FINDING THE MISSED OPPORTUNITIES

2019 FIS Corporate Payments and Bank Connectivity Market Report
Executive Summary

Corporations are increasingly adopting digital capabilities and payment factory and bank integration solutions to make their payments future-ready, according to our sixth annual FIS Corporate Payments and Bank Connectivity Market Report.

Yet our 2019 report also finds that many corporations still haven’t adopted these capabilities, leaving them struggling with fundamental aspects of payment processes.

The 2019 FIS Payments and Bank Connectivity Market Report reveals:

• Where companies face the greatest payments challenges
• How they’ve made strides toward centralization
• The technologies they’re investing in today and tomorrow
• The ROI on thinking big

Key Findings

• While two-thirds say fraud risk is a top driver, less than one-half invest in a payment factory to reduce fraud.
• Payments are more complicated than ever: 48 percent of corporations manage more than 100 bank accounts, and 14 percent issue invoices to 10,000 or more suppliers.
• Corporations are trying to simplify payments, and they’ve seen a limited pay off. More than 70 percent have improved visibility of cash, for instance. However, only about half have reduced costs.
• Corporations recognize the impact of developments such as SWIFT gpi and real-time payments. Yet many aren’t ready to take advantage: 59 percent have no plans to adopt real-time payments in the next 18 months.
• Adoption of transformative technologies is also low; only 10 percent of companies are using a payment factory to originate and deliver payments to banks, and just 13 percent are using one to convert formats to ISO 20022. Yet 60 percent of those that are using a payment factory achieved an ROI in two years or less, and 65 percent achieved an ROI of over $100k.
THE PAYMENTS AND BANK CONNECTIVITY LANDSCAPE IS STILL COMPLEX
Multiple Banks, Many Accounts

Corporations have made some progress in simplifying the complexity of payments.

In the 2014 FIS Payments and Bank Connectivity Market Report, 25 percent of companies operated with 11 or more cash management banks. Six years later, that number has decreased slightly, to 19 percent.

Similarly, the number of firms managing more than 100 bank accounts has slid from 77 percent in 2014 to 48 percent today. Yet there is still significant work to do.

Key Takeaways

Digital initiatives such as a payment factory or bank integration combined with a managed bank connectivity solution can dramatically and quickly simplify processes to:

- Streamline bank relationships and accounts
- Enable better ways to connect to suppliers
- Improve controls and efficiencies
- Reduce costs and fraud risk
Numerous Suppliers and Payment Initiation Formats

The number of suppliers and payment initiation formats that companies manage adds to the complexity.

Nearly one-half of respondents issued payments to 1,001 or more suppliers in the past 12 months – with 14 percent topping 10,000.

Key Takeaways

The more suppliers a company uses, the more control it requires to manage those relationships effectively.

A payment factory or bank-integration solution can establish standardized workflows and controls, ultimately helping corporations to harmonize payment formats and take advantage of newer formats such as ISO 20022 XML and SWIFT MT1/2XX.
Managing Cross-border Payments and Regulations

Corporations manage a high percentage of cross-border payments. They also face a growing number of regulations and standards that affect payments, and many of these have a cross-border dimension. Not surprisingly, more than one-third consider SWIFT gpi – the new standard for global payments – the development that will have the greatest impact on payments. Nearly as many point to the European Union’s General Data Protection Regulation (GDPR).

Key Takeaways

Without a payment factory, companies lack visibility across disparate systems. That can result in limited control, difficulty complying with regulations and high costs for bank fees and foreign transaction (FX) fees.

The right technology can pull information into a single system to increase control, standardize processes and reduce costs.

Domestic Versus International Payments

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>Domestic</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>43%</td>
<td>7%</td>
</tr>
<tr>
<td>International</td>
<td>21%</td>
<td>69%</td>
</tr>
<tr>
<td>Originate internationally but settled domestically</td>
<td>15%</td>
<td>95%</td>
</tr>
<tr>
<td>Originate domestically but settled internationally</td>
<td>21%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Payments-related Regulatory Changes With the Greatest Impact

- SWIFT gpi: 32%
- General data protection Regulation (GDPR): 35%
- Brexit: 13%
- Revised Payment Service Directive (PDS2): 20%
THE ROI MISMATCH
Aligning Project and ROI Drivers

As corporations look to payments initiatives to achieve specific goals, they must align their desired ROIs with their biggest challenges.

Respondents have cited costs, control and fraud risk as key challenges since the first FIS Payments and Bank Connectivity Market Report in 2014. This year, reduced fraud risk has moved up 7 percentage points compared to 2018, to become the top driver of payments projects.

But there's a disconnect between project drivers and ROI drivers. Companies primarily look for ROI from lowered costs; only 48 percent cite reduced-fraud ROI.

And while two-thirds say fraud risk is a top driver, less than one-half invest in a payment factory to reduce fraud.

Key Takeaways

Approaching payments challenges in a holistic manner can not only bring incremental improvements. It can simultaneously address key issues such as visibility, control and fraud risk – and position businesses for success and growth.
Centralizing payments is a start to improving payments processes. Yet companies face many of the same challenges they grappled with six years ago.

There’s been little progress on centralization: 84 percent of firms in 2019 versus 83 percent in 2014, although a further 6 percent plan to centralize payments in the next two years.

In other areas, progress is even more limited. Only 43 percent have largely or fully standardized a controlled payment management workflow for legal entities, and 47 percent have done so for payment volumes.

At the same time, they use a wide range of e-banking connections. One-quarter rely on host-to-host, while another 25 percent use e-banking.

Key Takeaways

Connecting to banks across multiple channels and centralizing payments without the right technology is ineffective. Smart companies that implement payment factory or bank integration technology can move beyond the same old challenges and take payments to the next level.
On a more positive note, corporations are achieving some success with key payments drivers. Nearly three-quarters have increased control, and more than 70 percent have improved visibility of cash. Likewise, nearly two-thirds have reduced the risk of fraud. But many still face cost struggles; only about half have reduced internal and external costs.

Key Takeaways

Companies that take the time to build a business case for a payment factory or bank-integration initiative often uncover hidden operational and transaction costs. Such costs include disparate technologies and processes, multiple bank relationships and connection fees, transaction charges such as banking and FX exchange fees, and processing and repair fees. A payment factory can streamline payments operations and reduce these costs.

Achievements from Payment Projects

<table>
<thead>
<tr>
<th></th>
<th>Fully achieved</th>
<th>Mostly achieved</th>
<th>Partially achieved</th>
<th>Not achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved control and visibility on approvals</td>
<td>26%</td>
<td>47%</td>
<td>20%</td>
<td>7%</td>
</tr>
<tr>
<td>Improved cash visibility</td>
<td>17%</td>
<td>54%</td>
<td>20%</td>
<td>9%</td>
</tr>
<tr>
<td>Consolidated bank relationships</td>
<td>16%</td>
<td>44%</td>
<td>27%</td>
<td>13%</td>
</tr>
<tr>
<td>Reduced fraud risk</td>
<td>13%</td>
<td>50%</td>
<td>30%</td>
<td>7%</td>
</tr>
<tr>
<td>Reduced payment errors</td>
<td>11%</td>
<td>60%</td>
<td>24%</td>
<td>5%</td>
</tr>
<tr>
<td>Reduced internal costs</td>
<td>9%</td>
<td>41%</td>
<td>44%</td>
<td>6%</td>
</tr>
<tr>
<td>Reduced external costs</td>
<td>6%</td>
<td>40%</td>
<td>40%</td>
<td>14%</td>
</tr>
</tbody>
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NEW TECHNOLOGIES – THE PROMISE OF THE FUTURE
Finance departments are looking ahead to new technologies and capabilities to improve and even transform their processes and effectiveness.

An overwhelming majority cite bank APIs as the technology with the greatest impact. In addition, more than one-half recognize the transformative nature of real-time payments.

**Key Takeaways**

Companies that become early movers on bank APIs and real-time payments can gain competitive advantage.

Just as important, they position themselves to leverage emerging technologies such as artificial intelligence, machine learning and robotic process automation.

<table>
<thead>
<tr>
<th>New Technologies With the Biggest Impact</th>
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<tbody>
<tr>
<td>APIs</td>
</tr>
<tr>
<td>Real-time payments</td>
</tr>
<tr>
<td>Artificial intelligence and machine learning</td>
</tr>
<tr>
<td>Robotic process automation</td>
</tr>
</tbody>
</table>
SWIFT gpi enables fast, secure and transparent transmission of payments across the globe. But only one-fifth of companies plan to adopt SWIFT gpi in the next year, and more than one-third have no plans for the standard.

It’s a similar story for real-time payments, which promise better visibility and cash management. While 41 percent of organizations will embrace real-time payments within 18 months, the remainder have no plans to do so.

Key Takeaways

Technology-enabled functionality can have a tangible impact on payment processes, visibility and control. Smart organizations are building a business case for emerging functionality. Insurance companies, for instance, increasingly need to pay claims in real time.

The centralization and flexibility made possible by a payment factory can enable companies to leverage these capabilities – and render themselves future-ready as new technologies appear. Technology laggards, meanwhile, will find themselves at a competitive disadvantage.
THE CASE FOR THINKING BIG
Many organizations recognize that a payment factory solution can help them centralize and standardize their global payments with workflows and controls and help them overcome payments challenges.

However, there are significant missed opportunities. A mere 10 percent rely on a payment factory to originate and deliver payments to banks. And only 13 percent use the tool for converting formats to ISO 20022.

Key Takeaways

While payment factory use is still low, our experience shows that more and more companies are pursuing payment factory projects. With increasing costs and new technology trends such as APIs and real-time payments, smart companies are planning for the future and building a business case for a payment factory.
Payments projects can deliver measurable results. More than one-half of companies that implemented a payment factory have achieved annual cost savings of $100,000 to $1 million. And 79 percent that implemented a payment factory achieved ROI in two years or less.

Key Takeaways

A payment factory can be a large project. It calls for commitment of focus, time and resources – and a clear business case. Organizations with the vision to invest in a payment factory reap measurable rewards. They reduce complexity, avoid hidden costs, mitigate fraud and optimize their payment processes.
8 Ways Your Company Can Benefit from a Payment Factory

Want to build a business case for a payment factory? Look for these ROIs:

1. Improved control and compliance
   Centralize and standardize payment processes to avoid human errors and fraud, tangibly improving security and compliance.

2. Simplified integrations and workflows
   Establish an in-house bank for subsidiaries to achieve enterprisewide visibility and control.

3. Reduced payment fraud
   Enhance workflows with internal screening, connection to external screening and dashboards.

4. Greater visibility and insights
   Centralize accounts and cashflows for better visibility of cash.

5. Centralization and automation
   Standardize processes with best practice workflows for increased productivity and economies of scale.

6. Increased productivity
   Shift from multiple e-banking systems to a single hub to improve usability and ease user management.

7. Lowered costs
   Leverage bank-agnostic connectivity such as SWIFT gpi to reduce bank dependence and improve your negotiating position.

8. Flexibility and real-time readiness
   Gain the agility to fine-tune processes and respond to new market requirements such as real-time payments.
About the Survey

The 2019 FIS Payments and Bank Connectivity Market Report is based on a survey of 120 finance leaders in a broad range of markets. The findings provide finance professionals with actionable and forward-looking information, insights and guidance to help them master their payments processes – and position their companies for success and growth.
Are you ready to build a business case for a payment factory or bank-integration project?

Let’s talk.

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