Nordea

EXECUTIVE SUMMARY

# Future of payments 2017

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# Exploring the future of corporate payments

Nordea's pioneering Future of payments study explores some of the important innovations in recent years, and emerging solutions that have the potential to transform payments in the future.

For treasurers and finance managers, understanding the opportunities to pay and receive cash more quickly, securely and predictably is key to building robust, flexible supply chains, leveraging new business models, and boosting competitive advantage.

Our new study looks to answer some of the biggest questions around payments and to provide a vision of the future. It draws on the results of a survey of 60 Nordea clients across all major industry segments, with expert insights from a variety of customers, industry participants and Nordea executives.

Read on for a summary of the key findings.

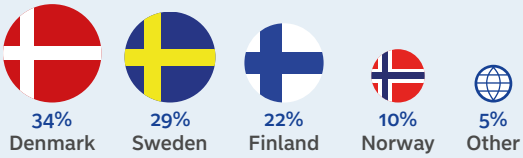
"Over the next four or five years, we expect the experience of corporate payment users to differ in three key ways compared with today. Firstly payments will be faster, and often in real-time. Second, there is likely to be more choice, and therefore more complexity, in the choice of payment partners,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

**Claus Richter,** Head of Cash Management Customer Solutions, Nordea

## 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.

# What are enterprise payment and collection priorities?

### Payment challenges

- 60% of respondents said that lack of standardisation of formats across banks was a top-three challenge.
- 42% emphasised diversity of payment methods across markets.
- Regulatory compliance and cross-border payments created significant challenges for 34% and 32% of participants respectively.

### Overcoming payment challenges

- Centralisation is a key objective for more than half (55%) of respondents.
- 42% noted the value of a single payments-processing platform.
- Operating as an in-house bank (IHB) is an important trend amongst corporations, particularly on a payments-on-behalf-of (POBO) basis (37%).

### Collection challenges

- Lack of standardised information from banks is a top-three issue for 48% of respondents.
- This in turn is linked to difficulties with automating bank account reconciliation and account posting (46%).
- Managing diverse collection methods (45%) and overcoming organisational, and in some cases regulatory, obstacles to centralising collections (45%) also poses challenges.

### Overcoming collection challenges

- Despite the challenges, 82% of respondents are seeking to centralise credit and collections.
- 59% aim to use a single credit/collections platform.
- 44% are looking to standardise reporting of incoming payments based on ISO 20022 formats.
- In-house banking and collection-on-behalf-of (COBO) processing is a priority for 33%.

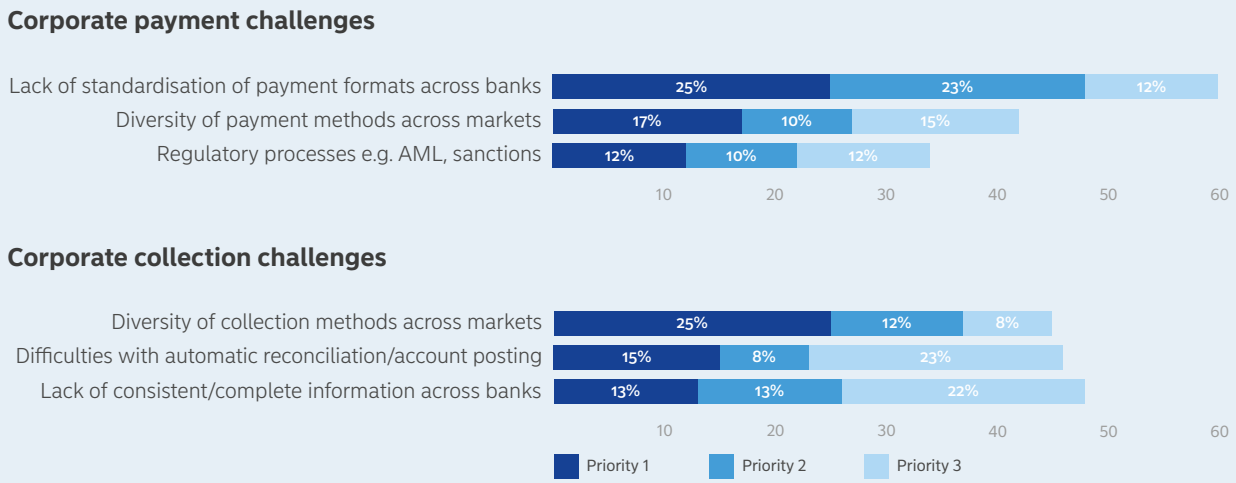



Fig 1. What are your top three priority challenges when making payments and collections?

# What are today's key payment innovations?

There are a variety of initiatives at different stages of maturity that offer corporations the opportunity to gain operational or strategic advantage:

Mobile payments. Most survey participants (85%) are already familiar with mobile payments. This is an area of rapid change and innovation, particularly in retail.

Real-time payments. 78% are familiar with the concept of 'real time' or immediate payments. With a growing number of countries developing real-time payments, there are considerable implications for multinational corporations, not only for the payment/collection itself, but also the processes that support it.

Distributed ledger. 49% are familiar with the concept of distributed ledger technologies or blockchain. Currently, banks, technology companies and some corporations have proof of concept and pilot projects underway to understand its potential, but it is still early days.

Cross-border payments. Although innovation in cross-border payments is more challenging than in domestic payments, there are initiatives underway to enhance and accelerate cross-border payments, notably Ripple and SWIFT's global payments innovation (gpi) initiative.

Open banking via APIs. One important element of PSD2, which will take effect from January 2018, is the obligation for banks to open access to customers' account data, and give third-party providers, such as technology companies, the ability to initiate payments.

The role of fintechs. Banks and fintechs have different, often complementary strengths, so there is significant potential value in working together. More than half (57%) of respondents expect to access new solutions via existing banks and vendors rather than working with emerging start up fintechs directly. As a result, most expect their bank relationships to remain as important as they are today (56%), with just as many people anticipating that these relationships will become more, rather than less important (15% for both).

> "New payment innovations, particularly 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."
>
> Jeppe Østergård Sørensen, cash manager of a major Nordic multinational corporation

**Corporate familiarity with payment innovations**

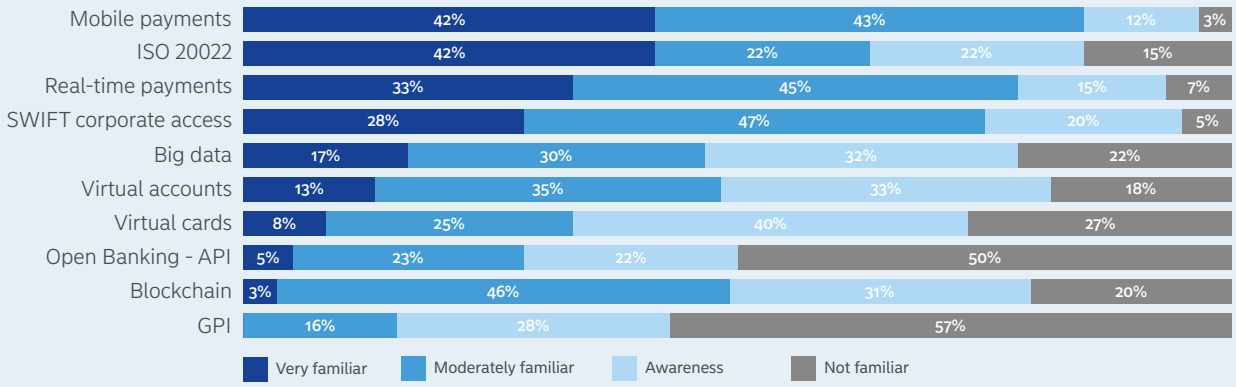



Fig 2. How familiar are you with these technologies and concepts?

# How can we balance innovation with risk?

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. However, while 21% of survey respondents have experienced an increase in internal fraud over the past two years, 69% reported an increase in levels of externally initiated fraud, which includes techniques such as CEO impersonation fraud and phishing, as well as system hacks. This puts a major onus on treasurers and finance managers to train staff to identify potentially fraudulent activities or attacks, review and refine internal controls, optimise system security and tighten integration between systems.

**Changes to incidence of fraud over past two years**

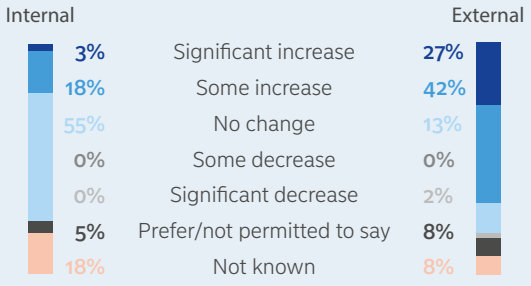



Fig 3. What change are you seeing in the levels of fraud?

# What can we expect for payments after 2020?

In an environment of both threat and opportunity, corporate priorities are focused on **standardisation** (e.g. of formats, payment methods and regulatory processes) and **real-time** domestic and cross-border payment and information flows. So by embracing these concepts, what could a future payments landscape look like?

**Desirable payment capabilities**

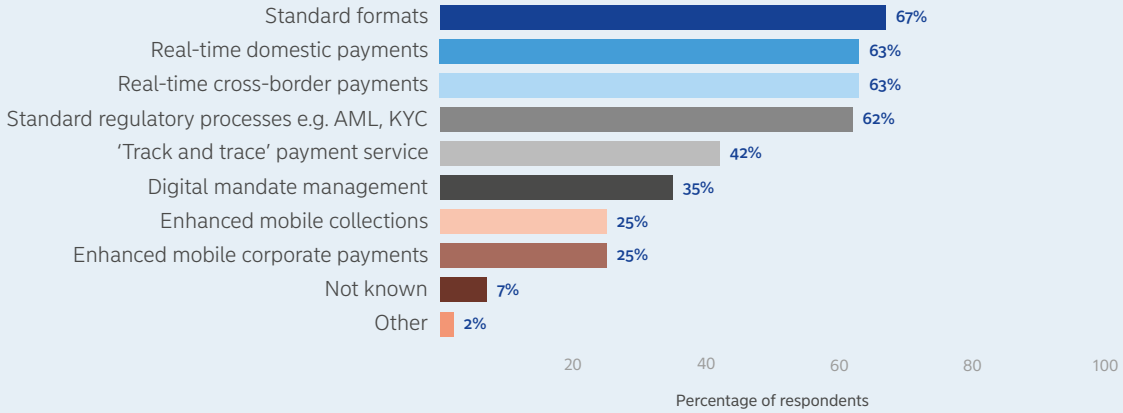



Fig 4. What features are on your wish list for the future of corporate payments?

## Interbank payments

**VISION:**
Real-time 24x7 payments dominate both domestically and in 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:**
Real-time payments, both domestic and cross-border, could become a reality by 2020, which has significant processing and supply-chain implications. There are challenges ahead in cross-border payments to take into account the obligation for all financial participants to tackle financial crime.

## 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.

**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. What will be key is to strike a balance between the quality of the user experience and the security of payments and information.

## Payment initiation and security

**VISION:**
By 2020, payments will be initiated by users through contactless-equipped wearable devices, connected Internet of Things (IoT) devices like cars and kitchen appliances, and through payment application programming interfaces (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 IoT 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. New security capabilities, such as biometric security, may result in greater confidence and higher adoption.

## 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 payment service providers (PSPs), with banks providing processing and settlement services to non-bank entrants on a centralised level.

**REALITY:**
The role of banks versus PSPs has been discussed for some time, but the implementation of PSD2 in January 2018 will fuel greater participation in the payment space. 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.

## Cryptocurrencies and blockchain

**VISION:**
Blockchain technology is increasingly used by 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 and the regulatory framework in which transactions are conducted. This will inevitably take time, as will adoption, so while solutions incorporating blockchain technologies will become more prevalent, we are unlikely to see a major impact before 2020.

To learn more about how the world of payments is changing, and the opportunities and challenges you face in the years to come, download our full report.

As well as data from our survey of 60 Nordic corporates, it's packed with interviews and insights from visionaries in the payments ecosystem, including corporates, technology providers, consultants and Nordea's own experts.

To get your copy, visit: **https://insights.nordea.com/go/payments**

## 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.


**SWEDEN**
Nordea Bank
Smålandsgatan 17
SE-105 71
Stockholm
T: +46 8 614 7000

**DENMARK**
Nordea Bank Danmark
Christiansbro, Strandgade 3
PO Box 850
DK-0900 Copenhagen C
T: +45 33 33 33 33

**FINLAND**
Nordea Bank Finland
Satamaradankatu 5
Helsinki
FI-00020 Nordea
T: +358 9 1651

**NORWAY**
Nordea Bank Norge
Essendropsgate 7
NO-0368
Oslo
T: +47 22 48 50 00