

IMPACT BRIEF

DISRUPTION IN GLOBAL PAYMENTS

Opportunities & Challenges in 2020



insight
brief

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This Impact Brief distils a wide range of reports and analysis on the digital transformation of global payments, exploring the opportunities and challenges in 2020. Brought to you through the objective lens of **InsightBrief with the support of IFX Payments**, a leading global foreign exchange, payment, and financial technology provider.

INTRODUCTION

- Digital disruption is transforming the payments sector. Both incumbents and upstarts are working on upgrading their offerings and on meeting rising customer expectations. At the same time, 66% of large corporates report that they are in the process of reviewing their organisational strategy with their primary banking partners. ¹

DRIVERS

- ▶ The most important factors driving organisations to review their banking relationships are: ¹

• Costs	59%
• Bank stability/reputation	56%
• Simplifying/consolidating banking relationships	50%
• Improving digital customer experience/service	46%

- ▶ Banking products that are most commonly under review by corporates are cash management services (77%), payments (69%), liquidity solutions (58%) and FX, including hedging (51%). ¹

- ▶ Global payments revenue is estimated to reach \$2tr by 2025, equivalent to a 5.5% compound annual growth rate. With \$500bn of new incremental revenue in play, innovative fintech players are competing by providing new and enhanced services into the existing marketplace. ²

- ▶ Based on market trends like Open Banking, payments are increasingly becoming instant, invisible and free (IIF). Customer experience (28%) and efficiency (27%) are considered key drivers for transformation, with speed, price, service and quality of delivery acting as core product differentiators. ²

- ▶ Multiple trends are converging to minimise friction in payments: ²
 - 90%+ of executives worldwide say B2B transactions are increasingly instant
 - 71% agree payments are becoming cheaper
 - Payments are less visible as they are delegated to third-party apps and devices, across digital wallets, smart contracts, wearables and IoT tech.



66% of large corporates report that they are in the process of reviewing their organisational strategy with their primary banking partners

RESEARCH FINDINGS

- ◉ When asked what would make global payments processes more efficient, senior finance executives cited:³
 - Complete visibility on payments, including timings, amounts, and transaction status (42%)
 - Faster bank implementations and bank format harmonisation (36%)
 - Standardised and strengthened global payment workflows and controls (36%)
- ◉ 30% of firms plan to undertake a significant financial technology overhaul by 2021, with 64% planning to implement fintech treasury solutions within the next five years.⁴
- ◉ The top areas for investment in the payments sector are:⁵

• AP Automation technology	31%
• Portals/payment services	28%
• ERP payment modules	28%
• APIs	24%
• TMS payment modules	24%
- ◉ Banks and fintechs are driving innovation in payments by creating new services and enhancing their offerings across areas such as working capital management, access to alternative supply chain finance platforms and blockchain support. Providers are also seeking to improve international payments via innovations like SWIFT gpi.¹

CHALLENGES

- » A key challenge for finance executives is tackling complexity. 57% work with 6+ banks, while 41% of companies make regular payments in 6+ currencies. Given this, there is broad support for new multi-service and multi-bank portals - and many executives would consider outsourcing payments and supply chain finance functions.^{1,5}
- » Tackling over-reliance on manual processes within corporate treasury departments was cited as a top operational challenge by 57% of practitioners in 2019, a higher rate even than fraud or regulatory change. Conservative technology adoption practices within organisations are seen as largely responsible.⁴
- » The top challenges to integrating with a bank for cash management services cited by corporates are:¹
 - KYC onboarding (65%)
 - File formatting issues (49%)
 - Testing procedures for new bank services, including technology (44%)



30% of firms plan to undertake a significant financial technology overhaul by 2021, with 64% planning to implement fintech treasury solutions within the next five years.

CHALLENGES (cont.)

- » Payment management, cash-forecasting and cash reporting are specific areas of treasury operations named as the most time-consuming. Streamlining these three core areas would free up essential time for treasury personnel to focus on more strategic functions.
- » Fraud is a key concern in the payments sector. 82% of companies were targets of payments fraud in 2018. Despite this, only 11% of senior finance executives strongly agree that their organisation's global payment system is entirely secure.^{3,6}
- » When asked what would make global payments processes more secure, finance respondents pointed to real-time payment screening and fraud detection capabilities (46%), increased visibility into payments (43%) and standardised and strengthened global payments workflows and controls (38%).³

IFX PAYMENTS' IBANQ SOLUTION

- Corporates must be able to reconcile with certainty – timeliness and accuracy being a prerequisite. While automated solutions are incredibly efficient, there is still invariably a need for human intervention.
- Virtual IBANs enable corporates to segregate remittance flows with 100% accuracy and without the need for reconciliation via a master account. The virtual IBAN is the cornerstone of IFX Payments' unique ibanq platform – a collection and reconciliation solution for businesses.
- From an organisation or their customer's perspective, either sender or receiver, a virtual IBAN works in the same way as a regular bank account, so there's no need for complicated set-up processes.
- Treasury departments can set up payments for today, tomorrow or schedule payments for the future from ibanq. IFX Payments' global network of payment providers allows corporates to send domestic and cross-border payments quickly and securely through ibanq, via file upload, API or manual entry.
- All of IFX Payments' IBANs are enabled to receive 39 major currencies in segregated currency e-wallets. Corporates benefit from the convenience of managing FX exposure at any time, taking advantage of competitive, live rates and micro-hedging capabilities.

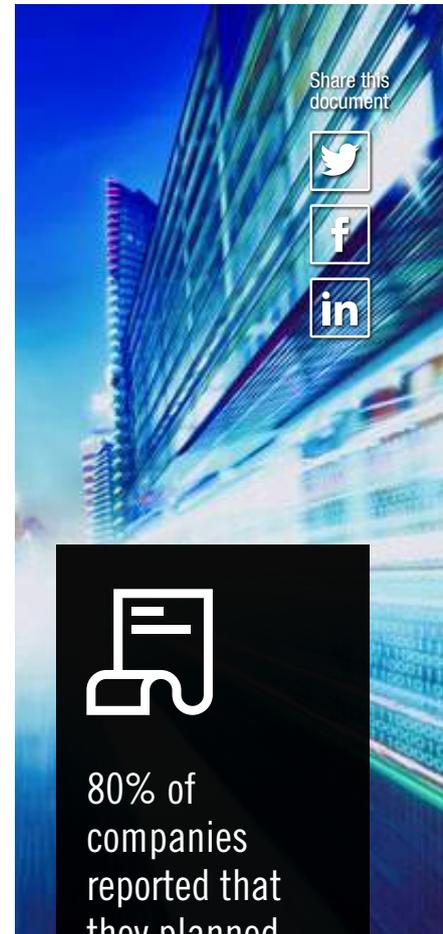
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TAKEAWAYS

- » Innovation in the payments sector is making transactions ever more frictionless, as they become faster, simpler and cheaper. This is driving disruption, as incumbents are hit by disintermediation and by competitive unbundling. In the future, though, this may flip, as today's rivals ultimately come to work together and collaborate.
- » Infrastructure and technology within the payments industry are undergoing a generational shift. Speed, transparency, and efficiency in B2B payments are now expected in line with B2C payments. Fintechs are leading this shift, disrupting incumbents and changing the B2B payments landscape, radically improving the customer experience.
- » Looking ahead, businesses are committed to their investments in payments services. 80% of companies reported that they planned to maintain or increase previous spending levels on payments services and technology over the coming year. ⁵
- » Reflecting polarisation in the payments ecosystem, banks are focusing on their strengths - either broadening their horizons or specialising. 42% of large banks report shifting towards global banking (relative to 20% of small banks), while 22% of smaller banks are adopting niche models (compared to 3% of larger institutions). ¹
- » Despite the lag in the adoption of newer technology within corporates, 75% of organisations indicate they are excited about innovation within the technology realm and would opt to upgrade their IT rather than hire more staff. ⁴



80% of companies reported that they planned to **maintain or increase previous spending levels on payments services and technology over the coming year.**

SOURCES

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ABOUT IFX PAYMENTS

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Founded in 2005, IFX Payments has grown to become a leading global foreign exchange, payment, and financial technology provider. We have re-engineered the core banking infrastructure for optimal performance, leveraging the latest scalable technologies.



Positioned to be a significant participant in the fintech revolution, IFX Payments is delivering advanced payment, treasury, and financial management solutions. Replacing operational inefficiency with streamlined processes, our clients replace uncertainty with control. Together, we are building a better banking experience.

IFX Payments is pioneering an overhaul of international transaction management with an executive team comprising over 50 years of experience in treasury, foreign exchange, and payment services.

www.ifxpayments.com

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