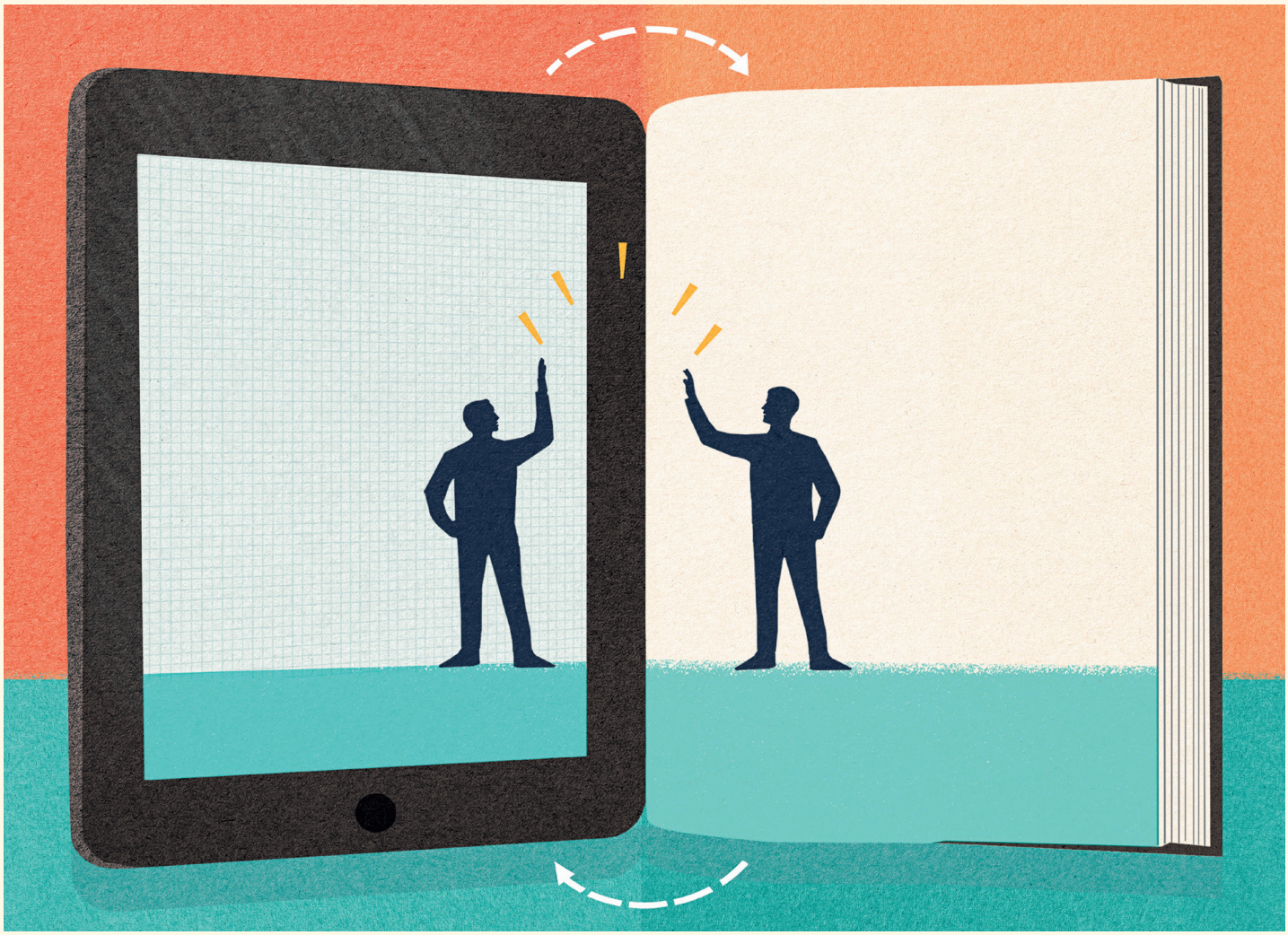

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TECHNOLOGY PROMISES A GREAT DEAL IN TERMS OF EASING THE FLOW OF FUNDS. BUT PROCESS CHANGE IS IMPORTANT, TOO, AS SEBASTIAN ROJAS ARGUES

We are living in a time of extreme change. A wave of money is flowing into financial technology and innovative competitors are moving up the payments value chain to challenge the traditional correspondent banking. What's more, the shift towards real-time payments is a global phenomenon, so it is unsurprising that expectations and demands for cross-border payments are also increasing. Customers want it all: more speed and transparency, end-to-end traceability and all this straight through their systems.

However, while new innovative technologies are changing the shape of the global payments industry, regulators are also introducing new rules to tackle the challenges of control, KYC, fraud and money laundering. These present a significantly increased compliance burden and are driving additional changes across the global payments infrastructure.

According to a new paper produced by EuroFinance and SWIFT, *The future of payments: a corporate treasury perspective*, the payments landscape is likely to be unrecognisable by 2020. "Globalisation and digitisation have encouraged companies of all sizes and sectors to internationalise their businesses, both conventionally and via e-commerce," the report states. "The incumbent payment providers, in both the core infrastructure of payments and at the level of the bank intermediaries, are under existential threat from new, fintech and non-bank competitors; and that new technologies, such as blockchain, will render current methods obsolete."

Other regulatory changes, including the introduction of PSD2, the EU's second

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payment services directive, are also affecting the payments ecosystem, attracting new competitors into the payments space. While the majority of these are targeting retail customers, some also focus on improving the traditional correspondent banking model. *The future of payments* identifies networks that "re-intermediate" banks in consortia offering "global automated clearing house" services, which could be appropriated for certain types of cross-border corporate payment.

"Others use versions of blockchain technology to provide a service superficially similar to correspondent banking," the report continues, "but with improved performance. In addition, dozens of new and more established platforms offer service-layer access to the global payments network, tailoring their offerings to businesses of a particular size, type or location."

However, despite the plethora of new developments in payments, it is still not clear how many will be truly relevant for corporate treasury. Many have yet to demonstrate the scalability and security that are required for global regulators and new compliance legislation. Most importantly, if there is to be a payments revolution in corporate treasury, any new solution must solve the problems treasurers put at the top of their list of priorities.

Understanding challenges

For treasury, the core concerns are the pain points in B2B international payments and it is treasurers' demands for solutions that will prompt fundamental changes in the cross-border payments space. The traditional correspondent banking model for cross-border payments has been around for decades. Contrary to domestic payments, cross-border payments are slow and can take multiple days to complete. Furthermore, there is no transparency on costs, on when the payment will be received and no confirmation of credit.

> It is likely that treasurers will be unwilling to invest significantly in adopting new systems

According to the paper, corporate treasurers and their associations around the world stated that their main concerns/requirements are in the areas of:

- **Credit confirmation and timing:** Same-day or faster payments are important, as is confirmation of the payment reaching the beneficiary account.
- **Traceability of payment:** Corporates require the ability to track the progress and status of cross-border payments.
- **Straight-through processing (STP) and integration:** Any payments tracker or related global payment innovation service would need to be delivered as an integral element of their existing treasury and payments infrastructure.
- **Quality and completeness of remittance data:** Improvement is needed to ease automated reconciliation of payments with invoices.
- **Fee transparency, including FX costs:** Fees levied by correspondent banks are often unpredictable and can create reconciliation problems as well as additional payment claims from the beneficiary when the full amount is not received. This problem is exacerbated by FX conversions.
- **Rejections and investigations:** Treasurers and finance managers have little visibility of when and why a payment has been rejected, and the investigation process can be time-consuming.

All of these concerns conflict directly with treasurers' needs to automate processes, prevent fraud, increase cash and fee visibility, and optimise liquidity management. Moreover, they arise largely from the structure of the correspondent banking system. As *The future of payments* highlights, "This turns a simple payment between two parties into a game of pass the parcel for six: payer, payer's bank, payer's bank's correspondent, beneficiary bank's correspondent, beneficiary bank, beneficiary. These parties do not themselves act consistently: some have STP, some do not; some take longer than others to release funds; the fees charged along the way differ bank to bank, country to country and FX spreads are inconsistent."

The addition of KYC, anti-money-laundering rules, sanctions and an inconsistent global regulatory playing field has simply thrown sand into what was already an inefficient engine.

Stepping up

In such a quickly evolving landscape and with a clear set of requirements set out for a much-improved cross-border payments experience, the banking industry is committed to delivering on the demands of its corporate customers. Corporate treasurers, in turn, tend to have long-lasting, stable and loyal relationships with their banks and are not likely to jump ship just to save a few euros on bank fees without guarantee of all the other elements that come with the banking services package: security, reliability and resiliency, to name but a few. There are also significant questions about how suitable blockchain would be as the foundation of the global payments system.

It is likely that treasurers will be unwilling to invest significantly in adopting new systems, as they only offer an incremental improvement over the current incumbents.

The paper argues that treasurers are correct to adopt a wait-and-see attitude. "Most fintech initiatives are designed to profit from the margins available in retail and small SME payments, and from helping smaller businesses gain some of the advantages of digitisation. They do not address the cross-border payments issues facing companies large enough to have a corporate treasury."

Therefore, the paper continues, an obvious solution is to re-engineer existing systems. And, since most of the issues in cross-border payments arise from behaviours and processes that banks could change, rather than technology, changing these processes seems the obvious first step.

Treasurers also know that, in an initial burst of innovation, few ideas survive in the marketplace; and they know that the incumbents upon whom they rely have a huge incentive, as well as the deep pockets required, to innovate themselves.

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