Future of payments 2017
INTRODUCTION: ADDING VALUE WITH EVERY TRANSACTION

Payments are becoming a priority for senior finance managers. Treasurers are working with shared service centres (SSCs) and other business functions to drive value. Corporates have traditionally seen payments and collections very differently to banks, but the Single Euro Payments Area (SEPA), the rise of financial crime and the growth of fintech are all spurring closer collaboration and innovation.

1. CORPORATE PAYMENT AND COLLECTION PRIORITIES

The biggest challenge facing corporates is a lack of standardisation and diversity of payment/collection methods. With the growth of ISO 20022, standardisation is gathering momentum. Corporates are looking to centralise operations and adopt single platforms to tackle the challenges they face.

2. NEW PERSPECTIVES ON PAYMENTS

Innovation is driving new developments across the payments space. Most impactful for corporates are real-time domestic payments, enhanced cross-border payments, and open banking via APIs. All will depend on collaboration between corporates, banks, and established and emerging technology vendors to drive standards and deliver value.

3. COMBATTING FINANCIAL CRIME, FRAUD AND CYBERSECURITY RISKS

Corporate payments are at risk from external and internal fraud, and corporates must also deal with the burden of regulation. The challenge is significant, and growing. Effective security must be holistic, involving people, process and technology change, and including all corporate and partner systems involved in the payment ecosystem.

4. PAYMENTS 2020: A FUTURE VISION OF PAYMENTS

The corporate wishlist for 2020 is focused on standardisation and real-time payments. In reality, we see significant changes to the payment landscape, with the end of plastic cards, a role for fintech providers, biometric security, and real-time interbank transactions. To make the future vision a reality, we need cross-industry collaboration, better data, and an effort to simplify complexity and increase agility.

Survey participants

60 corporations of all sizes. The biggest single group of respondents are those with a turnover of €1bn–€5bn (38%). Overall, 67% have a turnover of more than €1bn, and 17% above €10bn.

All major industry segments represented, with manufacturers (17%) the largest segment.

The majority of companies were headquartered in the Nordics, with just over one third (34%) in Denmark and 29% in Sweden.
HIGHLIGHTS: Payments are becoming a priority for senior finance managers. Treasurers are working with SSCs and other business functions to drive value. Corporates have traditionally seen payments and collections very differently to banks, but SEPA, the rise of financial crime and the growth of fintech are all spurring closer collaboration and innovation.

INTRODUCTION

Adding value with every transaction

Efficient, secure payments play a major role in social and economic development, whether it’s paying for a cappuccino or salaries, supplier invoices or emergency funding, investment in large infrastructure projects or microfinance initiatives. What innovations are making these exchanges of value quicker, safer and more cost effective?

Innovation in payments is creating new opportunities

Nordea’s pioneering “Future of payments” study explores some of the important payment innovations that have taken shape over recent years, and emerging solutions that have the potential to challenge and transform both domestic and cross-border payments in the future.

Treasurers and finance managers need to understand the opportunities ahead to pay and receive cash more quickly, securely and predictably, and provide a better experience for suppliers, employees and customers. These opportunities are the key to building robust, flexible supply chains, leveraging new business models, and boosting competitive advantage.

In the past, treasurers and finance managers of mid-cap and large corporations may have had relatively little involvement with payments and collections, except for treasury flows, intercompany transactions as part of an in-house bank or netting structure, and large amounts such as tax and dividend payments.

This is changing fast. Today, many treasurers and senior finance managers either have responsibility for, or significant engagement with, payment factories, credit and collection functions, and shared service centres (SSCs).

THE OPPORTUNITY FOR SMALLER BUSINESSES IS JUST AS SIGNIFICANT

Some organisations will not be large enough to justify a dedicated treasury department, in which case cash and treasury management is typically handled within the wider finance function. In these cases, where finance managers have more direct influence over treasury, payments and collections, the opportunities to develop and support payment and collections models that create competitive advantage and optimise working capital, security and cost efficiency are unprecedented.
Five ways that treasurers can improve payments and collections

1. **Sharing of experience in centralisation.** Treasury and cash management centralisation, including payments and collections, is a growing trend among corporations of all sizes. Treasury's experience in centralised processes, technology and banking relationships can make a very valuable contribution to payment/collection centralisation initiatives. In addition, as in-house banking structures, including payments/collections ‘on behalf of’ techniques and virtual accounts become more widely adopted, treasury’s role in payment and collection optimisation is growing.

2. **More complete visibility of cash and liquidity.** By understanding and influencing the payment and collection dynamics of the business, treasurers and finance managers can better influence cash visibility, working capital, liquidity and predictability of cash.

3. **Sharing of implementation and integration experience.** Treasurers often have considerable experience in implementing business-critical financial technology, policies and processes. By lending this experience to payments and collections, the corporation can benefit from greater security, efficiency and cost-effectiveness.

4. **Consolidation of banking relationships.** Treasurers typically own the banking relationships on behalf of the organisation. Consequently, by staying connected with the payments and collections activities across the business, they can engage with banks to avoid fragmentation in systems, processes, formats and commercial terms.

5. **Facilitation of business innovation.** Perhaps most importantly, treasury and SSCs are constantly seeking ways of adding value to their organisations. Driving intelligent choices for payments and collections enables the organisation to engage in new business models, work with customers and suppliers more creatively, free up credit limits more quickly and ultimately do better business.
Different perspectives on payments

Banks and corporate customers tend to think of payments and collections in quite different terms. As Erkki Poutiainen, Strategy Manager, Nordea emphasises:

“Banks often look at payments simply as a message transmission and receipt. From a corporate perspective, payments are not isolated transactions, but part of a wider commercial exchange; consequently, payment innovations need to bring value to the sales or purchasing process. The value of new opportunities such as real-time payments, for example, will only be realised if they can be connected into practical solutions and processes, which requires ‘joined up’ thinking.”

Consequently, the better that banks and technology vendors understand the wider supply-chain context of payments and collections, the challenges that their corporate customers face, and the opportunities to enhance competitiveness, the more likely that emerging innovations will support corporates’ commercial, operational and strategic objectives.

Poutiainen continues:

“There is a tendency for every party to think in isolation, whether corporations lobbying for new capabilities or particular regulatory treatment, or banks creating new solutions. Instead, every industry participant, whether a regulator, bank or corporation, needs to consider, and engage with, the needs of the wider financial community.”

Three drivers for collaboration

Collaboration is key to reconciling different perspectives and achieving meaningful payments innovation, but this has proved difficult to achieve in practice, particularly in cross-border payments.

Different participants have their own priorities, and are seeking to maintain competitive advantage. This can make it difficult to determine who should lead and invest in payment initiatives. In addition, regulations and cultures differ across markets, so innovations in one market cannot necessarily be ported to another.

This is starting to change for a variety of reasons, including:

• **SEPA.** The introduction of Single Euro Payments Area (SEPA) payment instruments was challenging and required investment and compromise by all participants. However, the benefits of common payment and collection instruments and formats, underpinned by a single legal framework, across 34 states and over half a billion people, are significant in supporting efficient pan-European trade and simplifying payments and cash management.

• **Financial crime and cyberfraud.** Domestic and cross-border co-operation is required to find ways of tackling and preventing fraud and financial crime, as criminals become more sophisticated in their abuse of the global financial system, and attacks on individual participants within it. Payment innovation plays a crucial role by increasing the transparency and security of transactions, and therefore protecting citizens, businesses and governments.

• **New participants.** Fintech companies have long played a complementary role to banks in supporting efficient, secure financial processes, but the past two years have seen significant growth in well-funded startup companies. These are challenging existing business models with new retail and institutional solutions, from peer-to-peer lending through to regulatory compliance and payments. In some cases, these players compete with banks, which acts as a catalyst for innovation. More often, we are seeing co-operation and partnerships between banks and fintech companies to accelerate the delivery of new customer solutions.
SECTION 1

CORPORATE PAYMENT AND COLLECTION PRIORITIES

Which issues are top of the corporate payment and collection agenda?

“While our aim is to manage our payments on a global basis, we need to comply with diverse rules and regulations across markets...”

Jeppe Østergård Sørensen
Cash Manager of a major Nordic multinational corporation
HIGHLIGHTS: The biggest challenge facing corporates is a lack of standardisation and diversity of payment/collection methods. With the growth of ISO 20022, standardisation is gathering momentum. Corporates are looking to centralise operations and adopt single platforms to tackle the challenges they face.

SECTION 1

Corporate payment and collection priorities

What payment challenges are treasurers and finance managers facing, and which solutions are likely to deliver the greatest impact? There’s no single answer: every company’s experience will differ according to their customer and supplier base, industry and business model. However, our survey emphasises a number of trends.

Standardisation and diversity are top priorities

For outgoing payments (see Figure 1, over) the biggest challenge is the lack of standardisation of payment formats across their banks. 25% highlight this as their top priority, and 60% say it’s one of their top three priorities.

The second most important challenge is the diversity of payment instruments across markets, noted by 42% of respondents.

For incoming payments (collections), while the processes and working capital dynamics are quite different, many of the difficulties are similar (see Figure 2, over).

25% identified the diversity of collection methods across markets as their biggest challenge. In reality, this is often more of a problem for incoming rather than outgoing payments as companies have far more control over how they pay compared with how they receive funds. (See Borealis’ experiences, below, for example.)

15% struggled with automatic reconciliation and posting of incoming payments to customer accounts as their top priority. Given that the majority of multinational companies have multiple banking partners, standardisation of formats has a major role in play in overcoming this challenge.

BOREALIS’ VIEWS ON STANDARDISATION IN PAYMENTS VS COLLECTIONS

“Our primary payment objectives are to standardise payment formats at the right cost and value, and to achieve consistent high quality remittance information throughout the payment cycle.

This is easier to achieve for outgoing payments, but for incoming flows, it is important to encourage customers to use preferred payment methods wherever possible. This can be complex in practice, despite SEPA payments now being universal across the Eurozone, due to the ongoing use of local payment instruments.

We encourage the use of direct debits wherever possible, which have clear control and working capital advantages, but we need to be the stronger party in a relationship to influence this.”

Eddy Jacqmotte, Manager Cash & Bank – Head of Back Office Administration – Cash & Bank Department, Borealis Polymers N.V.
Exploring the data: Common challenges across payments and collections

We asked respondents what their top three priority challenges are in handling payments and collections. When it came to payments, standardisation was the stand-out leader, but across both collections and payments respondents also highlighted the different methods they have to use across different markets.

### Corporate payment challenges

- **Lack of standardisation of payment formats across banks**: 25%
- **Diversity of payment methods across markets**: 21%
- **Regulatory processes e.g. AML, sanctions**: 17%
- **Cross-border payment issues**: 10%
- **Multiple connectivity channels**: 10%
- **Difficulty in centralising payments**: 10%
- **Inability to settle payments in real time**: 5%
- **Difficulty in achieving STP**: 3%
- **Lack of ability to calculate and monitor key metrics**: 3%
- **Difficulty in adopting SWIFT**: 3%

Fig 1. What are your top three priority challenges when making payments?

### Corporate collection challenges

- **Diversity of collection methods across markets**: 25%
- **Difficulties with automatic reconciliation/account posting**: 15%
- **Lack of consistent/complete information across banks**: 13%
- **Difficulty in centralising collections**: 13%
- **Inability to receive cash in real time**: 13%
- **Lack of collaboration tools for credit/collections management**: 7%
- **Difficulty in achieving STP of collections**: 5%
- **Lack of ability to calculate and monitor key metrics**: 5%
- **Lack of information and analytics to predict customer behaviour and manage customer credit**: 5%

Fig 2. What are your top three priority challenges when receiving collections?
Centralisation has been a long-standing ambition at Borealis, and we have made significant progress in rationalising our cash management strategy. We have two major entities that collect cash in our major regions, with only one account in each of USD, EUR and other currencies. However, the value of channelling flows into a single account is limited if we cannot reconcile the account quickly and accurately.

“To do this, we need consistent, rich information linked to each transaction. Our banks can help with this to some extent, but this data needs to be passed across banks and clearing systems, so achieving consistency of remittance data needs a collaborative approach.

We have achieved high straight-through reconciliation rates in some countries of around 95%, but it can be far lower in other cases.

“This is a key consideration for us given that the faster we can reconcile and post incoming flows to customer accounts, the quicker they can do more business with us. Delays in reconciling flows also limits our ability to monitor credit risk accurately.”

Eddy Jacqmotte
Manager Cash & Bank –
Head of Back Office Administration –
Cash & Bank Department, Borealis Polymers N.V.

Borealis is a leading provider of innovative solutions in the fields of polyolefins, base chemicals and fertilizers. With headquarters in Vienna, Austria, Borealis currently employs around 6,500 people and operates in more than 120 countries.
The vision and reality of standardisation

The issue of standardisation highlights the different perspectives between corporates and banks.

Banks that work with many thousands of customers inevitably prefer to use one payment format across the largest possible number of customers, to optimise automation and efficiency on the bank side. This typically involves using proprietary formats supported by internal systems.

Conversely, our data shows that, more than half of corporations work with at least five payment and collection banks (see Figure 3). To communicate as efficiently as possible with these banks, they need to use a single format across each of their banks.

This creates a potential deadlock: do banks risk losing business by insisting on using their own formats? Or do corporations limit their choice of bank by insisting on their own preferred format?

The likely answer is to agree a common set of standards that are widely adopted, therefore allowing all parties to optimise simplicity and efficiency.

**ISO 20022 has gained momentum**

Many past attempts at standardisation have achieved limited adoption. The most recent step towards standardisation, the XML-based ISO 20022, is proving more successful.

ISO 20022 is the chosen standard for SEPA credit transfers and direct debits. This has been a catalyst for both bank and corporate adoption, creating the critical mass needed to make the format a standard, in the Eurozone and globally.

These ISO standards are attractive as they give banks the opportunity to enhance their service offering and create competitive advantage, and enable corporations to enhance process efficiency and automation — a true ‘win win’.

However, there are still obstacles that the industry will need to address.
The ability to share consistent information across banks and regions, with full remittance information retained on our payments, is essential.

Three challenges to full adoption of ISO 20022 standards

1. Variability
Some differences in format remain between Eurozone countries. Corporations have noted that, rather than standardising formats, banks may be inclined to insert additional fields, creating greater complexity.

As Jan Egholm Pedersen, Senior Finance Manager of a major Nordic multinational corporation, comments:

“We have standardised our bank communications based on XML formats wherever possible. Even so, there are differences between countries — for example, formats are not the same between the US and Denmark, so there is still some way to go to achieve full standardisation.

“From our perspective, the ability to share consistent information across banks and regions, with full remittance information retained on our payments, is essential.”

2. Compatibility
Not all internal systems (whether bank or corporate) are able to support XML formats, which leads to exceptions and the need for additional middleware solutions to convert formats.

3. Awareness
Not all treasurers and finance managers are yet familiar with the ISO 20022 standards, even if they may be unwittingly using them already for SEPA payments.

According to our survey, 37% of respondents have little or no awareness of ISO 20022 (see Figure 6, ahead).

These obstacles are likely to become less significant over time, particularly as all banks operating in the Eurozone already support ISO 20022 standards. While some banks have been reluctant to embrace standardisation in the past, this is becoming less significant as corporate demand increases, and banks recognise the ability to develop value-added services based on rich remittance information.

Borealis emphasises the value of of ISO 20022, but also banks’ role in championing best practices in each market:

“As a global business, we need to make and receive payments using different formats, payment methods and currencies,” says Eddy Jacqmotte, Manager Cash & Bank at Borealis.

“Even though we use XML as a means of standardising payments wherever possible, the use of XML is not yet harmonised between banks and regions. Furthermore, remittance information is often lost in transit, while different payment methods support different information. A strong banking partner is key to overcoming these variations by acting as a beacon of best practices in the relevant market, therefore allowing us to offer best-in-class services to our internal customers.”

“The ability to share consistent information across banks and regions, with full remittance information retained on our payments, is essential.”

Jan Egholm Pedersen,
Senior Finance Manager,
Nordic multinational corporation
The diversity of payment methods across markets is a challenge for multinational businesses of all sizes. As business and communication models evolve, new payment methods are developing, often driven by retail payments and the shift away from the use of cash.

Yet even in the Eurozone, where SEPA credit transfers and direct debits present the opportunity to harmonise payment methods across the Eurozone, legacy instruments remain in some countries. Payment cultures also differ dramatically.

**Understanding payment cultures: Nordics vs Germany**

Contactless cards, alternative payment services such as PayPal, mobile to mobile payments, and mobile wallets are all making an impact, with different methods more or less appropriate in each market.

For example, cards are now the dominant payment type in Sweden: citizens made an average of 207 card payments each in 2015, according to Visa, three times more than the European average.

Mobile payments have also had a spectacular impact. Swish, which enables money to be transferred in real-time via smartphones using only phone numbers, is now used by 5.13m citizens, making the equivalent of 3.71 payments each during December 2016 (source: Swish, December 2016). In Denmark, MobilePay provides similar capabilities, and was used by more than 3.3 million users (more than half of the 5.6 million population) to make 12.3 million transactions in September 2016 alone (source: MobilePay, December 2016).

However, a company that also operates in countries such as Germany will find a very different payment landscape. According to Visa, 55% of German POS transactions are still made in cash. Yet direct debits are far more prevalent than in other European countries.

For companies operating online and in the B2C space, embracing new payment methods is key to creating a convenient, quick payment experience and converting browsers to purchasers. At the same time, businesses cannot compromise on the security of data or transactions.

**SECURITY MATTERS**

“B2C companies are focused on enhancing the customer experience to make the purchase process as easy and positive as possible. Looking at e-commerce, for example, a significant number of purchases are abandoned when the payment process is too slow or cumbersome. At the same time, companies need to consider the security and compliance issues of transactions. For example, larger multinationals in particular are concerned about anti-money laundering issues as well as fraudulent transactions or system hacks. Indeed, non-financial corporations are at least as much of a target for cybercriminals than as banks, and often more so.”

Claus Richter, Head of Cash Management Customer Solutions, Nordea
Overcoming the challenges

Tackling payments challenges with centralisation

Treasurers and finance managers are overcoming the problems of lack of standardisation and diversity of payment instruments in a variety of ways.

Looking first at outgoing payments (see Figure 4), centralisation is the most common objective, with 55% of respondents aiming to centralise payments to some degree. This is an essential first step to standardising processes and controls and creating economies of scale.

Claus Richter, Head of Cash Management Customer Solutions, Nordea illustrates:

“While companies that operate in the B2B and B2C space face significantly different issues, both groups need to drive efficiency and enhance control over their financial operations.

“Centralisation has been a long-standing trend to achieve this, particularly among larger corporations, but we are now seeing smaller companies embracing the opportunities of centralisation, while larger corporations are seeking to refine their business models further.”

Related to this, 42% indicated that the use of a single payments processing platform was valuable in overcoming payment challenges. While in many cases, this is an element of a centralised payments organisation, it is also an important means of creating consistent processes, controls and reporting where payments processing takes place in multiple locations.

As Jan Egholm Pedersen, Senior Finance Manager of a major Nordic multinational corporation, comments:

“We use SAP, including the in-house banking module, for centralised payments and POBO, which is then integrated with SWIFT for bank connectivity. As we have a single instance of one ERP across all of our entities, our financial technology infrastructure is more straightforward than other corporations of a similar size, particularly those that are engaged in M&A.”

Overcoming payment challenges

- Centralisation of payments: 55%
- Single payments platform (specialist/ERP): 42%
- In-house bank inc. POBO: 37%
- Use of ISO 20022: 35%
- Multi-bank connectivity (e.g. SWIFT): 33%
- Banks’ proprietary system(s) (web-based/ H2H): 13%
- In-house bank: 12%
- Other: 8%

Fig 4. What approaches are you using to manage your payments?
Drivers of payment centralisation

“We have seen a wave of centralisation projects over the past two or three years, even though many corporations are still struggling to achieve their objectives fully. This can be the result of budget or resource constraints, or organisational obstacles. Companies with mature technology and strong bank partnerships have already progressed significantly with regional and global payment factories and standardisation via ISO 20022 but many more are planning to do so, or at different levels of implementation or maturity.

“In many cases, companies saw their SEPA implementation as an interim solution and are now reviewing their payment processes and cash management structures, while others are dealing with the impact of bank exits from key markets, which in turn is a catalyst for review and restructuring.

“Major M&A activities also tend to stimulate a review of processes and technologies across the finance function, and centralising payments can be a valuable way of integrating new acquisitions quickly.

“Diverse and changing regulatory conditions across markets mean that centralisation is more challenging in some markets than others. In many cases, companies have abandoned global initiatives, preferring a regional approach, such as in Latin America and China. In these cases, a single payment processing platform offers the advantages of standardised processes, controls and reporting while also being able to meet the particular requirements in each market.”

Christian Mnich
Senior Director, Treasury and Risk Management, SAP

SAP is a multinational provider of enterprise software. SAP innovations help 345,000 customers worldwide work together more efficiently and use business insight more effectively.
**Tackling payments challenges with in-house banks and POBO**

Increasingly, treasurers are taking centralisation further. In-house banks have been a feature of many treasury functions for some years; however, more than a third of participants (37%) emphasised the value of an in-house bank that operated on a payments-on-behalf-of (POBO) basis.

Instead of payments being processed by individual entities and through separate accounts, payments are made by a central entity, and typically from a single account per currency, on behalf of group companies.

POBO is a powerful means of standardising internal processes and controls, but also reducing the number and cost of cross-border payments and minimising the number of bank accounts that need to be maintained.

There are some challenges associated with POBO, notably the regulatory differences between countries that can pose obstacles to consistent processes and techniques globally.

As Jeppe Østergård Sørensen, Cash Manager of a major Nordic multinational corporation explains:

“While our aim is to manage our payments on a global basis, we need to comply with diverse rules and regulations across markets which results in exceptions to common processes. For example, while our preference is to use POBO, this is not feasible in every market.”

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**Overcoming collections challenges through centralisation**

As with payments, centralising collections is a key way to achieve greater consistency, efficiency and cost-effectiveness (see Figure 5).

A lower proportion of respondents in our survey had responsibility for collections than payments, so a larger group were not familiar with the collections function: excluding this group, 82% identified centralisation of collections as essential.

Similarly, 59% noted the importance of a single credit and collections platform, whether to support a regional or global collections function or to provide consistent processes, controls and reporting across a more decentralised organisation.

Centralising collections can be more challenging than centralising payments, partly as there are often more commercial sensitivities, so some organisations prefer to locate collections teams nearer to sales functions. Furthermore, differences in collection methods and cultures across countries and regions can also pose an obstacle to centralisation: 45% of survey participants said that centralisation challenges were among their top three collection issues.

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**Overcoming collection challenges**

<table>
<thead>
<tr>
<th>Approach</th>
<th>Percentage of Respondents</th>
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<tbody>
<tr>
<td>Centralisation of credit and collections</td>
<td>82%</td>
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<tr>
<td>Single credit/ collections platform</td>
<td>59%</td>
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<tr>
<td>Use of ISO 20022</td>
<td>44%</td>
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<tr>
<td>Multi-bank connectivity (e.g. SWIFT)</td>
<td>38%</td>
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<tr>
<td>In-house bank including COBO</td>
<td>33%</td>
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<tr>
<td>Banks’ proprietary system(s)</td>
<td>21%</td>
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<tr>
<td>Virtual accounts/ virtual IBAN</td>
<td>18%</td>
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<tr>
<td>In-house bank</td>
<td>15%</td>
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<tr>
<td>Other</td>
<td>18%</td>
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Fig 5. What approaches are you using to manage your collections?
Tackling collections challenges with COBO

Despite the difficulties associated with collection centralisation, treasurers and finance managers continue to pursue their objectives using methods such as SWIFT connectivity, providing a single channel to multiple banks, and techniques such as collections-on-behalf-of (COBO).

As we saw with POBO earlier, COBO allows corporations to collect cash via a single entity/account and then allocate the incoming flow to the correct entity via the in-house bank (IHB). This is often supplemented by solutions such as virtual accounts, which allow companies to provide local settlement instructions to customers, which are then routed to a single physical account. As with POBO, this allows companies to simplify their cash management structures and rationalise accounts and banking relationships.

Treasurers and finance managers are also managing collections more efficiently by using SEPA direct debits (SDD), both with retail and business customers, to improve predictability of collections, reduce days sales outstanding (DSO) and improve credit risk management. If a collection is not received on time, for example, a dunning process can be started immediately. While direct debits existed in most European countries before SDD was introduced, the terms of these instruments differed across countries, adoption levels varied, use was restricted primarily to retail customers, and they applied only in-country.

The bank view: support across markets and across the business

“We aim to support customer objectives in a variety of ways.”

Claus Richter
Head of Cash Management Customer Solutions, Nordea

“As a bank:

• We are focused on providing a uniform experience for our clients across markets and services to support their efficiency and centralisation initiatives.

• Our advisory services support clients across a wide spectrum of activities, from consumer payments through to cybersecurity, including processes and technology.

• We work with customers to explore their ecosystem: for a B2C business, for example, this might include multiple levels of suppliers, as well as customers both in-store and online. To support a client’s consumer retention strategies, for example, we can provide tools such as mobile payments, incentive and loyalty programmes and discount or voucher schemes.”
SECTION 2

NEW PERSPECTIVES ON PAYMENTS

A host of innovative new payment services, standards and providers are becoming available. What impact are they having?

“Payment tools need to be familiar, convenient and quick to use, but without compromising security...”

Martin Darpö
Head of Consumer Product Design, Qliro
The context of innovation

“In our discussions with clients, we see four key drivers of innovation,” says Sophia Wikander, Head of Business Innovation, Nordea (see box, right).

“Banks have traditionally found innovation difficult, hindered by regulation, legacy systems and development cycles that are often too slow to meet the accelerating pace of change in the way that people communicate and do business.

At Nordea, we have a proactive strategy that brings innovation right into the heart of our business rather than being separate from it: what do our clients need, and how can we collaborate to support these needs? What skills and knowledge do we have within the bank, and how can we best engage with partners to access expertise and new ideas?

This requires a mindset that combines strategy and pragmatism, but also the proactive support of senior management which underpins our commitment, investment and ability to deliver innovative solutions and services to our customers.”

Four drivers of innovation

1. Clients and their changing needs and behaviours. Clients are looking for solutions that provide positive user experience, that can be adapted to their specific requirements, and that offer real-time access to transactions and information. As a bank, not only do we need to consider our clients’ needs, but also the way that they serve their own customers: so not only B2B or B2C, but “B4B” and “B4C”. Our clients must offer their own customers a convenient, secure payment experience, and the bank has an important role to play.

2. Technologies, and increasing dependencies between them. For example, we expect to see connections between blockchain and the internet of things (IoT), and big data with IoT emerging. Over the next two years, a typical Nordic customer is likely to have six different devices, so we need to understand our role in this changing technology landscape.

3. Regulation. New rules such as PSD2 and General Data Protection Regulation (GDPR) means that each customer owns their own data. As a bank, we need to understand our role in helping customers both to access this data, and to protect it.

4. The impact of new players and collaboration with customers and technology companies. Today, every innovation is part of a wider ecosystem, and its success is determined by its value to the customer. Every bank and technology company needs to look creatively at the needs of its customers and collaborate with these customers and with other industry players, to leverage their knowledge, vision and approach.
Which innovations are on the corporate radar?

A spectrum of solutions

With major changes in the way that people communicate and access products and services, and the global supply chains that support these new business models, the payments environment is evolving quickly. There are a variety of initiatives at different stages of maturity that offer corporate treasurers and finance managers the opportunity to gain operational or strategic advantage and add value to their business.

Some of these are now well-established with high levels of awareness (see Figure 6). For example, 75% of survey respondents are familiar with SWIFT corporate access, which allows corporations to connect to multiple banking partners via the SWIFT network.

Mobile payments are also gaining traction: 85% have high or moderate levels of awareness. As Jeppe Østergård Sørensen, cash manager of a major Nordic multinational corporation, notes:

“It is important for customer-facing companies such as ours to keep abreast of retail payment innovations, such as mobile payments, to ensure that customers have positive experiences when visiting our stores.”

However, mobile is an area of rapid change, with banks and fintechs offering a growing range of services, including contactless payments, mobile-to-mobile payments and mobile wallets. Martin Darpö of online retail enabler Qliro, and Daniel Bessmert of POS provider Zash discuss these innovations in more detail later in this report.

Beyond blockchain

49% are familiar with the concept of distributed ledger or blockchain, which underpins cryptocurrencies such as bitcoin. Currently, banks, technology companies and some corporations have proof of concept and pilot projects underway to understand the potential for blockchain, with trade finance in particular likely to be an area in which distributed ledger technologies add value. As Christian Mnich, SAP summarises:

“Blockchain is becoming more prevalent, but solutions are still at a relatively early stage. We are evaluating use cases with our clients, for example, and looking for candidates that could have success in the future.”

However, it is still early days in the development of these technologies and the solutions that emerge as a result.

We believe that three topics listed in Figure 6 are likely to have a more immediate impact on treasurers and finance managers, and which use existing, proven technologies:

• **Real-time** domestic payments

• Initiatives focused on enhancing cross-border payments, such as SWIFT’s global payments innovation (gpi) initiative

• **Open banking** via application programming interfaces (APIs).

The following pages discuss these three innovations in more detail.

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Corporate familiarity with payment innovations

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Fig 6. How familiar are you with these technologies and concepts?
Q&A

Martin Darpö, Head of Consumer Product Design, Qliro

Qliro was founded in 2014 as part of Qliro Group, which includes major online retailers such as online department store CDON.com, fashion retailers Nelly.com, and health and diet sites Gymgrossisten.com, Bodystore.com and Milebreaker.com. Qliro develops solutions that allow safe online shopping for consumers through modern and innovative technology solutions that allow them to receive goods in advance of payment.

How important is the payment process for consumers as part of their online shopping experience?
The ease and confidence with which customers can make payments online is extremely important for purchase completion. Payment tools need to be familiar, convenient and quick to use, but without compromising security. While many of the payment methods themselves that consumers use are familiar, there is a growing expectation that the ordering and payment process will continue to become quicker and require fewer steps. For example, people expect to enter card details only once, and for them to be accessible automatically next time they shop.

What impact is the introduction of new payment methods having on your business?
New payment methods are emerging, but it can take some time to influence consumer behaviour. For example, while people may be able to use mobile payment solutions such as Apple Pay, it may take time to do so in practice. Furthermore, whatever the underlying payment method, consumers want a consistent interface and checkout process.

There are also substantial differences between markets which creates challenges for online retailers and the technology companies that support them. For example, Swish (Sweden’s mobile-to-mobile payment app) is now used by nearly half the population, so online merchants are now demanding that Swish should be accessible through their sites. This particularly applies to those with a younger customer base, such as Nelly.com, but this is not easy to achieve in practice. A similar tool, MobilePay, is available in Denmark, but there are no common infrastructure or integration opportunities.

How significant a challenge — and priority — is tackling fraud at Qliro?
Tackling fraud is inevitably a challenge for Qliro, which we need to balance carefully against the quality of the client experience. We have internal scorecards to monitor our success against our improvement targets, and we work closely with our retailers to minimise fraud. We use verification tools such as 3DSecure on card payments by default, and we are constantly looking at new ways to secure payments, such as Bank ID.

Increasingly, we are also using data such as consumer analytics and payment trends to highlight unusual behaviour and flag transactions for manual handling where appropriate. In general it is relatively straightforward to identify a person in the Nordics using social security numbers, but payment methods, payment cultures and the ability to identify customers, differ substantially in other markets.

What do you see as your payment priorities in the coming months?
PSD2 is likely to trigger a number of interesting developments in the payment space that we will continue to review actively. At the same time, PSD2 brings challenges, such as the need for two step authentication, which could deter card payments. The use of data is also a major opportunity for Qliro: we have a wealth of data available to us, that will add value to the businesses in many new ways.

Furthermore, we believe that we must add much more than just a payment process to our merchants and consumers. We have an opportunity to help both merchants and consumers to get more value, convenience and excitement out of their shopping, and that is what we are set to do!
Innovation 1: Real-time payments

Broad awareness of real-time payments, with adoption following

The essence of our digital experience is that it is instantaneous. Whether we’re streaming music or movies, receiving news alerts, or connecting with friends and family via social media, delays are unthinkable.

To achieve an efficient digital economy, this real-time experience needs to be extended from consumers to businesses and across the supply chain. The payment process that underpins consumer, business and government transactions must mirror the commercial transaction, and therefore also take place in real time.

According to Capgemini’s World Payments Report 2016, the introduction of Immediate Payment systems in many markets is one of the most important regulatory initiatives that would have global impact on the payments business.

The concept of ‘real time’ or immediate payments is not new: indeed, 78% of our respondents are familiar with it. We found greater awareness than reported by other studies, which is because a high proportion of our survey participants are based in Denmark and Sweden, where national instant payment schemes already exist.

Instant payment solutions also exist in countries such as Poland, the UK, Japan, Mexico and Singapore among others. Many are in development, most significantly the SEPA Instant Payments (SCT Inst) scheme in Europe and similar initiatives in the US.

The proliferation of domestic instant payment solutions has considerable implications for multinational corporations, whether for payments or collections, depending on the nature of their business.

Payments can be released on a ‘just in time’ basis, rather than one or two days before the due date, allowing for better working capital management; similarly, the collection cycle can be accelerated, with better use of payment on delivery, for example, to accelerate the supply chain and minimise credit risk.

Corporate perspectives on the implications of real-time payments

Jeppe Østergård Sørensen, cash manager of a major Nordic multinational corporation, comments:

“New payment innovations, notably real-time payments, will impact on our business customers in particular as the faster they can make payment, the faster they can receive goods, with credit lines being freed up more quickly. There are also benefits to our own business. For example, from a liquidity perspective, we want to keep hold of cash for as long as possible, but suppliers often need to receive payment before releasing goods, so real-time payments allow us to marry both parties’ liquidity requirements.”

Similarly, Eddy Jacqmotte, Borealis, says:

“Real-time payments will be significant for us, and will play a key role in accelerating and facilitating the supply chain, but we need to review internal processes in order to support them, to make sure that the status of both incoming and outgoing flows is updated promptly and visibly. Furthermore, ‘real-time’ is likely to mean different things in different currencies and countries.”

The point Jacqmotte makes about reviewing internal processes in line with real-time payments is significant. Jerome Albus, SVP, Treasury & Payments Solutions at financial technology company FIS, discusses this issue in more detail:

“Real time payments, particularly in the context of e-commerce, are driving new business models, such as in the insurance industry, so we are seeing companies embark on a variety of proof of concept projects.

Currently, most back office processes are batch-driven or subject to cut-off times, so the shift to real-time payments implies that the processes that surround them also need to be real-time. One of the most significant implications of this is on systems integration, and how and when data flows between systems.

Treasurers and finance managers are overcoming this challenge by adopting software-as-a-service (SaaS) based solutions, one of the implications of which is that the supplier takes over the integration burden, while reducing the total cost of ownership.”
Innovation 2: Cross-border payments and gpi

Complexity and challenges
For treasurers and finance managers of multinational corporations, it is in cross-border payments where much of the cost and complexity arises.

Introducing real-time into cross-border payments is far more challenging than in domestic payments, because cross-border payments:

• Often involve multiple correspondent banks
• Are subject to different regulatory requirements, including specific documentation for cross-border payments in more heavily regulated markets
• Are subject to sanctions screening and anti-money laundering requirements.

Despite the challenges, there are initiatives underway to enhance and accelerate cross-border payments, notably Ripple (a distributed ledger-based solution built around an open, neutral protocol) and SWIFT’s global payments innovation (gpi) initiative (see below).

As yet, there is relatively little corporate awareness of these initiatives: only 16% of respondents are moderately familiar with gpi, for example.

“We do not have a high volume of cross-border payments, as most payments are done within a region; however, we need to manage both outgoing and incoming cross-border flows, particularly the latter. As a result, developments in cross-border payments will also be beneficial to us, but reducing unexpected payment charges that can affect the value of incoming payments and make it more difficult to reconcile these flows.”

Eddy Jacqmotte, Manager Cash & Bank – Head of Back Office Administration – Cash & Bank Department, Borealis Polymers N.V.

Standard service levels across borders
SWIFT launched gpi at the end of 2015. Within the next year, more than 90 banks signed up, and 15 global banks (representing more than 30% of cross-border payments) had completed pilot projects. Wim Raymaekers, Head of Banking Markets at SWIFT, summarises gpi:

“The SWIFT gpi initiative is built on a multilateral service level agreement (SLA) between participating banks that commits them to apply a common standard for processing cross-border payments. The first gpi SLA will enable corporate treasurers to benefit from an enhanced cross-border payments service offered by their banks.

When using the gpi service, treasurers will be able to benefit from the same-day use of funds transferred, gain transparency on any fees levied, and trace cross-border payments through their banks. Treasurers will also be able to send remittance information with their payments that is guaranteed to remain unaltered when it arrives at their beneficiaries. Furthermore, each transaction will also have a unique reference number which can be tracked from end-to-end. This is all supported through a new cloud-based solution which banks can integrate into their electronic banking tools.”

Supporting the customer experience
He continues by explaining the reason behind banks’ interest in participating:

“Banks want to provide the best payment experience possible to their customers. This often proves to be a challenge in the case of cross-border payments, which are typically processed by multiple correspondent banks.

Each bank may have different processing speeds, formats and fee calculations, so although the originating bank takes responsibility for the payment from the customer’s perspective, it is not able to control its journey. As such, originating banks cannot currently manage issues such as payment delays, unexpected fee deductions, or alterations of the payment information sent in the original instructions.

Clearly, therefore, a faster, more transparent and consistent cross-border payment process will lead to better customer relationships and more accountability.”
The right solution at the right time
Erkki Poutiainen, Nordea, notes that the value of gpi is its simplicity:

“The process of making a cross-border payment involves a variety of different connections and related processes, including invoicing, accounting etc. Any new solutions need to reflect this; otherwise, they add complexity. Among the cross-border solutions that are emerging, such as gpi and Ripple, gpi is likely to offer the greater net benefit as it is based on what already exists, which makes it easier for both users and suppliers of payment services to integrate it into existing business processes and technology.”

Timing has also been a crucial factor in gpi’s appeal, as Wim Raymaekers continues:

“Corporate treasurers and finance managers are demanding more rapid payments, with better tracking and transparency of fees. Banks know that if they don’t respond, alternative providers will, and already are, offering their own solutions, which in turn creates motivation and momentum. The SWIFT gpi offering uses existing infrastructure — both at the banks and at SWIFT — so it can be implemented quickly, rather than waiting for new, and as yet unproven, technologies such as blockchain.”

Maintaining compliance with international regulations
Using existing infrastructure ensures that same-day cross-border payments, together with the traceability and audibility of fees that treasurers are seeking, can be delivered without jeopardising regulatory compliance or impacting on existing back office processes. For example, in countries such as Japan and China, trading partners need to provide documentation that cross-border flows relate to genuine trade transactions. This has been handled in gpi with a code that shows that the cash has been received by the bank, and can be credited once the necessary paperwork has been presented.

Corporate feedback based on pilot projects has been overwhelmingly positive and emphasised the value of the rich information. As Wim Raymaekers explains:

“The value of a rich payment data service, which is under consideration for a future SWIFT gpi SLA, is clear. Currently, all the information related to a payment must be held in a single payment instruction, and there are limitations on what messages can contain. However, the prospect of using both a payments layer (containing the payments instructions) and an information layer (containing additional rich remittance data) is potentially transformational, not only on payments processing, but also on the intelligence that can be derived for process automation and analytics. Such a service would also enable banks to differentiate their customer solutions without impacting on the consistent processing of cross-border payments.”

Addressing challenges
The pragmatic approach of gpi has been welcomed by banks, as Claus Richter, Nordea, emphasises; however, he also notes that there remain challenges to address beyond the physical processing of payments:

“There are two significant drivers of current cross-border payment initiatives: speed and information. Over the next few years, we expect real-time cross-border payments to become a reality, as well as full payment tracking which is already becoming a reality through SWIFT’s gpi initiative. This is likely to happen on a regional basis initially, while payments between continents, such as between Europe and countries in Asia, is likely to take longer as interoperability of payment systems and alignment of regulations are currently at different stages of maturity.”

As well as integrating the payments tracker into bank solutions, the crucial next step in the development of gpi is to engage corporate payment users more proactively, to ensure that banks develop solutions that add value. As Erkki Poutiainen, Nordea, comments:

“The number of different stakeholders make discussions on cross-border payments very challenging. However, it is important that the agenda is driven not only by competition among suppliers of payment services; instead, there needs to be a wider corporate dialogue in order to develop solutions that deliver commercial value to payment users.”

Furthermore, this is just the first generation of gpi, and we can expect more to come. Wim Raymaekers concludes:

“Banks are working together to create a roadmap for further gpi services, with a focus on rich remittance data, and new solutions such as a ‘stop payment’ service and ‘an international payment assistant’ service. Most significant perhaps, is the crucial opportunity for digital transformation of cross-border payments, with a common version of the truth, and rich, transparent data across the financial supply chain.”
“Payment innovations bring new opportunities, new risks, and new ways in which fraudsters will attack financial service providers.

“Many innovations in the payments space are focused on an enhanced user experience, but this often does not mean enhanced security. For example, ‘one click’ purchases that initiate the payment at the same time as placing an order removes the payment validation step which is a necessary security control for preventing unauthorised transactions. This type of capability, which is designed to accelerate the purchase process and reduce the number of abandoned transactions is also at odds with payment security regulations that often require dual factor authentication or an additional authorisation step, therefore increasing security although potentially affecting the user experience.

“The most challenging task for today’s payment solution architects and service providers is to make security invisible to the customer. If regulatory controls are too stringent and place a burden on the customer, payment system designers will find a way to circumvent the controls in favour of customer experience. While this approach will likely deliver new payment systems on time and make it extremely easy to adopt, ultimately, the customer will pay for the security breach.

“To address this challenge, we are helping our clients to tap into emerging technologies such as Data Analytics and Machine Learning. Automated, computer-based analysis of large volumes of transactions, previously impossible due to human limitations, will allow companies to respond rapidly to a security breach and in future, predict it before it happens.”

Anton Tkachov
Chief Security Architect, Financial Systems Cybersecurity, PwC

With over 223,000 people in 157 countries, PwC is one of the world’s largest professional services networks. PwC focuses on audit and assurance, tax and consulting services.
Innovation 3: Open banking via APIs

Opening up connections and competition
A key element of the gpi payment tracker is that, rather than being a discrete solution with its own front end, it is built with an open application programming interface (API) so that banks can connect in directly from their own applications. This creates a seamless experience for customers, and allows banks to enrich their own offering.

However, the value and implications of open APIs go far further than gpi. One important element of the Payment Services Directive 2 (PSD2), which will take effect from January 2018, is the obligation for banks to open access to customers’ account data — such as interest rates, terms and conditions, transaction history and account balances — and give third-party providers, such as technology companies, the ability to initiate payments. The aim is to open up more competition in payments processing, and enable retail customers in particular to access data on their accounts more easily, including across multiple banks, and benchmark the banking services they receive.

An opportunity or a threat?
For corporates — and the banks that serve them — the implications are even more far-reaching. Banks will need to decide whether open banking through APIs is an opportunity (which will require new business models and practices) or a threat. As Erkki Poutiainen, Nordea, suggests:

“The effects of PSD2 and open banking through APIs have the potential to turn banking upside-down, not necessarily as a result of more non-bank competition, but through the wider availability of bank information. If a bank restricts innovation to its own four walls, it cannot be truly customer-focused; instead, it needs to invite others to enrich the value of data for its customers.”

The impact on corporations and vendors
For multi-banked corporations in particular, Claus Richter, Nordea, explains:

“Open banking represents a significant opportunity for multi-banked corporations to build common interfaces to banks, therefore creating a more consistent experience, and deepen the level of integration with banks to enhance straight-through processing.”

Technology vendors — not only start-up fintechs but the established treasury and payment system providers that already work closely with corporations globally — have an important role to play in leveraging the opportunities of open banking.

Questions and challenges remain
As yet, however, there remain a number of questions about how the use of open APIs will change the way that corporate treasurers and finance managers access information from their banks, and how banks themselves will adjust their strategy. Jerome Albus, FIS, speculates:

“The exchange of data via open APIs is likely to be based on ISO 20022 standards, which is familiar across the financial community, but there are still significant complexities to address, not least in how competition will change and how banks will differentiate their offerings. In some cases, third-party solutions may end up becoming the primary front-end to some banks’ services. We may also see regional differentiation to overcome cultural and regulatory challenges.”
A FINTECH PERSPECTIVE

Daniel Bessmert, Founder & CEO, Zash

Fintechs cover a wide spectrum of companies and solution offerings. While there has been discussion in the past about the potential for fintechs to disrupt or supersede banks, today the focus is more on partnerships and complementary solutions and services. Daniel Bessmert, Founder and CEO of Zash, describes some elements of the company’s journey so far, and shares some perspectives on the wider industry.

Identifying the opportunity

Having worked for both a large bank (Citibank) and payment service provider (PayPal), it became clear to me that fast-growing businesses needed something more than the traditional offerings to support customer transactions. While customers were increasingly using apps such as Uber to enhance their online experience, this convenience was not being extended to the offline environment, namely retail stores, with the need to maintain clunky POS (point of sale) terminals.

This was the background behind the development of Zash, a cloud-based POS that is cheaper than traditional terminals, while also adding far greater convenience for retailers and a higher quality experience for their customers, both online and in store. Generally, small retailers are most attracted to our solution as they are often aiming to be at the cutting edge of customer experience, particularly in the hospitality sector. While groceries etc. are essential, low margin purchases, cafés, restaurants and small specialist outlets rely more on discretionary spend, so the quality of the customer experience is key. This includes offering flexible purchase models such as self-order and pay, whether remotely or in store, deliveries etc.

Building the business

Our original intention was to launch Zash in Sweden, but this proved difficult due to regulation, so we launched in Asia. We experienced considerable demand, with small companies in particular keen to create a distinctive customer experience while reducing costs. They were also attracted to the ease with which the solution could be adopted without specialist technical skills.

Based on this success, we have been able to extend the solution more widely. For example, we have been able to localise the product for Sweden with the support of Nordea. This partnership has been instrumental in helping to overcome the tax and regulatory challenges we faced. Furthermore, there is mutual benefit: Nordea’s customers can access an innovative tool to support customer engagement and streamline transactions, while maintaining confidence in a trusted partnership.

Innovation in practice

There are undoubtedly a range of new technologies emerging that have the potential to change the way that people communicate and do business. However, in many cases, fintechs are using existing, proven and trusted technologies but in new ways. This is the case for Zash: we use the familiar POS concept, but it is cheaper and easier to engage and transact with customers via mobile and tablet devices rather than a specialist handset linked to a PC. It is not only the choice of device that differentiates Zash, however. Not only can we support regular ‘push’ payments (which constitutes the majority of payments today when customers ‘push’ payment to the retailer using cash or card) but we can also ‘pull’ payments. For example, if a customer wishes to pay via Swish, the cashier selects Swish (effectively ‘pulling’ a request to be paid by the customer based on the geolocation and mobile identity), the customer confirms the transaction and the payment is done. Ordinarily when using Swish, the customer needs to input the merchant’s number etc. which is more time consuming and less convenient, acting as a disincentive for small purchases.

There is significant discussion taking place at present about the emergence of new payment instruments. Accommodating these payment methods is an important element of our business, so we stay closely in touch with ongoing developments; however, while new payment methods create choices for consumers, in themselves, they do not impact significantly on the customer.

Rather, it is the transaction or checkout process that creates differentiation. For example, one of the convenient elements of Uber is that travellers don’t need to carry a wallet, rather than offering a different payment method: ultimately customers still pay via the same payment instruments as a more traditional business. While we are likely to see the developments in this area, such as payments via social media and the use of cryptocurrencies, for example, which will further add to consumer choice, the quality of the customer experience, of which the checkout process is a vital element, remains the same. As an example, recent research points to new POS payment instruments being the main reason for retailers to upgrade to cloud POS.
The role of fintechs

Fintechs have dented banks’ market share

Open banking is a key area where financial technology companies – both new and established – are likely to make a major impact, but small, nimble technology companies are already having an impact on the financial services industry in a variety of areas.

In many cases, banks have been cautious about the emergence of these companies that can innovate and implement solutions more quickly, fearing erosion of market share and greater competition. Indeed, in areas such as supply chain finance, independent fintechs have made a significant impact on banks’ market share as they can provide a standardised experience across multiple banks or financiers, they can innovate and onboard more quickly as they are not regulated.

Collaboration, not competition

Fintechs’ value proposition overlaps with that of banks in some cases. But fintechs are not themselves looking to become banks; instead to solve problems, fill gaps or address existing inefficiencies. Banks and fintechs bring different, often complementary strengths. Banks have strong, multi-faceted client relationships and an emphasis on security and trust; fintechs are more nimble and can bring new solutions to market faster.

By working together, fintech companies gain access to a network of credible customers, while banks can harness solutions to differentiate their offerings and become more responsive to customer demands. Ultimately, therefore, it is customers who benefit from fintech-bank partnerships. As Eddy Jacqmotte, Borealis expresses:

“Originally, banks appeared to consider emerging fintechs as a threat, but this did not seem to be credible; now, it seems more likely that partnerships between the two will result in fintech solutions becoming a component or complement to banking solutions, therefore combining innovation with security and trust.”

Challenge and choice

According to Nordea’s customer survey, 57% of respondents do not expect to work with emerging start-up fintechs directly, preferring to access new solutions via existing banks and vendors. However, treasurers and finance managers in the B2C space in particular are engaging with fintechs to deliver solutions for their retail customers in areas such as mobile payments.

The emergence of new payment service providers (PSPs) acts as a catalyst for innovative new processes, workflows and business models, which will offer wider choices for corporations, particularly B2C businesses. Jeppe Østergård Sørensen, cash manager of a major Nordic multinational corporation, comments:

“It is still early days in the development of fintechs, so while we recognise that new companies and new technologies such as blockchain offer potential, the exact nature of this is currently unclear. It is good to see challengers to existing providers, however, which inspires further innovation. Key to the value of any new payments innovation from our perspective is the quality and richness of information linked to a payment, rather than simply the processing of payments.”

Relationships remain the key

As yet, treasurers expect the impact of PSPs on the future role of banks to be relatively minor in the institutional (as opposed to retail) space (see Figure 7). But this may change. One survey participant distinguished PSPs from banks as they have “digitisation in their DNA” while another commented, “We still need a bank, but with more third-party providers, most of the payment workflow will be outside of the bank”.

What Figure 7 shows, however, is that while there may be some change in the corporate-bank relationship, the majority of treasurers and finance managers expect these relationships to be as important as they are today, with just as many people anticipating that these relationships will become more, rather than less important.

![Future importance of banks with the emergence of PSPs](image_url)
Financial crime is as old as money itself — but like money, it’s forever evolving. How can we stay ahead of the criminals?

“Corporate treasurers and finance managers are confronting a growing range of threats and challenges, both internally and externally...”

Alvaro Garrido
Head of Group IT and Group CIO, Nordea
Increasing pressure on businesses

Innovation creates risk and opportunities
Alvaro Garrido, Head of Group IT and Group CIO at Nordea, says:

“While innovation is undoubtedly bringing opportunities for new business models and practices, it also creates additional risks, whether simply enabling people to work from home or introducing complex new systems that change the way that companies interact with their clients.”

An innovative approach is needed to overcome the growing challenges of fraud and financial crime. While payment efficiency and automation are among treasurers’ and finance managers’ key objectives, security and control must take precedence, given the financial and reputational implications of fraud, whether it’s internally or externally initiated.

Corporate finance professionals cannot rely on banks or IT departments alone to prevent or block fraudulent behaviour — there needs to be a concerted, co-ordinated approach across the business.

Considering the first responsibility for businesses, regulatory compliance, Alvaro Garrido comments:

“Corporate treasurers and finance managers are confronting a growing range of threats and challenges, both internally and externally. Legal and compliance issues continue to demand priority and resourcing, while cybersecurity and financial crime is growing in importance.

“Regulations differ across jurisdictions, which means that corporations need to achieve the ‘highest common denominator’ from a compliance perspective, as well as meeting specific obligations in individual countries.”
How would you describe the importance – and implications – of sanctions screening for banks and their customers?
Sanctions play an important role in society as an instrument to combat terrorism, but also a political role, as witnessed by the international response to Russia’s actions in Ukraine. Since 9/11 in 2001, we have seen expanded regulations and tighter interpretations, with a far broader awareness of sanctions, and more onus on banks to enforce them. Banks fully respect both the need for sanctions and their enforcement obligations. However, they face the potentially contradictory challenges of complying with stringent sanctions screening requirements on one hand, whilst fulfilling customers’ need for fast, automated payments. In the end, compliance with sanctions regulations serves the purpose of safeguarding the status of the financial system worldwide and as such, has a dual benefit for banks and the wider society.

What impact do you think that current initiatives, such as real-time payments, will have on efforts to tackle financial crime?
Looking ahead, initiatives for real-time/instant payments are likely to prove very successful for domestic payments, which is no problem under current regulatory arrangements as these are not subject to the same screening requirements. However, accelerating cross-border payments to become real time or near-real time creates significant challenges for screening, which will need to be considered in detail.

There could be other developments too: for example, should we be screening domestic payments in the same way as cross-border payments? Sanctions are also becoming more granular and therefore complex. For example, it is relatively straightforward to stop all payments routed to a particular country. However, this becomes more challenging when only certain types of payments are prohibited, not only payments for arms etc. but those that are more difficult to identify, such as payments to finance obligations over 90 days. Therefore, banks need to identify the receiver, the receiver’s beneficial owner, the industry and purpose of the payment.

What do you think of the potential for corporate treasurers and finance managers to assist the process?
Corporate treasurers and finance managers can help by providing all the relevant information when transmitting a payment to avoid unwarranted ‘stops’ on payments while they are investigated. For example, if a shipping company uses the International Maritime Organisation (IMO) number in the message field, the payment process can be far quicker.

As a bank, we evaluate stopped payments, and why they have been treated as exceptions, to refine algorithms and optimise the customer experience by minimising delays and unnecessary stops. Customers recognise the need for screening, and accept that very occasionally, legitimate payments may be delayed. In fact, this situation is quite rare, with less than 35 out of every 100,000 payments stopped on average.

Furthermore, treasurers and finance managers of companies in industries that are themselves subject to sanctions, such as shipping, understand the need for shipment information, for example. It can be more difficult for companies that operate on a predominantly domestic basis that occasionally conduct cross-border payments, who may be less aware of sanctions screening issues.
The scale of the challenge

An asymmetric battle
Alvaro Garrido, Nordea, describes the challenge facing enterprises and their providers:

“Changes to the technology environment, such as ‘bring your own device’, the emergence of blockchain and the growing importance of social media are also prompting new processes and business models and indeed changes to society as a whole.

“In this environment, threats are changing very quickly. In an asymmetric world, criminals only need to get it right once, while banks have to be right every time. Consequently, banks have an enormous task both to fight existing threats and anticipate new ones.

“Furthermore, the threat is also indirect, and outside banks’ immediate control. That’s because customers’ banking information may be stored by companies in all industries, so this information is often found when hackers breach other companies.

“Nordea is responding decisively to the changing environment with a substantial increase in focus and investment, and a revamped Information and Cybersecurity strategy.”

Internal and external fraud is on the rise
As Figure 8 shows, while some survey respondents have experienced an increase in internal fraud over the past two years, the most notable increase is in levels of externally initiated fraud, which includes techniques such as CEO impersonation fraud and phishing as well as system hacks. More than two thirds reported an increase in external fraud.

| Changes to incidence of fraud over past two years |
|-----------------|-----------------|-----------------|
| **Internal**    | **External**    |
| Significant increase | 3% | 27% |
| Some increase     | 18% | 42% |
| No change         | 55% | 13% |
| Some decrease     | 0%  | 0%  |
| Significant decrease | 0% | 2% |
| Prefer/ not permitted to say | 5% | 8% |
| Not known         | 18% | 8%  |

Fig 8. What change are you seeing in the levels of fraud?
Responding to fraud and security breaches

Implementing controls to prevent fraud
Tackling fraud has become a key priority for treasury and finance professionals.

Fraud initiated internally has always posed a challenge, with many treasury and finance functions implementing system-enforced segregation of duties and multiple levels of validation. Even so, there remain some vulnerabilities, particularly in the integration between systems.

Luc Belpaire, Product Director, Payments for FIS, explains:

“Preventing fraud through better and more consistent controls has become the number-one priority for our clients. Among customers in the Nordics, while many of the largest corporations have implemented sophisticated systems and controls, tier two companies are now also focusing on this area.

“For example, while they may already have a treasury management system in place, there may be weaknesses in the way that they integrate with their banks. In addition, there may also be uncertainties and inconsistencies in where, and how, payments are initiated and approved.”

Protection must extend beyond core payment systems
Anton Tkachov, PwC, continues:

“Combatting financial crime requires a combination of cybersecurity and fraud-prevention methods, as cyberattacks are often used to breach underlying systems in order to move further and enact large-scale financial fraud.

“While attacks used to be made at the ‘sharp end’ of the payment processes, such as banking systems and payment transmission systems, criminals are now targeting vulnerabilities across the wider supply chain to influence and divert payments.

“Banks and corporations operating internationally need to review and address vulnerabilities across their entire footprint, as with globally-connected systems, a breach in a remote branch could have a major impact on their core banking and payment processing systems. Only if companies understand their risks and vulnerabilities holistically can they act to overcome them.”

Security is about people as well as technology
Growing cyberthreats create a major onus on treasurers and finance managers to train staff to identify potential fraudulent activities or attacks, review and refine internal controls, optimise system security and tighten integration between systems.

As Alvaro Garrido, Nordea, notes:

“Sophisticated technical defences play an important role in thwarting both internal and external threats, but just as important is the need to build security into training, processes and staff culture.”

Review third-party systems too
Jan Egholm Pedersen, Senior Finance Manager of a major Nordic multinational corporation, also underlines the need to address vulnerabilities beyond the central treasury and finance function:

“Payments security is key for our business, and we have seen a huge increase in impersonation fraud. The recent compromise of the SWIFT network also emphasised the importance of reviewing and safeguarding the security of own platforms, and those of our external providers. We recognise that users are often the ‘weak link’ in any security strategy, so training is very important; in addition, we employ automated processes wherever possible.”
Can security deliver business value?
Luc Belpaire, FIS, notes that while security may appear to be a top priority, it still needs to compete with other projects:

“One of the difficulties for treasurers is how to prioritise security and control initiatives given the challenges of creating a fully quantifiable business case. Furthermore, as a defensive rather than strategic project, there are often demands to use resources in ways that deliver more measurable value to the business.”

Senior management’s preference for more visible projects that offer more demonstrable value will rapidly become indefensible as external threats continue to grow.

Anton Tkachov, PwC, warns of the professionalisation — as well as the higher stakes — of criminal activities:

“Cybercrime has become more sophisticated as perpetrators have realised that there is profit to be gained. In the 1970s, for example, computer viruses were just a prank; today, ransomware is a very lucrative market. Cybercriminals have realised the potential gain and started to operate as mature businesses with large investment and R&D budgets.”

Cybercrime doesn’t respect borders
Tkachov concludes by warning against complacency, with countries that have low domestic crime rates equally vulnerable to international attack as any other:

“Cybercrime is not a regional problem but a global phenomenon. It has no geographical boundaries as a bank in one country can be compromised by a criminal in any other.

“As yet, there are no global rules to combat cybercrime. The regulators work in a siloed manner, so it can be difficult to prosecute international criminals. Enforcement agencies and regulators need to work together to reduce the incentive, improve intelligence sharing and enable prosecution of financial crime.”

Collaboration is essential
Eddy Jacqmotte, Borealis, emphasises that treasury cannot act alone, but needs to work closely with partners such as banks:

“Fraud prevention is very important to our business, with corporate fraud rates reaching very significant levels. Our first step is to review and refine internal processes and controls; second is to educate users on the risk of impersonation fraud. We have had several CEO fraud attempts, for example, so users need to be prepared. In addition, our banks play a very important role in securing our data and transactions, so a collaborative approach is required.”

Security action points
Alvaro Garrido, Nordea:
• Put security firmly on the corporate agenda: security must be a starting point in decision-making.
• Assess the current security situation realistically.
• Engage stakeholders across the enterprise to develop a security-focused mindset.
• Look beyond your immediate counterparties to the wider commercial ecosystem in which you operate to identify potential weak links.
• Identify key skills and resources that you are missing, and develop recruitment or staff development plans to fill any gaps.

Anton Tkachov, PwC:
• Reach out to executives such as the CIO to agree clearly which business functions (e.g. IT or treasury) are responsible for the security of systems, processes, controls and training.
• Participate in cyberthreat modelling exercises to identify cybersecurity vulnerabilities and devise priority action plans to overcome them.
• Recognise that the human element of security, such as awareness training and testing exercises, is just as important as sophisticated technology solutions. Good security starts with the correct security culture.
“Over the next five years, we expect three key changes: real-time payments, greater choice in payment partners, and intelligent analytics services…”

Claus Richter
Head of Cash Management
Customer Solutions, Nordea
As Figure 9 shows, the top corporate payment demands for the future fall into two categories: standardisation and real-time payments. Treasurers are looking for standardised formats (67%) and payment methods, but also standardised regulatory processes (62%), such as anti-money laundering (AML) and know your customer (KYC).

In addition, they want real-time payments, both domestic and cross-border (63%). As discussed earlier, this has implications not only for payment transmission and settlement, but the processes that surround them.

Eddy Jacqmotte, Borealis, highlights:

“We would like to see simpler, faster payment and collection processes in the future, but without loss of control.

“The Nordics are a good example: although there are only a few countries, there are multiple payment methods, and it can be challenging to understand and accommodate the relevant instruments. Consequently, greater harmonisation across the region would be valuable.”

In an environment of both threat and opportunity, what things are top of treasurers’ and finance managers’ payments wishlist? And, just as importantly, how likely is their vision to become reality?
So what could payments 2020 look like?

Cards

VISION:
By 2020, physical cards have nearly disappeared, and those that are still in use are all contactless. Card networks have perhaps entered terminal decline, with card transactions replaced by account-to-account transactions using payments networks. Or they may have reinvented themselves, with migration of physical cards to virtual cards on digital wallets, and card transactions continuing to dominate in stores and digital commerce payments.

REALITY:
The shift from physical to virtual cards, digital wallets and account-to-account transactions is a likely and desirable development. Digital payments create a higher quality customer experience, but also address the security issues associated with physical cards; however, alternative payments need to be supplemented with appropriate security that may interrupt the user experience to some extent, but create trust and security among payment users and vendors. As Eddy Jacqmotte, Borealis, notes:

“We expect to see developments in the card space, both retail and corporate cards, with the phasing out of plastic cards in favour of mobile solutions for retail payments, and virtual solutions for corporate payments. This gives rise to the opportunity to integrate with other payment methods, and link into ancillary functions such as financing solutions and insurance.”

PSPs, vendors and infrastructure

VISION:
By 2020, central payment infrastructures continue to support payments, but alternative models are emerging. Commoditised components of payments are moving toward utilities or aggregation services to lower cost, with bilateral processing between users and aggregators starting to compete with the central infrastructure. Customer interaction and value-added services are controlled by banks and PSPs, with banks providing processing and settlement services to non-bank entrants on a centralised level.

REALITY:
The role of banks vs PSPs has been discussed for some time, but the implementation of PSD2 in January 2018 creates the potential for a wider range of participants in the payment space and new models and relationships between incumbent banks and emerging PSPs. As we have seen with the growth of fintechs so far, the likelihood is that a partnership model will develop, both in the way that services are delivered to customers, and the service models that banks create to support PSPs. Claus Richter, Nordea, summarises:

“Larger companies are less likely to work with third-party payment service providers, but smaller companies in particular are likely to select the provider that solves their problems most precisely and economically. However, the most likely scenario to emerge over the next few years is the development of partnerships between banks and fintechs to deliver best-of-breed solutions that combine the strengths of both: fintechs rely on banks’ customer access and balance sheet, while banks benefit from fintechs’ innovation and speed to market. Ultimately, the combined proposition is more attractive to clients as well.”
Payment initiation and security

VISION:
By 2020, payments will be initiated by users through contactless-equipped wearable devices, connected IoT devices like cars and kitchen appliances, and through payment APIs embedded in applications and services. Payment applications are used widely, and often are separate from banking applications. Transactions are secured by biometrics embedded seamlessly into the user experience.

REALITY:
While the technologies already exist to achieve the vision of contactless payments, the internet of things and payment APIs, this is a key area where the balance between security and the quality and convenience of the customer experience will play out. Currently, value limits on contactless transactions create a logical barrier to the extent of adoption, but new security capabilities such as biometric security may result in higher price thresholds, greater confidence and higher adoption.

Interbank payments

VISION:
Real-time 24x7 payments dominate both in domestic and cross-border transactions, and sophisticated controls are in place to prevent errors. Banks have standardised on common formats, possibly using a blockchain architecture. Real-time gross settlement (RTGS) systems are still running, but for high-value payments only in the correspondent business of international banks.

REALITY:
It is entirely conceivable that real-time payments, both domestic and cross-border, could become a reality by 2020, with both regulators and industry bodies focusing heavily on this. This would go a long way to achieving corporate payment ambitions, particularly for collections, but there are challenges ahead, notably for cross-border payments. While there is significant appetite for accelerated, more transparent cross-border payments, as demonstrated by the speed of development and bank support for SWIFT’s gpi, future developments will need to take into account the obligations for all financial participants to tackle financial crime through compliance with anti-money laundering and sanctions screening.

Cryptocurrencies and blockchain

VISION:
Blockchain technology is increasingly used in banks for processing payments and other transactions. Normal currencies dominate, but cryptocurrencies may play a greater role behind the scenes in digital commerce to convert to and from normal currencies. Cryptocurrencies and crypto-wallets are embedded in IoT solutions.

REALITY:
As many banks, technology vendors and corporations complete proof of concept projects, a variety of solutions based on blockchain technologies are likely to emerge over the next two years. There are still issues to resolve, such as volume processing, but just as importantly, the regulatory framework in which transactions are conducted will need to be determined. This will inevitably take time, as will adoption, so while solutions incorporating blockchain technologies will become more prevalent, it is likely that the impact of blockchain in the payments industry will be felt beyond 2020.
How has the importance of reporting and the use of data changed in recent years?

Luc Belpaire. "Reporting and business intelligence (BI) has always been important in treasury and finance functions, but the longstanding question has been what to do with data once it has been collected.

Increasingly, treasurers are able to identify global activities with each bank, monitor internal key performance indicators (KPIs) and calculate the cost of exceptions to electronic payment processes and instruments."

Where do you see these types of solution heading?

Jerome Albus. "BI-based solutions are becoming more sophisticated, with machine learning becoming more integral to treasury processes. At a recent FIS hackathon, for example, a solution emerged that identifies and alerts unusual transactions for sanctions screening purposes. The combination of BI and automation of processes to free up treasury and finance resources to leverage this intelligence will become increasingly important."

What are the implications of these developments from a payments and cash management point of view?

Luc Belpaire. "BI has the potential to transform cash management, with far greater visibility over transactions, automation of processes and fewer vulnerabilities to risk. The extent to which this will happen over the next three to four years will depend on the degree of investment and corporate adoption. In combination with real-time payments, e-commerce could change dramatically, with countries such as the UK, Sweden and Denmark being early adopters."

To what extent are these developments likely to be restricted to the largest corporations?

Jerome Albus. "We are seeing a ‘democratisation’ of technology, with a far wider spectrum of corporations now able to take advantage of sophisticated solutions and analytics. SaaS solutions in particular allow rapid implementation of secure, integrated processes at a lower cost of ownership than installed solutions have been able to deliver in the past.

SaaS solutions are likely to play a more important role in the future, as treasurers and finance managers focus their attention on BI and refining the value they add to the business, rather than the infrastructure that underpins their operations. For example, bank connectivity has no intrinsic value, but by outsourcing to experts, users gain the security and efficiency they require without the need to dedicate time and resources."
Supporting the vision

Collaboration

A vision for rapid, efficient, secure payments will not be realised with new technologies alone, nor can it be achieved by one bank, regulator, technology company or clearing house acting in isolation. Instead, it will require significant collaboration, a concept with which organisations often struggle, fearing loss of competitive advantage. As Erkki Poutiainen, Nordea, says:

“There are substantial opportunities for payment innovations based on existing as well as new technologies; the challenge is to bring people together to understand requirements, challenges and opportunities and create common ground, whether within a business, across industry verticals or more widely. While developments such as real-time payments will bring change and opportunity for some, we are likely to see more of these benefit opportunities when combined with real-time driven supply chain initiatives that impact on sales, procurement and delivery logistics.”

Initiatives such as SWIFT’s gpi and the Common Global Implementation (CGI) working group for ISO20022 standards demonstrate that the value of collaboration is becoming more widely recognised, but more is required, between banks and their customers, technology vendors, clearing houses, regulators and industry bodies.

Information

Key to corporate payment objectives is the quality, completeness and consistency of information associated with the payment. As Jan Egholm Pedersen, Senior Finance Manager of a large Nordic multinational corporation, notes:

“Looking ahead, we hope to see payments become faster, and enriched with quality information. Optimising collections would also be a positive development for our business, such as using individual (virtual) IBANs to reconcile incoming flows more quickly and accurately.”

The consistent use of standards has a major role to play in this, but increasingly, banks and organisations such as SWIFT are recognising the opportunity for value-added services by supporting the payment process with enhanced information.

Maximising the value of data within the business will also become more important to refine processes, analytics and business models, as the discussion with Luc Belpaire and Jerome Albus of FIS in this section illustrates.

Speed and simplification

As the digital economy accelerates, it is no longer realistic to embark on payments technology projects that take two to three years to deliver value. By that time, business models, payment methods and security considerations have moved on. Christian Mnich, SAP suggests:

“There is a strong demand for simplification and lower project risk. Treasurers are looking for ‘out of the box’ support for new formats, payment methods and communication services, with the use of standard templates. For example, we are evaluating embedding services like SWIFT or direct bank connectivity into our solutions, and the increased use of SaaS and cloud technology to facilitate easier adoption, information security and a lower cost of ownership.”

The reality of the Payments 2020 vision will differ in some respects from today’s predictions and expectations. However, what will be important is that innovations address genuine business challenges, and can be integrated into secure, efficient business processes. Claus Richter, Nordea, concludes:

“Over the next four or five years, we expect the experience of corporate payment users to differ in three key ways compared with today. First, payments will be faster, and often real-time. Second, there is likely to be more choice, and therefore more complexity, in payment partners, including both banks and third parties. Third, we expect to see more intelligent analytics and value-added services beyond the payment itself.”
About Nordea

Nordea is among the ten largest universal banks in Europe in terms of total market capitalisation and has around 11 million customers, 30,000 employees and approximately 650 branch office locations. The Nordea share is listed on the Nasdaq Stockholm, Nasdaq Helsinki and Nasdaq Copenhagen exchanges.

We have a broad expertise across the wide range of products, services and solutions that we provide within banking, asset management and insurance. In Nordea we build trusted relationships through our strong engagement with both customers and society.

 Contributors

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