Where Payments Meet Life

2018 FIS Payments and Bank Connectivity Market Report:

# Modernizing Corporate Payments and Bank Connectivity in the Digital Age

# Introduction

Modernization and digital are two key buzzwords across all industries. It really means taking an organization forward and even ahead of the curve utilizing the latest and greatest digital technology applications, the latest in cloud adoption and the latest in treasury technology trends.

For corporations that are managing their payments processes across multiple disparate systems, leveraging older technology, collaborating with many legal entities and dealing with multiple bank relationships, modernization is key to success and growth.

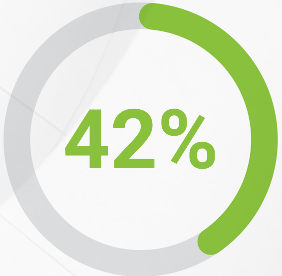
# Key Findings: Modernization is on the Rise ...

## Key Drivers for a Payments Project


## Treasury Is Taking Charge of Payments Modernization

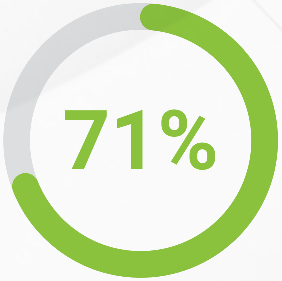

**of respondents indicated treasury is in charge of their payments projects**

## Technology Developments That Will Have the Biggest Impact




**have or plan to have an API initiative for real-time payments**


**plan to adopt SWIFT gpi (global payments innovation) for faster, cross-border payments**




**have or are likely to move payments to the cloud**

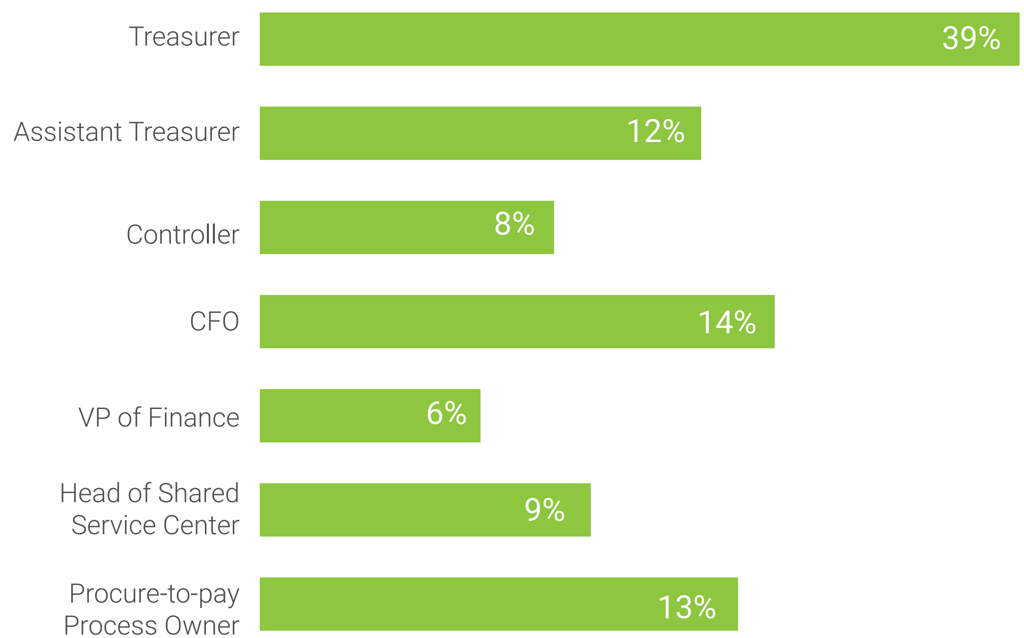
# Treasury Departments Are Taking the Lead in Driving Payments Modernization

Best-in-class corporations have started modernizing their payments, using the latest technologies and trends, and treasury departments are the driving force behind those modernization initiatives.

The modern treasurer is tasked with managing the corporate cash position, risk management, regulatory compliance and payments. They are also dealing with volatile market events, changes to business models and supply chains, and increasing threats such as payment fraud and cyber risks. They need to be up to speed on the latest technology and industry trends such as open banking APIs and faster and real-time payments. Visibility and control around payments is critical to their success. The modern treasurer no longer has just a seat at the table when it comes to payments processes, they are leading and should be leading the change.

The trend toward greater centralization and standardization in payments processes has been accelerated by higher adoption rates of specialized payment solutions such as a payment factory, and the improvements in global processing functionality such as workflows, fraud control and approvals processes, as well as an increase in the migration to the cloud. Specialized payments technology combined with cloud management services help treasurers sleep at night.

**Who is in charge of payments projects within your organization?**



# Modernizing Payments with Specialized Technology while Reducing Complexity

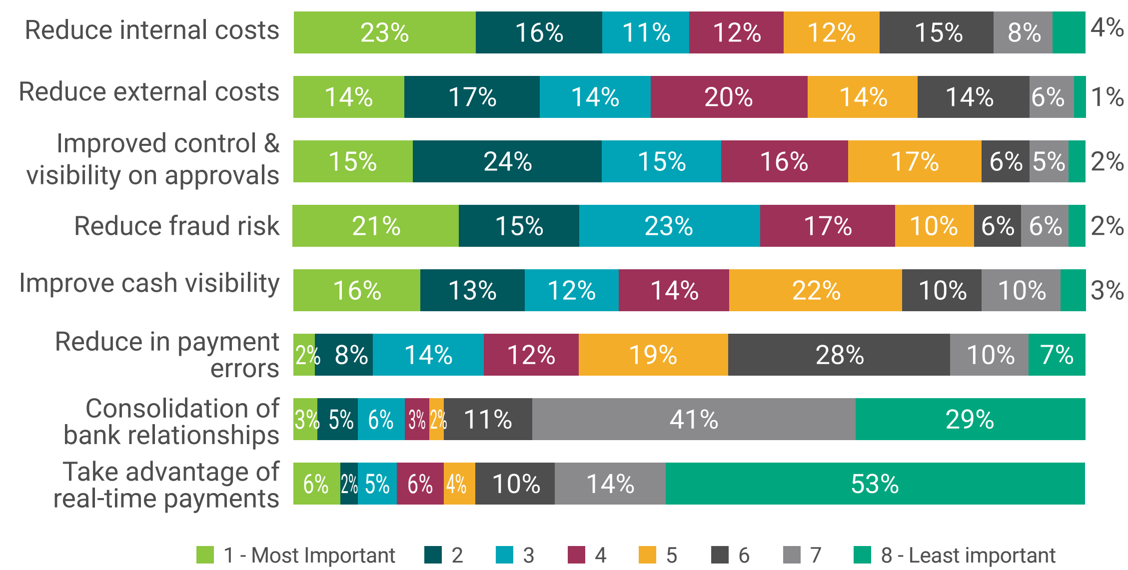
# Payment Drivers Are Leading to Payments Modernization

According to the survey respondents, **reducing fraud risk** is the number one driver for initiating a payments project (59 percent). Fifty-four percent indicated **increasing control** and 50 percent indicated cost reduction as the key reason for a payments project, followed closely by **improving cash visibility** at 41 percent.

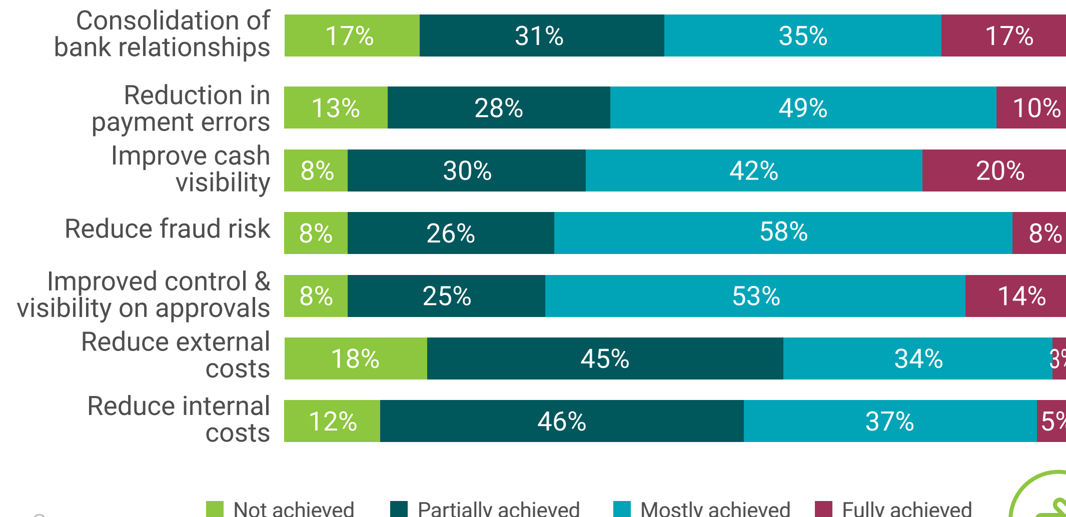
Best-in-class companies that have recognized these challenges as drivers for a payments project are taking steps toward modernizing their payments processes to the latest payments technology, migrating to the latest in cloud deployment and service delivery models and even adoption of the latest industry trends. According to the survey, 67 percent indicated that they mostly or fully achieved improving controls while 66 percent at least mostly achieved reducing fraud risk. Sixty-two percent have now attained visibility on their cash.

It is essential to have a streamlined and controlled payments process to be able to make the move toward modernizing payments and to benefit from new initiatives such as real-time payments and payment tracking, but companies are still struggling with complexity.

## How important are the following drivers for your current or future payments and connectivity project?




## How much have you achieved the following benefits with your payments and connectivity project?

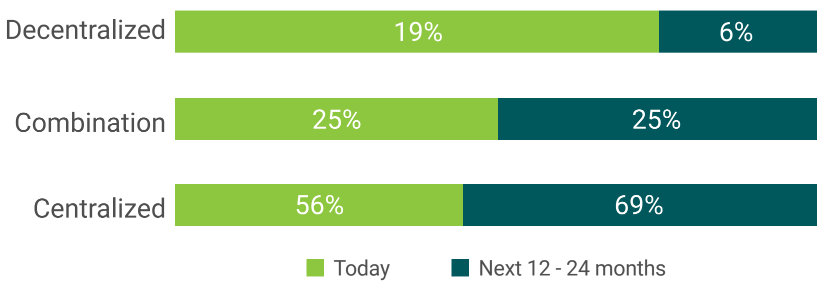


# Centralization and Standardization is Key to Payments Modernization Project

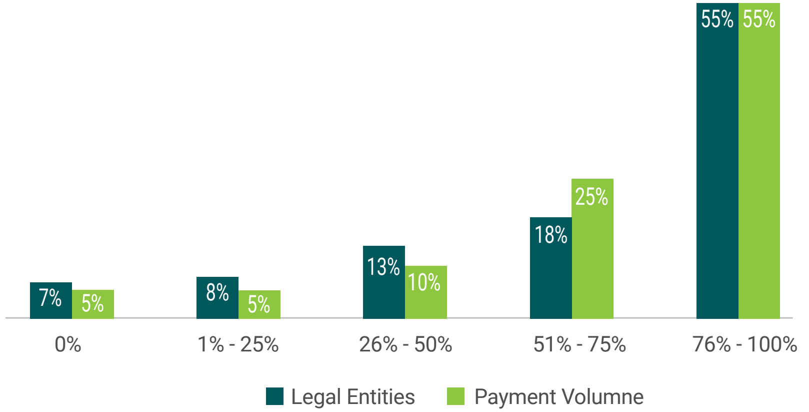
Historically, companies have utilized multiple payment systems, including EPRs, treasury management systems and accounting systems, and even multiple instances of their ERPs and often across multiple entities.

Best-in-class companies are centralizing and standardizing payments into a specialized payment factory solution, which can help them gain visibility and control across this complex environment. A payment factory can integrate with all of those systems and standardize across legal entities while supporting high payment volumes.

**How would you describe your organization's payments structure today and what would you like it to look like in the future?**




**What percentage of the legal entitites and payment volume are following a standardized controlled payment management workflow?**




Today, **81 percent** of respondents have some sort of centralization in place and another **6 percent** plan to move toward centralization in the next 12-24 months.

**Fifty-five percent** of respondents have standardized their legal entities as well as their payment volume.

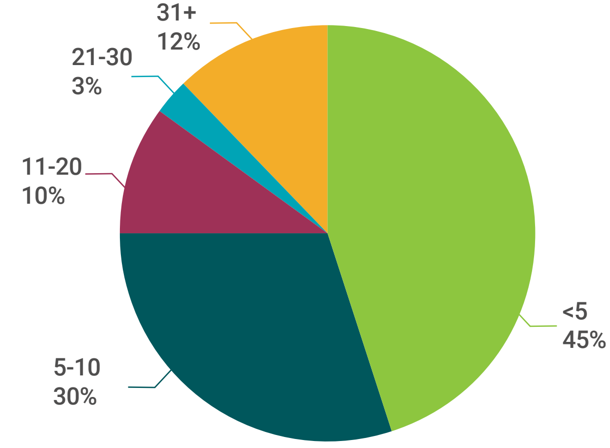
# Moving Away from Complex Bank Relationships and Account Structures Is Important

Companies are not only dealing with complexity around their payment systems, they also continue to have complex bank relationships and account structures.

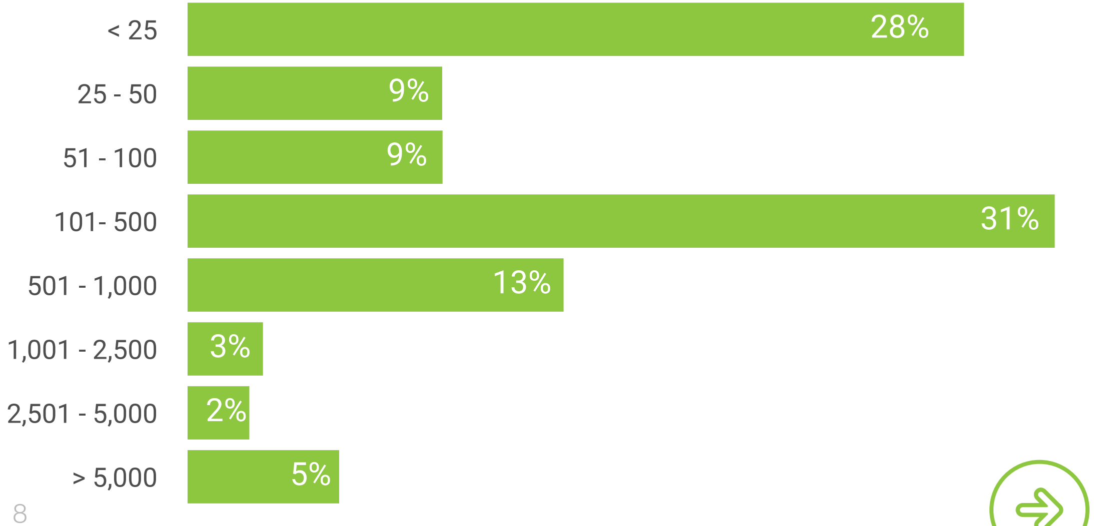
In our 2017 Payments and Bank Connectivity Market Report, 45 percent had more than five cash management banks. In this year's study, 55 percent of respondents have more than five cash management banks. The number of bank accounts, however, seem to be about the same. In this year's report, 54 percent manage more than 100 bank accounts and 10 percent manage over 1,000 bank accounts.

Best-in-class companies are often rationalizing their bank relationships and accounts structures when they embark on a treasury management or payments project. Complex bank relationships are not only inefficient, they have a direct correlation with higher external costs, which was one of the drivers for a payments project.

### How many cash management banks do you work with?

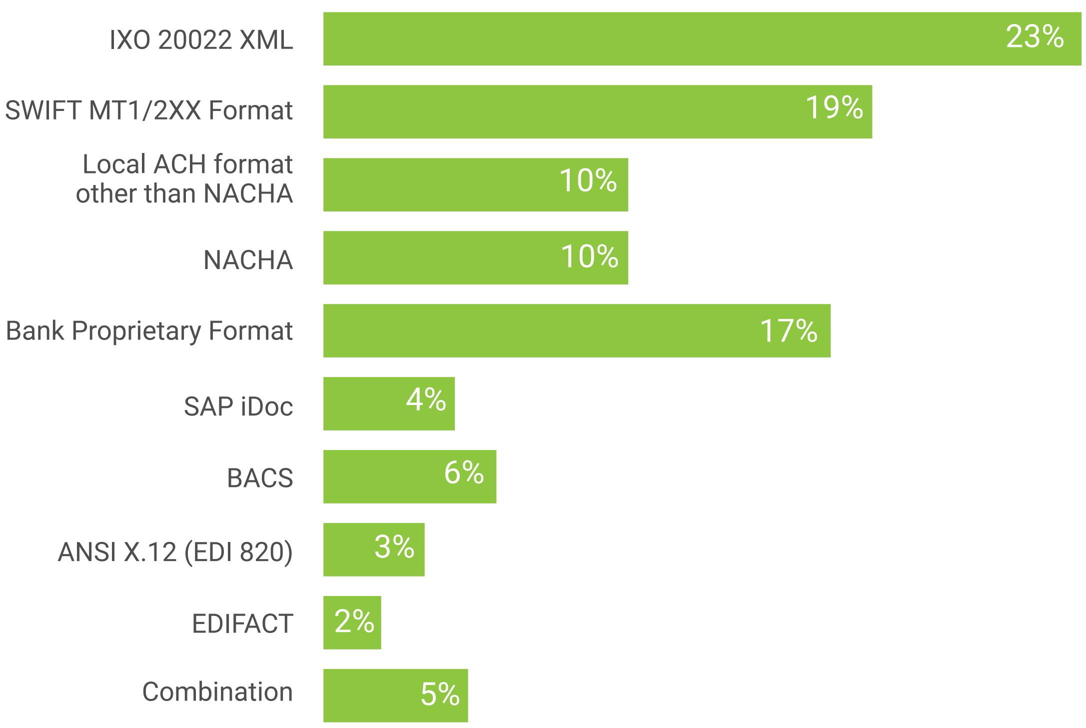



### How many bank accounts does your company have?



# Harmonizing Payments Also Reduces Complexity

## In which formats do you initiate your payments?




According to the survey, 42 percent benefit from payment format harmonization since they are initiating payments with ISO 20011 XML and the SWIFT MT1/2XX Format.

Treasurers continue to take advantage of SWIFT FIN and ISO 20022 standards when undertaking global payments standardization and improvement initiatives. By harmonizing across payment formats across banks, countries and business entities considerably decrease change and maintenance costs, and open opportunities for scalability in transaction processing.

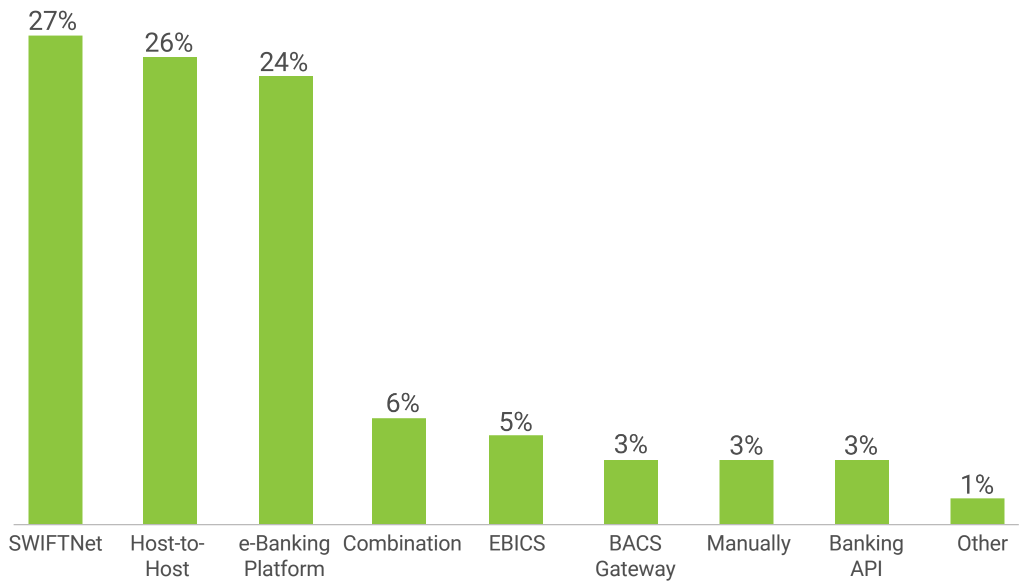
Legacy formats such as EDIFACT are on the way out. The use of bank proprietary formats or local ACH formats such as NACHA, BACS or EBICS are common within organizations with decentralized business structures. The fewer formats, the better.

# Continue to Simplify by Streamlining Bank Connectivity

Twenty-seven percent of survey respondents are using SWIFTNet as their undivided channel to connect to their banks. As the trend toward payments modernization continues, treasurers should be re-evaluating connectivity optimization opportunities, seeking to streamline connectivity in conjunction with payments technology improvement and format standardization projects.

While last year's study still showed the use of e-Banking tools as the most used way of connecting to banks, mordernization projects have come to fruition with the decrease in e-Banking and increase in single connections to networks like SWIFT. More and more treasurers are rationalizing bank connectivity models, resulting in streamlined connectivity, reduced risk and controlled costs.

### What is your primary way of connecting to banks?



# Modernizing Payments with the Latest Technology Developments

# Stay Ahead of the Modernization Curve by Leveraging the Latest Technology Developments

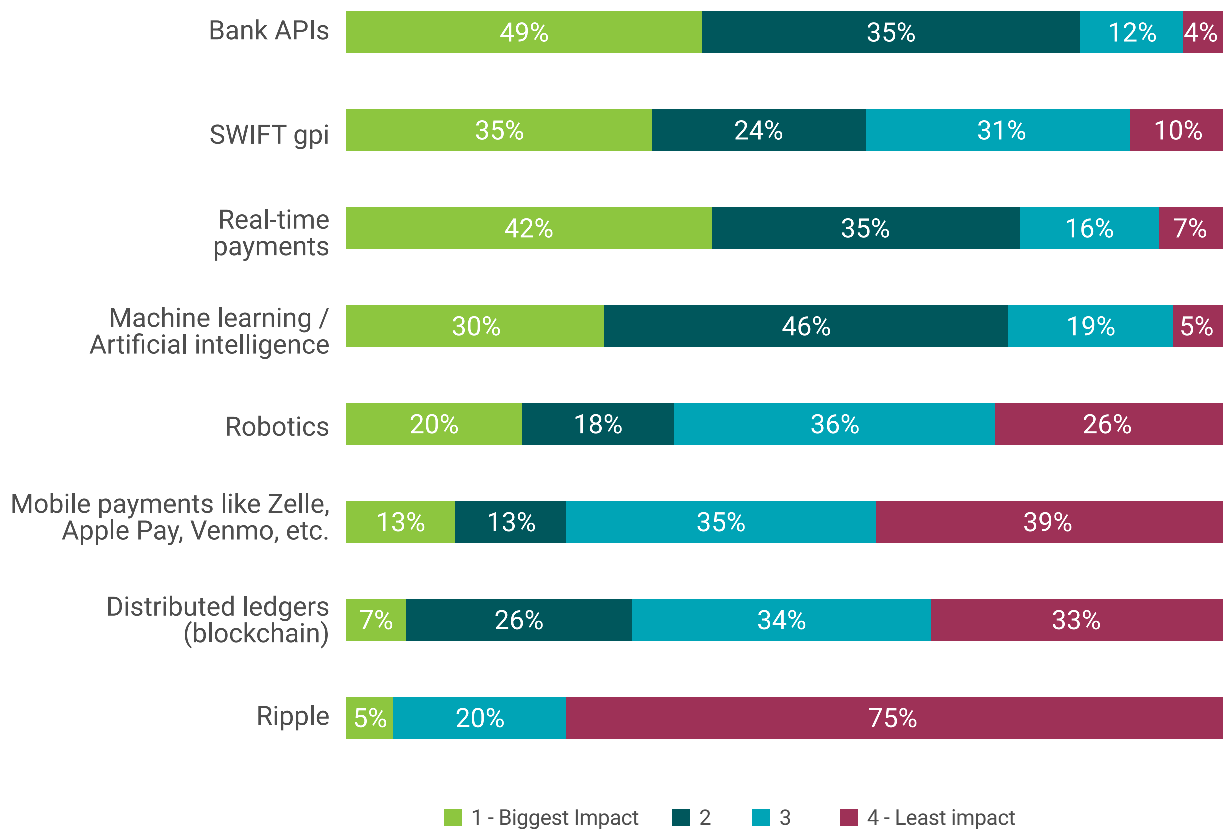
The technology developments that will have the biggest impact according to respondents are **bank APIs** (49 percent), **real-time payments** (42 percent) and **SWIFT gpi** (35 percent).

These three developments are closely related and can help treasurers stay ahead of the curve and keep their companies on the path forward. They can even help companies evolve their business processes and the way they conduct business.

Bank APIs are a new channel into a bank that can help facilitate the reality of real-time payments because APIs interact in real time with the payment systems.

The SWIFT gpi initiative is a way of speeding up and enhancing cross-border payments processing. SWIFT gpi ensures that customer credit transfers are processed faster, with greater transparency regarding fees, and with full end-to-end tracking.

### Which of the latest technology developments will have the biggest impact on your operations?



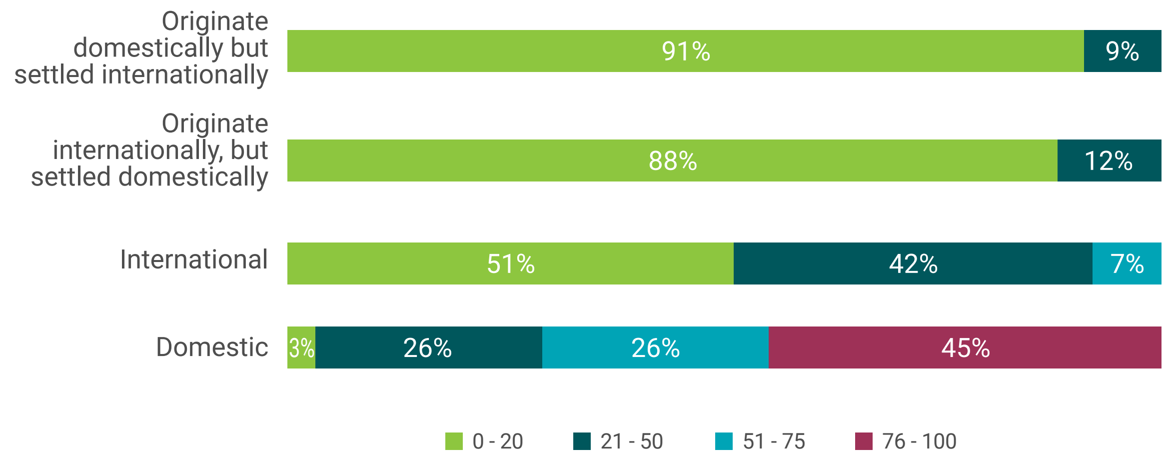
# Make Fast, Traceable and Transparent Cross-border Payments

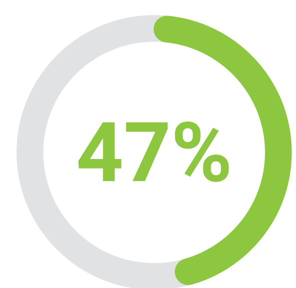
Cross-border payments are prevalent and it is essential for a corporation to rely on efficient cross-border payments processing. Speed, certainty and fee transparency are all key elements to running effective treasury and cash management processes.

Cross-border payments come with their own set of challenges, once the cross-border payment instruction is sent to the bank, treasurers typically have no visibility into the intermediary banks involved, on when exactly the beneficiary will be credited, nor on the final amount credited to the beneficiary. This can lead to problems with suppliers or end-customers and increase financial risks resulting from payment delays.

SWIFT gpi transforms the treasurers' cross-border payments experience by enabling faster payments and by allowing payments to be tracked from start to finish, like a parcel. SWIFT gpi offers full bank fees and FX rates, which all leads to reduction in payment investigations, improved supplier relationships, faster invoice reconciliation and ultimately greater capital efficiencies.

**Cross-border payments: What percentage of your payments are international versus domestic?**



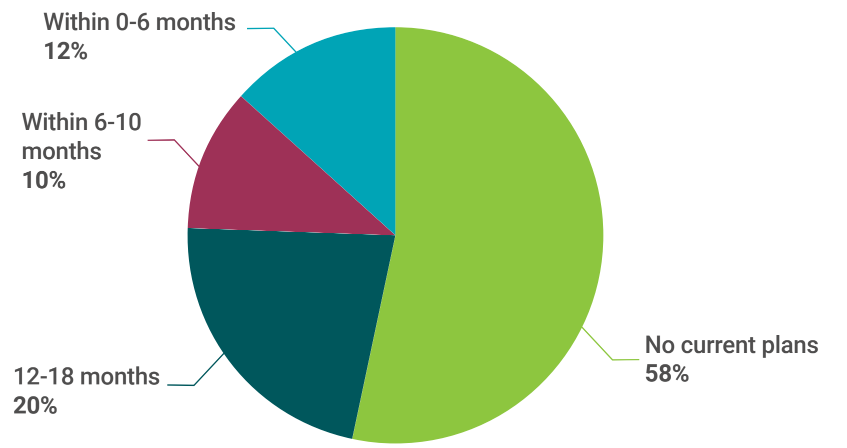

**Plan to adopt SWIFT gpi in the next 18 months**

# Real-time Information and Payments Speed Up Corporate Treasury and Business Processes

Forty-two percent of the survey respondents indicated that they have or plan to have an API initiative for Real-Time Payments in the next 18 months. The introduction of real-time banking services promote the development of digitized banking services. Efficient real-time liquidity management can be achieved, and decisions can be made quickly and executed immediately.

Real-time transaction processing is viewed as both an added convenience and control for treasurers. As security concerns continue to grow within the financial services space, corporations will gravitate to new faster payment channels, which offer immediate, preventative and detective controls to catch fraudsters.

**Do you have API banking initiatives related to real-time payments?**



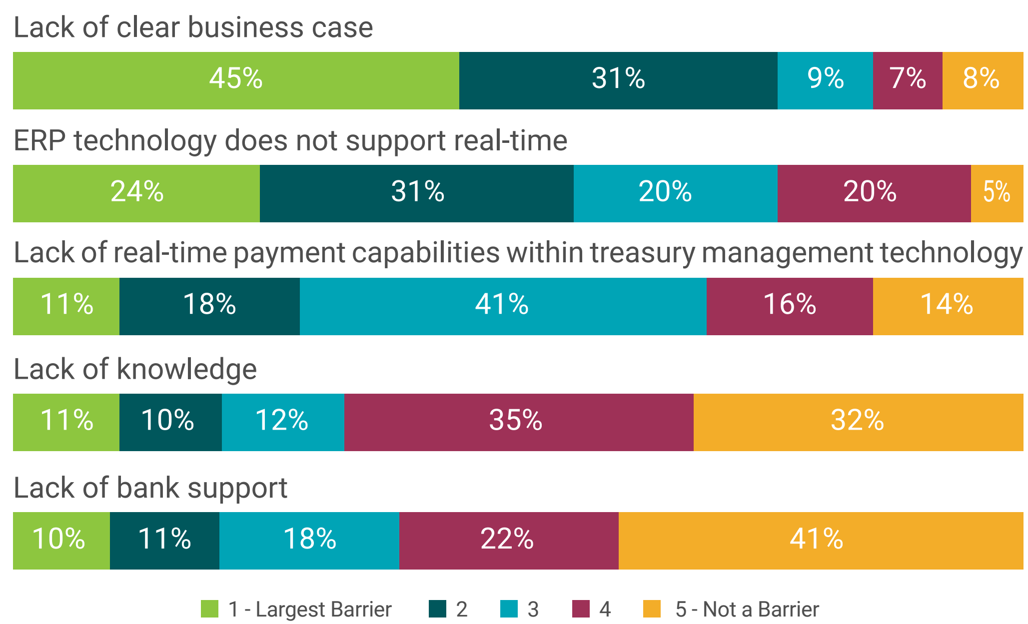
# Overcome Key Barriers to Real-time Payment Adoption

While many are on the path toward real-time payments, others are still experiencing barriers. According to the survey, 76 percent indicated that lack of a clear business case was the primary barrier to adopting real-time payments, followed by ERP technology at 55 percent and lack of real-time payment capabilities within treasury management technology at 29 percent.

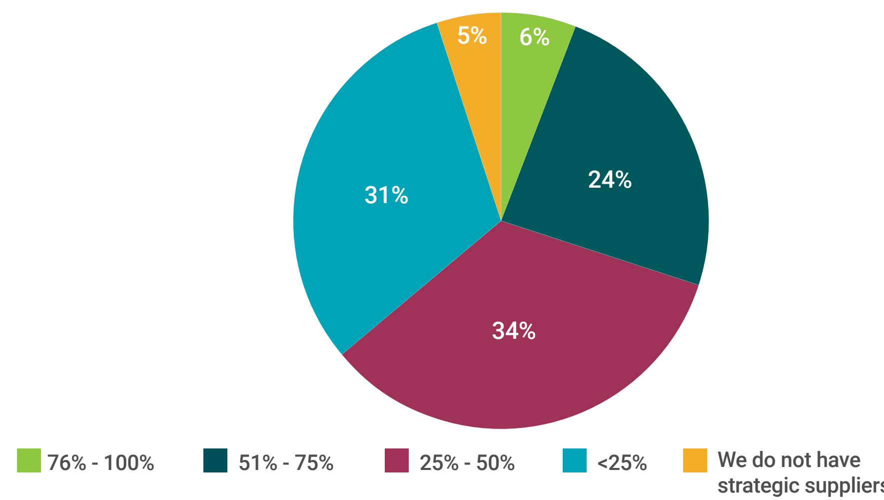
Establishing a business case is key and we are seeing growth particularly around certain industries like insurance. Insurance companies are improving their customer service by leveraging real-time payments to make claims payments faster. Companies are also adopting real-time payments to help with the supply chain. Thirty-percent of respondents have more than half of their payments going to strategic suppliers. The direct execution of urgent payments are a valuable instrument for the corporate treasurer (e.g., for trade payments), but are increasingly becoming a business differentiator within industries whose suppliers and clients can benefit from the speed of payments, and to better serve strategic suppliers.

Once the ERP's technology is up to speed, having multiple instances of an ERP, which many companies have, could be a challenge for real-time payments. Certain specialized technology treasury and payment factory vendors have already added the functionality to their systems and are live or in testing with banks and their clients. So the move toward real-time payments is happening.

## What are the barriers to adopting real-time payments?




## What percentage of your payments are to strategic suppliers?



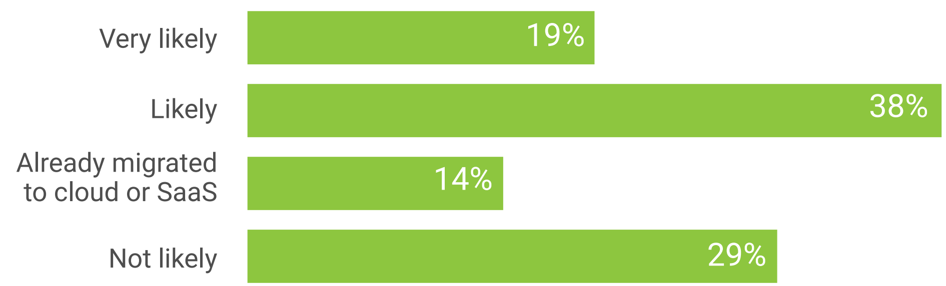
# Modernize Payments in the Cloud

Seventy-one percent of survey respondents have or are likely to move payments to the cloud. A cloud solution should offer end-to-end professional, managed and client services wrapped around it for a single point of contact. Modernizing payments with cloud-based technology enables treasury departments to focus on strategically managing cash, risk and payments without having to maintain systems.

Cloud technology and services provide corporations with numerous benefits, including:

1. **Seamless integration** with internal and external partners and technologies like banking APIs.
2. **Hyper-focus on security** – Many technology providers advise and offer the right tools to help manage cyber risk.
3. **White glove service** – Treasury staff have more time to focus on strategic initiatives without having to manage and maintain systems.
4. **Application-based SLAs** - Vendor cloud services are often backed with service level agreements (SLAs) that focus on more than infrastructure. They focus on application availability and operational health. Internal IT teams and third-party cloud services normally only assure infrastructure availability, which often means they "meet" their SLAs even when the application is down.
5. **Lower operating costs** - Hosting a solution in the cloud, combined with a suite of managed services, offers customers lower running costs, which mean predictable, low-risk operating costs.

**How likely are you to utilize cloud-based or SaaS solutions for payments organization over the next few years?**



# The Continued Path toward Modernization – Integrating Reconciliation Technology with a Specialized Payment Factory

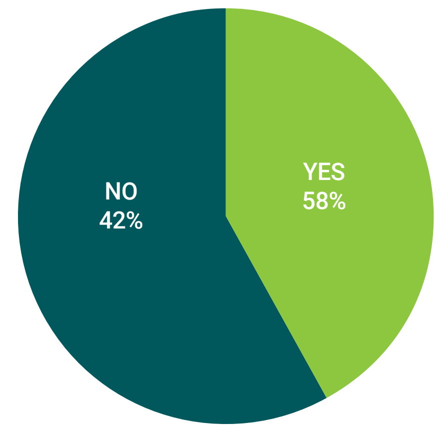
# What Is the Role of Reconciliation in Payments Modernization?

Forty-two percent of respondents have automated their reconciliation processes in some capacity. Fifty-percent have more than three staff members involved in treasury and/or payments reconciliation.

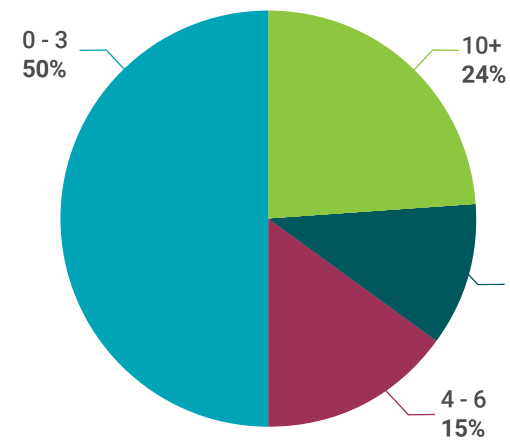
For a true picture of cash positions, a treasury department relies on the accuracy of multiple supporting systems. But validating the complex ecosystem of orders, sales transactions, payments and bank statements can take time and drain resources. Accurate capture of all sales activity, invoicing and payment flows allows for confident investment and business decision-making – and financial and regulatory reporting.

There is, however, a straightforward solution – and it comes from taking a digital approach to reconciliation. Companies with large payment volumes can centralize and automate this process through a single, state-of-the-art system – improving efficiency, transparency and control. Comprehensive liquidity and reconciliation capabilities can streamline communication to/from the payment factory. Additionally, companies who have not yet moved to a payment factory can still centralize reconciliation and liquidity monitoring of all payments by providing two-way integration to the appropriate payment systems. No matter how diverse or complex the requirements, automating reconciliation is an important first step in building a digital treasury and ultimately providing an accurate, intraday groupwide view of cash.

**Do you currently perform your reconciliations manually (i.e., bank accounts, AR/AP, confirmation matching, internal/suspense accounts, etc.)?**

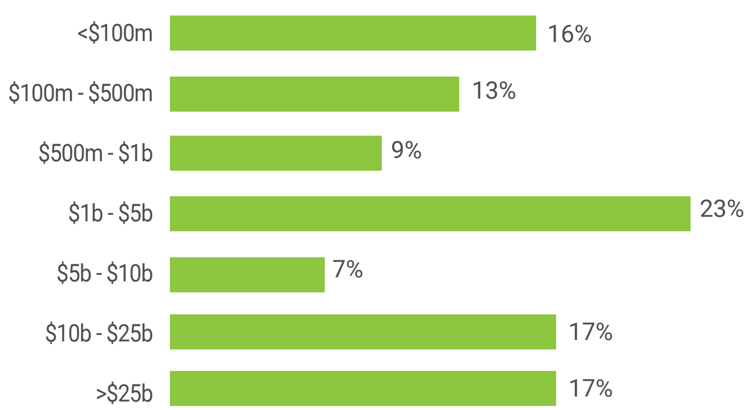



**How many individuals are currently involved in reconciling your treasury and/or payment reconciliations?**

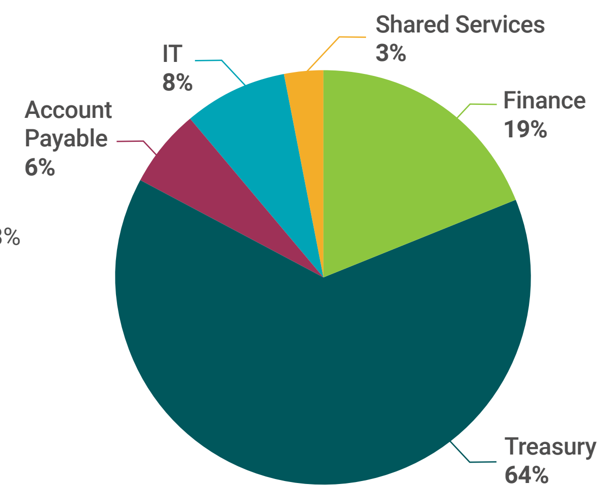


# Appendix

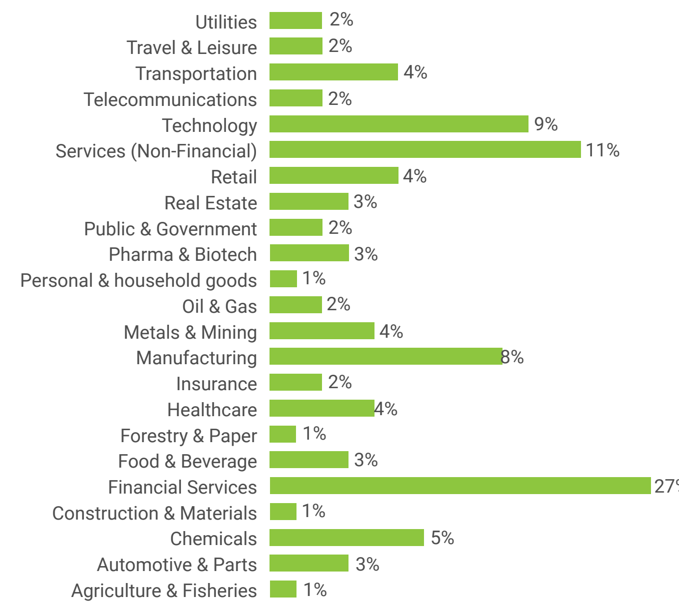
## What is your company's annual revenue?



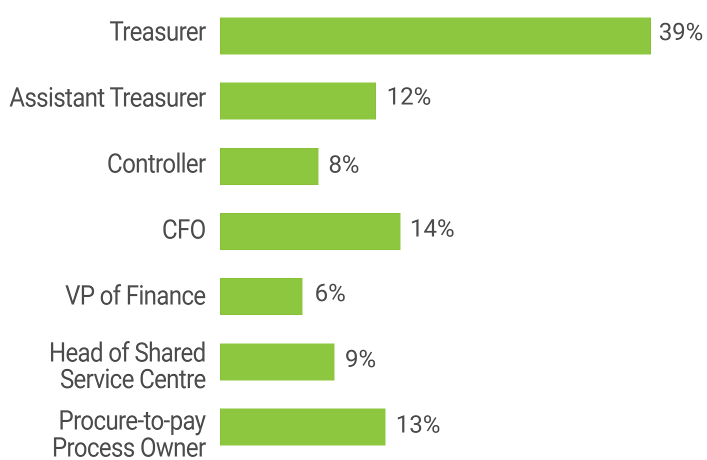

## In your role, what is the scope of your responsibility?



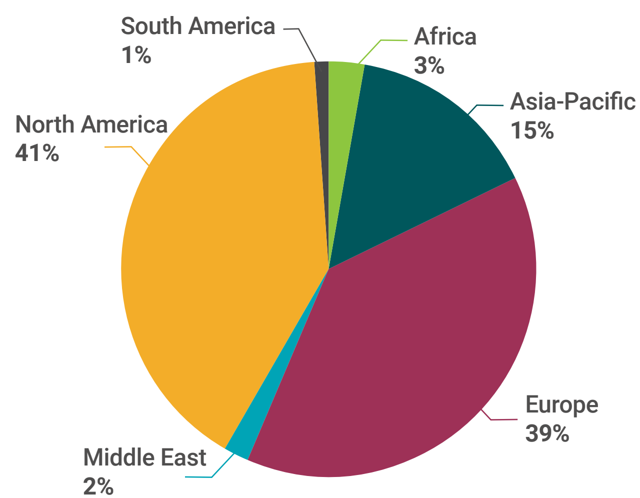

## What is your industry classification?




## Who is in charge of payments projects within your organization?




## Where is your company headquartered?



# Are you ready to modernize your payments and bank connectivity? Let’s have a conversation.

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fisglobal.com OR EMAILING getinfo@fisglobal.com.

fisglobal.com

getinfo@fisglobal.com