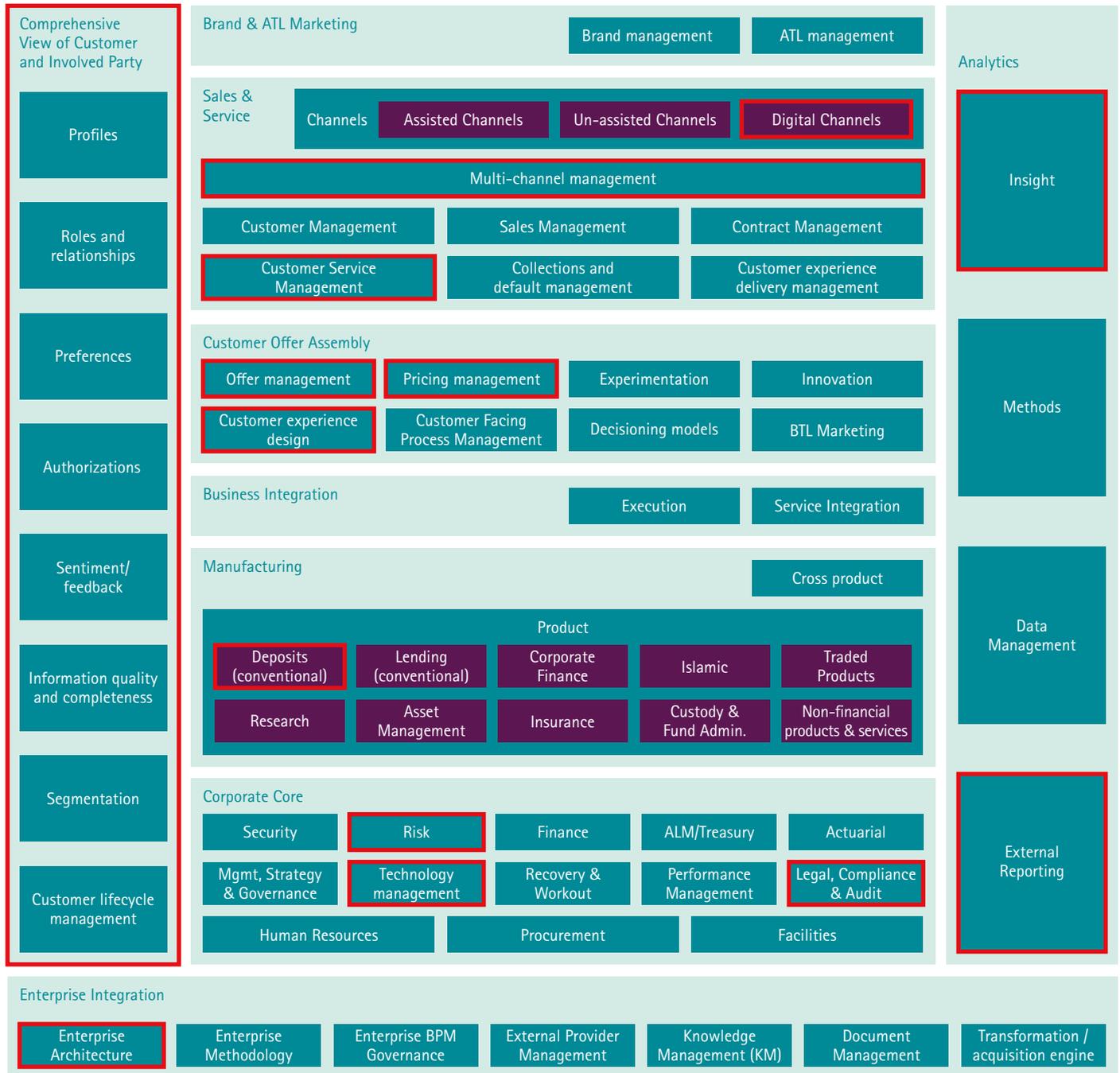
The VAM platform should be an extension/evolution of the bank's current online banking platforms, following the logic that a bank wants to provide its clients with one online platform to handle all of their online business. These platforms should be sufficiently architecturally sound to deal with the required integrations – of which there are quite a few. For example, think about the integration between the VAM system and the payment/billing/reporting systems, as well as between the VAM environment and the bank's legacy systems (given that a bank is unlikely to want to split its client communications – statements, billing and so on – between traditional products and virtual accounts). Components of the required architecture design will overlap with the work banks have to carry out to comply with regulatory requirements, but this will likely still prove to be a great challenge for bank's enterprise architects.

Virtual accounts will complicate the bank's ability to have one single comprehensive view on their customers – and this will collide with the expectations from these customers. With corporate customers who have adopted virtual accounts becoming increasingly mobile, this offers both opportunity and threat: opportunity for those banks that are able to create this single comprehensive view to generate new business, threat for those who cannot.

Perhaps the most complex impact to analyze is the impact of virtual accounts on the bank's broader compliance function (for example Risk, Legal and Tax). Banks are required to broadly monitor for any suspicious behavior, most notably during the account opening process (KYC) and with transactions (AML, among others). With virtual accounts, this becomes more difficult for banks to do effectively since the customer is so much in control. It will be interesting to see how banks and regulators alike respond to the challenge as they seek to continue to have effective oversight.

Finally, virtual accounts have potentially a very large impact on the client service and operations function of a transaction bank. If banks are able to successfully push their virtual account offering to their customers, this will have a sizeable impact on the number of staff required to support the daily operations of a transaction bank. And herein lies what is potentially the biggest question for banks: can we get our corporate clients to adopt our virtual account solution?

Figure 5: The impact of virtual accounts across the bank



Solution and solution implementation considerations

Earlier initiatives (e.g. SEPA), which on paper enable corporates to significantly reduce the complexity in their account structures, have not been met with a groundswell of desire among corporates to transform their financial operations.

Self-servicing, similarly, seems to resonate much more with retail clients as opposed to corporate clients. Early signals seem to indicate that corporates are embracing virtual accounts, but the uptake required to make this a financial success for banks is large. So, against this background, what are the considerations banks should take into account when deciding if they should get into virtual accounts, and if so, what and how they will offer the product?

To determine whether the concept of virtual accounts is something a bank wants to pursue, here are some considerations – besides the impacts on its operating model mentioned above – that we believe a bank should explore:

- How relevant or essential are product offerings like notional pooling, netting and "in-house banking" to your customers?
- In combination with an instant payments offering, virtual accounts can offer a near-real time settlement and reconciliation. Does such a proposition provide for an enticing offering for larger customers?

- Can the bank leverage SEPA architecture/information management (SEPA is also essentially a stimulant for centralized treasury operations) for the benefit of setting up a virtual account solution? Having a standard payment service (SEPA credit transfer) and a standard collection service (SEPA direct debit), coupled with a standard interface across corporations and banks, appears to provide a good starting-point for corporations and banks to develop "on behalf of" models.

- There are a multitude of country-specific account opening requirements, even within the SEPA region. For truly global companies, this means they will likely be required to maintain a number of local bank accounts. It also means that, for banks, expert legal and tax advice is required before making any final decision on virtual accounts. What local tax and KYC regulations does a bank need to consider when rolling out such a market proposition across geographies?

- Intuitively, if there is a time for a bank to move, it is now – if it hasn't done so already. Customers are more likely to adopt a product from their current bank, given the traditional hesitance to migrate financial operations to a competitor. Do banks see an opportunity here?

- Banks should explore interests from newer client segments – such as pension funds, trust houses and insurance companies who could potentially extend the virtual account concept to segregate the funds/positions of their clients. Would it be feasible to create a concept of VAM

that is attractive to other client groups besides the largest corporates? For example, can they extend the VAM platform beyond corporate clients and include PFM-like functionality to appeal to retail clients as well – e.g. create your own virtual savings account for your vacation, another for your dishwasher, another for your kids' tuition, and so on.

- To ensure clients have clearly defined boundaries of opening and maintaining complex virtual accounting structures, banks should have robust KYC framework in place across their global operations. Are you ready with such a framework?

To generate the uptake required to realize the financial benefits of VAM, banks could consider:

- Creating a virtual account product and a VAM environment which includes compatibility with digital currencies such as Bitcoin
- Adjusting the pricing structures of regular accounts and regular client service
- Extending a VAM offering with an e-invoicing solution, to align with the global drive to reduce paper invoices and realize operational efficiencies.

Closing Thoughts

Today the global banking industry is undergoing fundamental and rapid change, with new corporate banking services being introduced to drive innovation and improve the customer experience.

In this context, virtual account solutions supported by virtual account management (VAM) platforms are an exciting concept. Crucially, they also represent an important step towards improving bank-client collaboration, both by introducing a distinctively new proposition and also by blurring the lines between banks' and corporates' ecosystems in order to provide enhanced next-generation banking services.

In this paper, we have outlined our view on the value proposition of virtual account and virtual account management – recognizing that the actual implementation of these concepts is unlikely to be overly easy. For example, there are clear questions regarding tax, KYC and legal impact that must be addressed in order for the concepts to have meaningful value to today's large corporates. That said, the promise of finally gaining more control over – and very significantly reducing the complexity of – their current financial operations should appeal to many corporates, even before the ability to optimize the return on cash positions is taken into account.

From an Accenture perspective, we believe the concept of virtual accounts and virtual account management will grow in importance in the immediate future and will definitely be high on agenda with leading European transaction banks.

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NOTES

1. Bank websites; <http://www.igtb.com/article/working-capital-management-making-and-sustaining-capital-improvements>
2. As observed with leading universal banks in the Europe

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