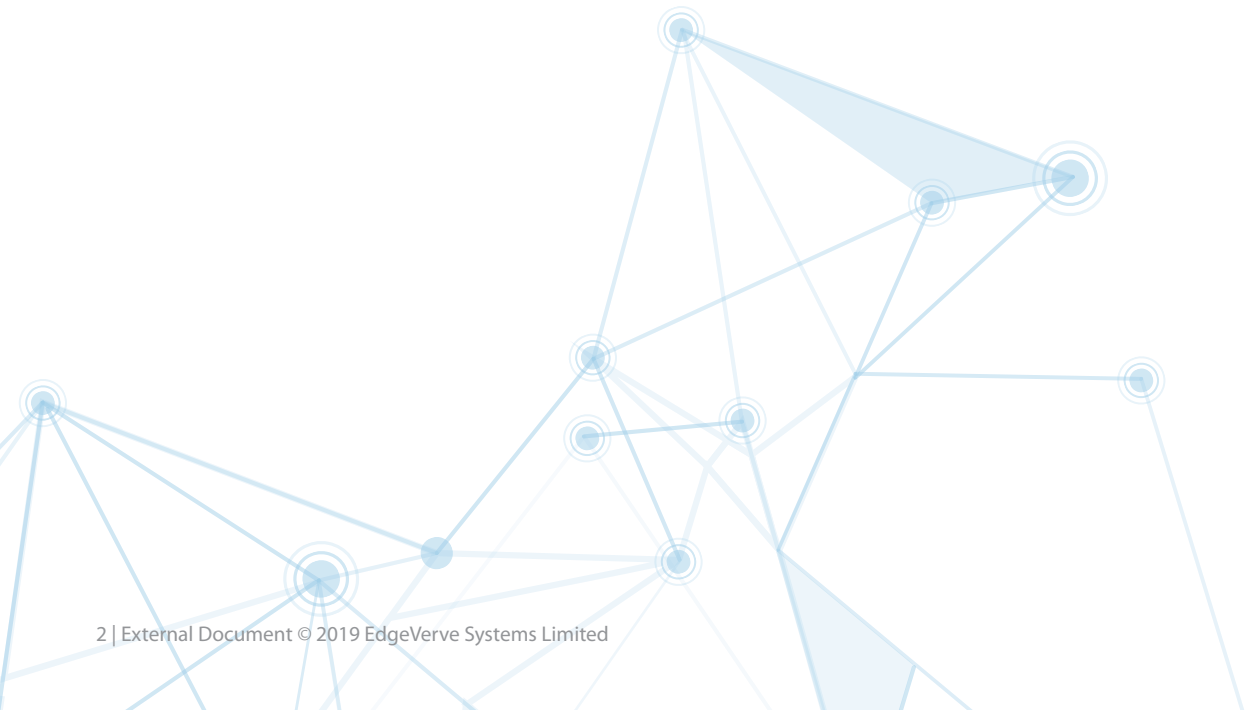
Infosys® | Finacle

# ***Digital Transformation***
## *for Faster, Efficient and Secure Corporate Payments*

# Contents





# Introduction

The global wholesale payments revenue is estimated to cross the $500 billion mark by [1]2026, an average annual increase of 6% over 2016. And this is at best a conservative estimate. Evidently then, the importance of payment services as a revenue generator for banks cannot be overstated. Corporate payments are not only an important revenue source but also vital for driving deeper customer relationships.

Digital technologies, new competition, and open banking are a few factors giving further wind to the sail in corporate and wholesale payments. This point-of-view paper, put together by the Banking Visionaries' Council, looks at how the new developments in banking are changing the face of corporate payments, examines news ways adopted by payment providers in response to these changes, and explore the solutions banks can potentially embrace to elevate their play in the payments space.

The Banking Visionaries' Council, an industry thought leadership initiative, brings together leaders and practitioners from eleven countries and six continents to discuss and create research-led actionable point-of-view assets about the most pressing challenges and trends facing the industry.

# Six key forces shaping the new payments services landscape

## 1. The rapid evolution of technology

Technological change in banking has been inexorable. Computing power has expanded rapidly, and its cost has come down. Connected devices and open APIs are making banking on things and new form factors possible (IoT), and in turn, spewing massive quantities of data for analytics. [2]Mobile and wearable contactless payments are expected to reach $95 billion annually by the end of 2018. New scenarios of integration of remittance data with payments and blockchain based network-led payments are not only being discussed but implemented. And artificial intelligence is finding wide application in banks' front and back offices. Technological change is transforming banking like never before, and the change is only going to get faster.

## 2. Real-time frictionless banking

Corporate payment systems were predominantly offline, batch based earlier. Increased digitization has made it possible for corporate banks to provide their customers with ubiquitous, fast, safe, and efficient real-time payment services. With real-time payments banks can now support new business use cases and offerings and at the same time drive efficiencies for their clients through accurate working capital management and higher visibility of funds.

## 3. Industry and regulatory initiatives

Banking, one of the most regulated industries, has been under high scrutiny by its watchdogs especially after the financial crisis. There is an increased focus on KYC, anti-money laundering and terrorist financing to tackle fraud and manage high-risk cases. Compliance has been particularly challenging in the face of constant introduction of global, regional and national controls such as Basel III, Dodd-Frank and Foreign Account Tax Compliance Act (FATCA) in the US, SEPA in Europe, and new AML guidelines in Asia. Contracting margins due to higher reserve requirements are now under further pressure due to increased competition, given the renewed focus on customer-centric regulations such as GDPR in the UK, and open banking and PSD2 in the UK and Europe to enhance innovation in the industry.

## 4. Open Banking

PSD2 and open banking have opened the market to new qualified third parties (TPPs) who can perform transactions on behalf of customers. This is distancing the banks from their customers as they stand to lose the ownership of customer relationship. Banks are responding to this by introducing aggregation services that allow real-time consolidated view of balance across the banking relationships of a customer. In the absence of insight-enabled solutions such as aggregation services or solutions built around such services, banks risk getting commoditized.

## 5. Demanding customers

With the rise of digital technologies and new possibilities enabled by regulations such as PSD2 and Open Banking, corporate customers have come to expect value-added services from their banks. Banks need to capitalize on the free movement of data to enrich offerings for their customers or risk commoditization and eventually extinction. Apart from the new propositions possible with the free movement of data, expectations of corporate customers from their banks are constantly evolving. Here we take a quick look at some of these expectations:

**I. Instant payments** – Instant payments have become the norm in retail banking. Corporate banking is catching up fast. From the conventional batch processes which allowed payments in batches once a day, digital technologies now allow real-time corporate payments. This is a crucial ask from corporate customers. With real-time payments, corporates can assess cash positions and liquidity risks and make decisions instantly as opposed to analyzing historical records at the end of a day.

**II. Ease-of-return processing** – The volume and value of rejected transactions is particularly high for corporate payments making reconciliation a fairly complex process. Banks typically have a separate reconciliation system to process and manage rejects. Customers are now looking for real-time solutions so reconciliation can be performed online for an accurate view of balance to make informed decisions. Real-time corporate payments can serve to reduce the number of rejects greatly.

**III. Flexibility** – Customers are no longer content with batch processing, and banks cannot afford downtime to process real-time transactions of customers. Thus systems must be able to scale up or down based on the volume of transactions irrespective of the time of the day or the type of transaction.

**IV. Transparency** – Customers are increasingly looking for informative dashboards and reporting services for cash pooling, or liquidity flows from their banks. They demand clarity about how their funds are moving from their corporate banks.

**V. Cost efficiency** – One of the reasons for the demand for real-time payments is low immediate payment fees. Customers are looking for efficient transactions, and banks are also looking to reduce the cost of serving customers. In an [3]AFP survey about the benefits of electronic payments, the highest percentage of respondents (51%) from large corporates stated cost savings to be the prime benefit of electronic payments.

**VI. Seamless experience across channels** - Most corporate payments today are typically performed on a web browser. But corporates now expect retail-like omnichannel experiences from their banks that allow access to funds, balance, and liquidity positions on the move.

# The visible shift in corporate payments

Traditional payment providers are transforming themselves to align with modern constructs and principles in corporate payments. Some of the key shifts include:

1. With open banking coming into force and the emergence of API-led ecosystem-based banking, payment providers are moving from an aggregator-based model to a collaborative model. The traditional model of a single payment system that interacts with multiple systems within a bank, aggregates, and facilitates interactions with the external systems is not viable any more given the myriad systems, entities, digital properties, payment gateways and interfaces customers interact with. Modern payment systems allow collaboration with external ecosystems by way of APIs, driving the shift from one-to-many to many-to-many interactions. So while an aggregator requires all external systems to interface with a single payment system of a given bank, the customer-centric modern payment system drives convenient and faster customer transactions through interactions on different interfaces.

2. Modern payment systems support omnichannel capabilities to facilitate transactions across different channels. Traditional systems which primarily supported desktop and browser-based interactions are now expanding capabilities for the on-the-move corporate customers who like to always be aware of the movement of their funds to make informed decisions and actions regardless of their location or device.

3. Banks are now tapping into the exponential efficiency gains of modern technologies such as machine learning and AI for functions such as rejection handling and fraud management, as opposed to the rule-based engines prevalent traditionally.

4. As stated earlier, the traditional aggregator model comprises a single payment system to which other systems such as wealth management or treasury send information. A batch program run on a periodic basis is then used to derive report or insights. There is limited exchange with external systems. Modern systems, on the other hand, are not stand-alone modules but span a breadth of different internal and external systems to ensure seamless integration and data-flow.

5. A recent fraud at a leading Indian public sector bank highlights the lethal gap that makes traditional systems prone to fraud. [5]In early 2018, the Punjab National Bank found itself at the center of a $1.8 billion fraud which could have been dodged with the integration of the SWIFT communication system and the bank's core banking system (CBS). In the absence of this integration, letters of understanding and payment notes to foreign branches of certain banks conveniently bypassed the bank's CBS.

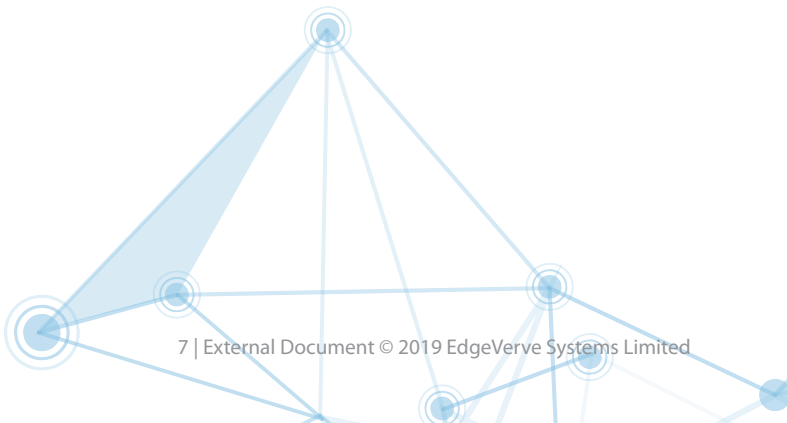
# Digitization of corporate payments – A look at key digital solutions

Banks are responding to the changes in the space with innovative digital solutions.

1. **Payment Hub** – Disparate legacy systems across units within a bank lead to inefficiencies and high cycle times. These can be minimized significantly by establishing Payment Hubs. A payment hub is a single centralized system that is connected to various transaction systems online allowing consolidated payment flows for higher flexibility and agility.

2. **ERP integration** – For banks that have fragmented systems, implementing a Payment Hub is the first step in digitizing corporate payments. Secondly, for end-to-end integrated workflows, banks should integrate the Payment Hub with the ERP systems of their corporate customers. The [4]2018 AFP estimate suggests that 60% of U.S. companies do not have straight-through-processing (STP) capabilities for payables and receivables. Payment hub and ERP integration allow higher efficiencies through STP, centralized operations, and effective inventory management. Integration with client ERP systems eliminates the need to track and reconcile payables and receivables with account statements manually.

3. **APIs for payments** – Open Banking and PSD2 have intensified competition in corporate banking with the exchange and free movement of data via APIs. Banks that fail to offer attractive propositions enabled by insights to their corporate customers are clearly at a disadvantage. The loss of control of the ownership of customer relationship hinges on the ability of banks to enrich their corporate banking solutions with data aggregation and insights, more than ever before. Furthermore, APIs to integrate and embed payment services with corporate ERP systems can serve to greatly enhance transparency and convenience for a bank's corporate customers. At Barclays, transactions completed over 700 branches of the bank now flow online to their customers' database along with information such as tracking reference number for deposits. This has helped the bank drive deeper customer relationships and increase its annual collection turnover.



4. **Blockchain-based remittance** – Blockchain delivers the unique benefits of transparency, efficiency, and immutability. Banks are replacing manual paper-based processes with digitized assets for their blockchain based cross-border remittances. [6]Emirates NBD and ICICI Bank, two leading banks from the UAE and India, have piloted a blockchain network on the UAE-India payments corridor, one of the busiest international remittances corridors in the world. With the solution, the banks have achieved about a 70% reduction in reconciliation cost.

5. **Anti-money laundering (AML) solutions** – Banks are increasingly looking to deploy AI and Big Data in their KYC and AML solutions for fraud detection. These emerging technologies allow efficient identification of customers and effective management of high-risk customers. AI algorithms analyze transaction patterns in real-time, use behavioral indicators to spot suspicious activity, and apply insights from experience to reduce false positives and negatives.

## Key areas of consideration in payments for banks serving large corporates

Digitization has empowered banks to provide innovative solutions to their corporate customers for enhanced efficiencies and even top line gains. Infosys Finacle recommends banks to specifically evaluate the following four areas to drive superior business outcomes:

1. **Customer experience:**
   - Integrate and embed payment services with corporate ERPs with APIs
   - Deliver faster settlement with real-time payment options instead of traditional batch processing
   - Provide enhanced accessibility to customers with mobile payment solutions and omnichannel capabilities

2. **Cost efficiency**
   - Drive agility and efficiency with end-to-end payment lifecycle management by deploying Payment Hub solutions
   - Reduce manual effort with RPA to automate processes especially for reconciliation
   - Participate in blockchain based permissioned networks with partner banks to cut time and cost

3. **Compliance and risk management**
   - Meet compliance effectively and reduce the cost of regulatory compliance with improved transparency of blockchain based solutions
   - Employ advanced analytics in fraud monitoring to score transactions and reduce false positives
   - Mitigate risk with FinTech AML solutions for management of high-risk customers

4. **Revenue enhancement**
   - Unlock revenue with instant payment service opportunities
   - Discover new revenue opportunities around open payments
   - Increase fee revenue by adopting a marketplace approach to offer white labeled payment products or expose APIs to banks and non-banks and devise a revenue-share or pay-as-you-go model to charge for the use of those APIs

## Conclusion

Business and corporate houses have long been saddled with batch processing, and slow and sluggish reconciliation. But now, with the modern multichannel payment solutions that allow integration of payment services with corporate ERP systems and centralized payment hubs, they are empowered with renewed agility and flexibility. With faster real-time transaction processing, API-led data sharing, and blockchain- based global remittance solutions, banks can help their corporate clients drive multifold efficiency gains and unlock revenue opportunity. Corporate clients have long been looking for these capabilities, and banks cannot afford to keep them waiting any longer.

### References:


1. Global Payments 2017 - BCG
2. Juniper research
3. AFP survey of organizations on benefits of electronic payments, 2016
4. 2018 Outlook: US Payments – Mercator Advisory Group
5. The anatomy of the PNB fraud - Livemint
6. Emirates NBD and ICICI: Blockchain Pilot Network

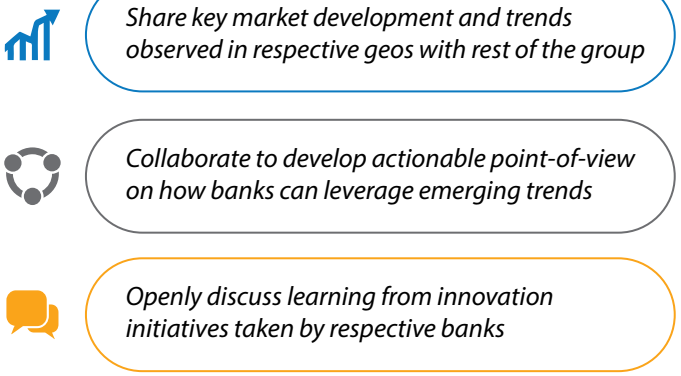
 

# About Banking Visionaries' Council (BVC)

Banking Visionaries' Council has been instituted by Infosys Finacle to collaborate with senior business and technology leaders from the banking community to develop actionable point-of-views around contemporary themes within the industry. The purpose of this council is to solve the most pertinent problems with research and collective thought leadership efforts. Currently, the council consists of a twenty-member-strong board with representation from eleven countries across six continents.

This point of view paper is an abridged version of the collaborative research work done by the council.

For more information on the council, please reach out to finacle@edgeverve.com



## About Infosys Finacle

Finacle is the industry-leading digital banking solution suite from EdgeVerve Systems, a wholly owned product subsidiary of Infosys. Finacle helps traditional and emerging financial institutions drive truly digital transformation to achieve frictionless customer experiences, larger ecosystem play, insights–driven interactions and ubiquitous automation. Today, banks in over 100 countries rely on Finacle to service more than a billion consumers and 1.3 billion accounts.

Finacle solutions address the core banking, omnichannel banking, payments, treasury, origination, liquidity management, Islamic banking, wealth management, analytics, artificial intelligence, and blockchain requirements of financial institutions to drive business excellence. An assessment of the top 1250 banks in the world reveals that institutions powered by the Finacle Core Banking solution, on average, enjoy 7.2% points lower costs-to-income ratio than others.


**For more information, contact finacle@edgeverve.com** **www.finacle.com**