



# **Global Payments 2020: Transformation and Convergence**

# Global Payments 2020: Transformation and Convergence

## Foreword

By Dominic Broom, Head of Sales and Relationship Management for Europe, the Middle East and Africa, Treasury Services, BNY Mellon

The following pages conjure a vision of the payments landscape in 2020 and beyond. We believe that the world of payments is going to be fundamentally transformed between now and then. It will be reshaped by technology and redefined by regulation, the emergence of new economic powers, and changes in the global currency landscape. Most importantly, payments will be refocused from a commoditised proposition to a strategic, value-adding solution; one that is offered with greater focus on the broader commercial and transactional context within which a payment (or a transfer of value) takes place.

Indeed, in 2020 a payment will be understood to be much more than just the settlement of a transaction or the mere movement of funds. The broader commercial, retail, investment or public sector environment of payments will be taken into account, and “payment-proximate” activities (such as investment decisions, trade-related financing and risk mitigation, the cross-border movement of salaries and pensions and a host of other core activities) will become part of the basis upon which providers develop greater value propositions.

The world of payments in 2020 will look very unlike it does today, and market transformation has already begun. The competitive landscape will be redefined by the entry of non-traditional providers, the evolution of new solutions provided by financial institutions, and the development of strategic alliances that cross traditional sectoral boundaries. Besides transformation, there will also be major convergence: convergence around products and solutions linked to payments; around technology platforms and clearing capabilities that will be increasingly global in nature and reach; around the operation of global securities and currency markets; and with regard to regulatory regimes that today are often fragmented and unaligned.

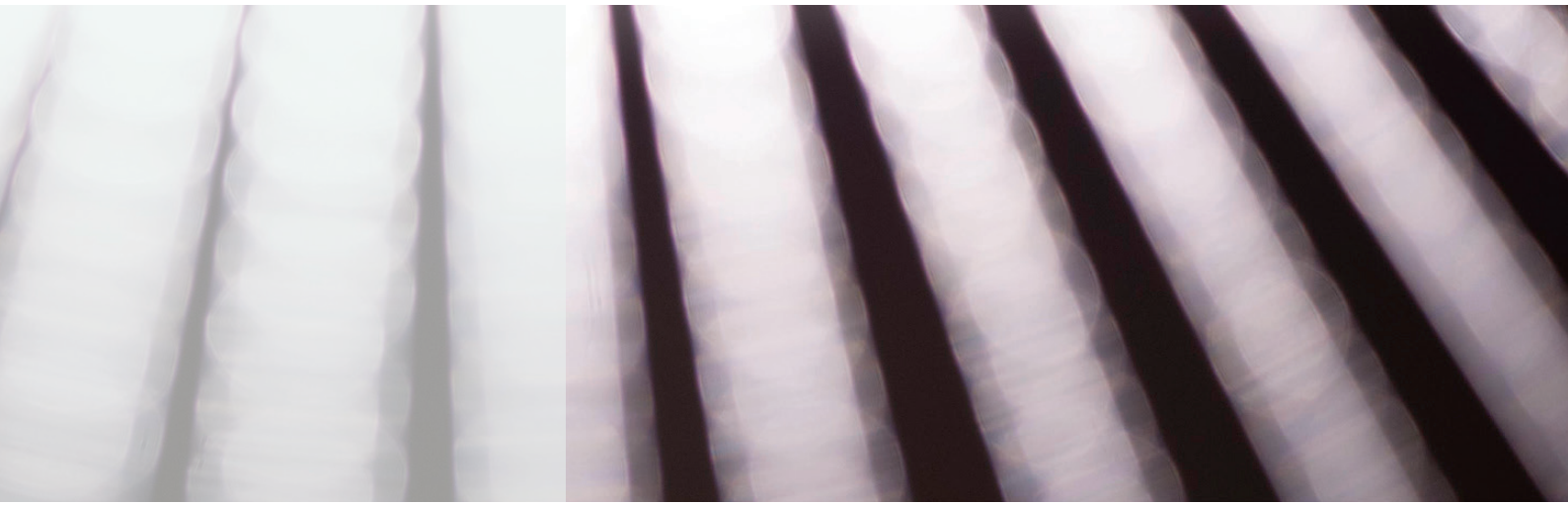
Looking further forward, it is clear that any “end-state” post-2020 will be largely unrecognisable. That said, we envision it might have integrated global settlement and clearing systems, and platform-agnostic channels that allow for maximum client access, flexibility and convenience. Indeed, as a young, ‘tech-savvy’ generation of business leaders emerges, the expectations of retail/consumer and commercial/corporate end-clients with regard to payments are likely to be far more closely aligned than they are today.

In all of this, commercial banks can remain key players, but only if they respond quickly enough and with compelling value propositions.

In the following pages, we shall take stock of the state of play today, paint a picture of the future of payments, identify key developments already underway and examine what is needed from market participants aspiring to bridge the gap between today and 2020.

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## Executive Summary

The global payments landscape is in a state of fundamental transformation, comparable in significance to the advent of downloadable entertainment for the video rental business. Banks in particular will need to move swiftly if they are to take advantage of the opportunities on offer in the global payments business, or risk losing out to nimbler competitors.

The world of global payments in 2020 will look very unlike it does today; indeed its “end-state” post-2020 will be largely unrecognisable. Key factors influencing these changes will be the impact of technology, changing customer expectations (in particular those of retail customers), changing global demographics, shifts in global trade flows and currency markets, and the growing impact of regulation.

The market is already being reshaped by both traditional and new types of payment providers. Conspicuous amongst these are new non-bank competitors, some of whom are already well established. For example, PayPal is servicing a fast-growing number of customers across the globe for payments, and is now also entering the lending market.

The payments market in the developing world – where traditional payment infrastructure is lacking – is more fragmented still, and shows examples of technological “leapfrogging”. Indeed, the fast take-up of new technology is enabling payment services to be provided to the unbanked, as demonstrated by the success of M-Pesa in Kenya, and its recent entry into the European markets.

Large technology and social media companies such as Amazon, Google and Facebook are seeking entry into the payments market. At the same time, new electronic currencies such as Bitcoin offer payment options independent of government control.

In an industry traditionally served by banks, these new and innovative non-bank payment providers are entering the market and rapidly gaining ground. This development could easily accelerate to a tipping point if banks do not act sufficiently swiftly and decisively, positioning themselves to offer attractive, value-added propositions to both individual and corporate customers.

In fact, a significant threat is posed by large technology and social media companies. If such firms can leverage, even monetise, their considerable customer reach by presenting attractive, straightforward and secure payment propositions alongside their other non-payment offerings, they could succeed in disintermediating banks, particularly in growing segments of the global payments business. This is of particular relevance as a young, ‘tech-savvy’ generation starts

to take on leadership roles in global commerce. This new generation of leaders, all very familiar with the world of social media and e-commerce, will expect to run their businesses using 21st century tools.

In addition to threats from social media and technology-based companies, banks also face growing competition from clearing and network solution providers, whose business models are reshaping global markets, changing the way multi-currency capabilities are delivered, and impacting the value proposition of traditional correspondent banking models.

Regulation and compliance – however necessary and well-intentioned – can be perceived as a concern, as the time and cost burden of meeting these requirements forces a deployment of resources away from the development of new client-facing products and solutions. Furthermore, internal bank dynamics, including the desire to retain familiar delivery options and relationship approaches, can be a serious threat to the ability of individual banks – and the industry – to respond effectively to transformational changes in the market.

Some banks are already responding to these challenges. From the search for innovative strategic alliances and adaptation to the evolving expectations of importers and exporters, to the development of new propositions aimed at creating value around global remittance solutions, and translating regulatory requirements into a competitive advantage: all are examples of the ways in which banks at the forefront are responding to the new world of global payments.

For others, it is time for a wake-up call. Banks haven't always been the quickest off the mark when it comes to adaptation – be it responding to changing customer expectations or adopting new technologies. But they must be perceptive and proactive if their payments businesses are to survive in the face of these fundamental market transformations.

What this entails will differ according to regions, markets and client segments, but one thing is clear: going forward, it will no longer be sufficient to regard payments as utility products; commoditised, undifferentiated and volume-driven. Instead, successful payments providers, whether traditional or emerging, will be those:

- taking a strategic view of payments and “payment-proximate” activities, to devise and offer value-added solutions and products,
- identifying markets and lines of business where payments are a prominent aspect,
- updating their technology to deliver services and solutions in line with customer expectations, as opposed to internal operational silos,
- actively targeting payment flows related to demographics, such as the compensation and pension flows linked to the baby boomer generation, or the emerging middle classes in China and Indonesia,
- targeting high-growth and traditionally poorly served customer segments such as small and medium sized enterprises (SMEs),
- exploring non-traditional alliances and partnership models, including strategic cross-sectoral partnerships with those they might not have considered previously (such as mobile or social network operators), to enable access to new client bases.

The successful payments providers of 2020 and beyond will be those taking action today. Those that do not, risk being left behind.



# Payments Today

## REDEFINING PAYMENTS: A STRATEGIC VIEW

### PAYMENTS ADD VALUE BY TAKING ACCOUNT OF “PAYMENT-PROXIMATE” ACTIVITIES

Payments have historically been viewed as utility products; fundamentally transactional and tactical in nature, undifferentiated and volume-driven. In fact, a payment was often perceived as merely the final step in a transaction, with limited opportunity to provide value-added services or solutions.

However, payments – as transfers of value – can be decidedly more strategic when viewed in context of the broad scope of “payment-proximate” activities. Such activities provide a significant opportunity to add demonstrable and differentiated value; be it in trade, investment, retail flows, the movement of salaries and pensions across borders, the settlement of government contract activity or a host of other such undertakings, some involving a high mass of low-value payments, others necessitating smaller volumes of higher-value payments.

Trade flows perfectly illustrate the importance of “payment-proximate” activities and their link to value-added payment solutions. In trade finance, a provider can offer significant support in terms of financing and risk mitigation on either side of any payment. The acceptance of an invoice by an importer, which creates an “approved payable”, can underpin financing options and may give rise to the need for complementary risk mitigation support. Certainly, significant opportunity exists around the transfer of value from one party to another. This is true in any area of activity where such a transfer – a payment – can be effected.

In addition, the opportunity to link data and analytics to the flow of payments is frequently cited as a probable and attractive evolution of payment propositions, both for the benefit of parties involved in the transaction, and as a means of meeting “Know Your Customer” (KYC) requirements linked to various regulatory regimes. That said, some industry specialists caution against linking to sensitive data that could inadvertently become known to third-party providers.

Ultimately, a payment in 2020 will be about transferring value and providing strategically-important solutions in support of broader activity in areas including trade, investment, retail, commercial and public sectors.

## STATE OF THE MARKET

Whether measured by value or volume, the global payments business is vast and will continue to expand between now and 2020. However, a number of factors and trends – some already having an impact – will play a critical role in shaping the nature of this expansion.

Geopolitically, the world is becoming increasingly multipolar, and as economic power shifts so too does the respective importance of certain currencies. The rapid ascendance of China’s Renminbi, now the second most-used currency for trade finance, is a case in point. Currency markets have also been reshaped by the adoption of the Euro.

Advances in technology have already changed the way we conduct payments, and will continue to heavily influence the market. PayPal, the provider of online payment solutions, illustrates the growth potential of such electronic/platform-based payments, having generated US\$1.95 billion in revenue in Q2 of 2014<sup>1</sup>.

Elsewhere in the technology space, internationally-known brands such as Amazon, Google and Apple are looking to monetise their enormous client reach to expand in the payments space, as reported in Forbes magazine in December 2013<sup>2</sup>.

Global demographics are influencing the payments landscape through redistribution of financial resources across borders (see below figure 1). High growth markets in Asia, Africa and elsewhere are developing their own payment propositions for areas as varied as online commerce and local agricultural trade.

Global foreign direct investment (FDI) inflows increased by 9% to US\$1.45 trillion in 2013, according to UNCTAD's 2014 World Investment Report<sup>3</sup>. Developed countries currently account for 39% of these flows (a share worth US\$566 billion), while investment flows to developing economies grew to a new high of US\$778 billion (a 54% share).

International remittances present another burgeoning source of global payment flows. According to the World Bank's Migration and Development Brief<sup>4</sup>, global remittances (including those to high-income countries) are estimated to reach US\$581 billion this year, and grow to a record US\$681 billion by 2016. Remittances to developing countries are projected to continue growing strongly over the medium term, averaging an annual growth rate of 8.4% to reach US\$516 billion in 2016.

Finally, trade flows are being reshaped by the increasing engagement of developing markets, with intra-regional trade flows becoming increasingly significant, according to a recent McKinsey & Company/SWIFT report for Sibos<sup>5</sup>. Furthermore, there has been a shift away from established documentary trade payment and financing mechanisms, towards less complex and less expensive open account terms, as well as new payment and financing solutions (such as the Bank Payment Obligation) aimed at supporting global supply chains.

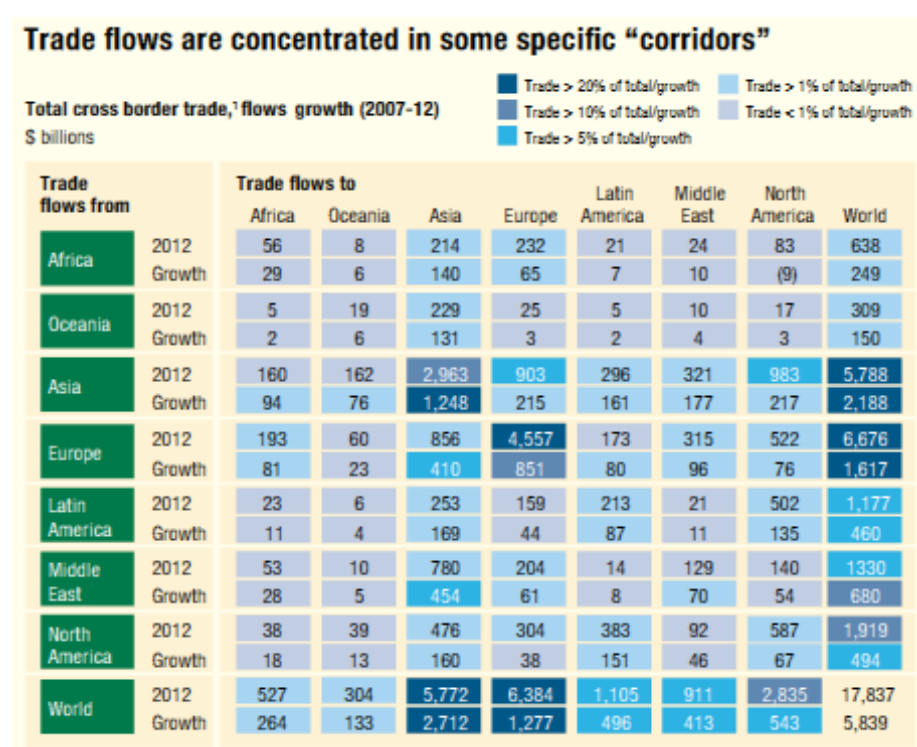


Fig. 1: Putting Growth Back on the Banking Agenda, McKinsey & Company and SWIFT, 2013



Notably, the US and Europe exhibit relatively modest uptake of new payment technologies, possibly in part because development is hampered by the existence of legacy technologies, and partly because the relative efficacy of current solutions does not motivate urgent adoption of new models. However, by 2020, these markets will have caught up and achieved greater alignment with their “leapfrogging” counterparts.

Once again, the developing markets are leading the way, with countries such as Brazil, India and China – home to an increasingly middle class and more mobile population, where newly-banked yet “tech-savvy” generations are more open to new ideas – fuelling demand for innovative, technology-driven and easily-integrated transaction methods.

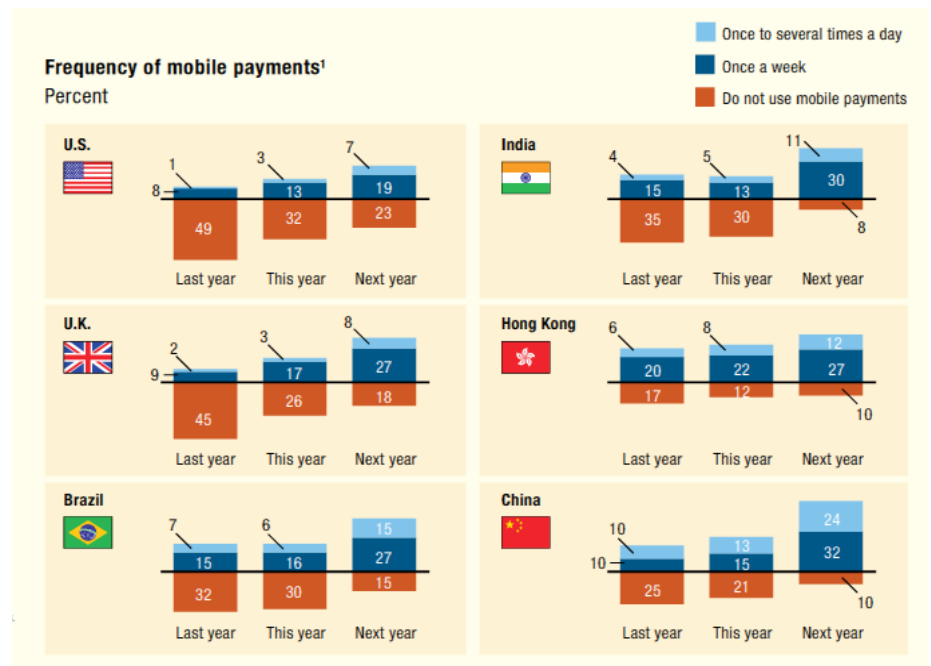


Fig. 3: McKinsey Global Mobile Payments Consumer Survey Referenced in McKinsey on Payments 2012

As demonstrated above in Fig. 3, mobile payments in particular are set to show significant growth across all markets – although, as Fig. 4 shows below, there is continued market differentiation with regards to the preferences of consumers.





*Fig. 4: McKinsey Global Mobile Payments Consumer Survey Referenced in McKinsey on Payments 2012*

In combination, these illustrations show that a uniform approach to solution delivery across markets is unlikely to succeed, and that a more tailored, market-specific strategy is likely to better align a provider to their end-client.

## MARKET FOCUS

### AMERICAS

Despite a testing few years, the United States (US) remains a top global political and economic power. Even in a world of multipolar influence, the US will remain an economic force well past 2020. Its currency remains the dominant currency of international trade, capital flows and investment, and a tool of politico-economic influence.

Alongside Europe, the US is a leading consumer market and major export destination. It is also a major source of (and destination for) capital and investment, and remains a financial centre and centre for technological innovation – home to several of the major (and potential) innovators in the payment space, such as PayPal, Apple and Facebook.

Increasing globalisation and shifting global demographics is shaping the US payments market. For example, International Business Times<sup>7</sup> reports that while Latin America remains one of the US's main trading partners, Latin America is increasingly turning its attention to China, with two-way trade flows between the regions increasing by 660% between 2000 and 2009 – from US\$13 billion to over US\$120 billion.

According to IHS<sup>8</sup>, the US – inarguably the world's economic leader for over a century – faces being overtaken by China as the world's largest economy within a decade, with a corresponding shift in its level of influence over the global markets.

US financial regulation – such as Dodd-Frank and FATCA – also merits particular attention, due to its scope and breadth, and extra-territorial application to other markets around the world. The impact of US enforcement and politically-driven moral suasion on trade and financial flows in and out of certain jurisdictions must not be underestimated. At one extreme the US regulatory impetus shapes the global context, while at the other, the voices of disengagement in the US – advocating delinking from supra-national initiatives or entities like the Basel Committee – may dilute the effectiveness of multinational regulatory initiatives.

Looking elsewhere in the Americas, Brazil – the largest economy in South America and a famous BRICS success story – continues to be regarded as an emerging economic power in trade, investment and financial terms. Indeed, Brazil's Real has been described as an emerging regional currency. That said, trade and investment flows between Brazil and China, predominantly around commodities and natural resources, are so significant that China's Renminbi is actually the emerging currency to watch in Brazil and in Latin America generally.

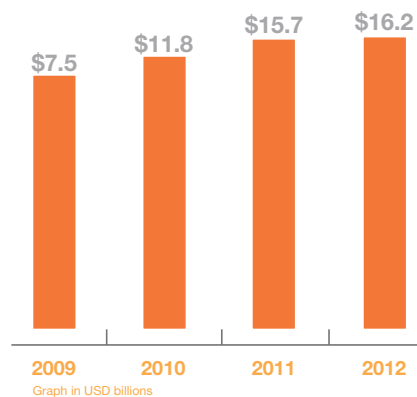
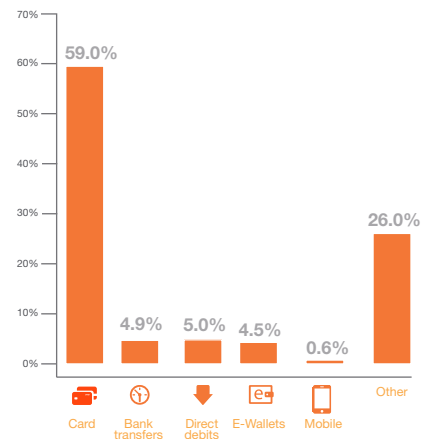
With such strong ties between Brazil and China, and with the US not currently actively pursuing the establishment of a US-based Renminbi hub, this could present an opportunity for Brazil to explore the possibility of becoming the Renminbi's primary offshore clearing centre for the Americas.

Latin America's adoption of mobile financial services has grown and developed throughout the past year. As far as banks are concerned, many such financial services providers revisited their deployment of mobile banking, while mobile network operators (MNOs) continued to expand their reach by closing new alliances - most notably Telefónica which partnered MasterCard and America Movil that entered a joint venture of its own with Citibank.

No one can deny that progress has been made. However no decisive step has been taken towards making mobile payments truly mainstream. One potential cause for this state of affairs might be the rather strict regulatory environment in Latin America, which has given rise to isolated mobile financial services ecosystems, powered by distinct players in finance and telecommunications, all operating within well-defined frameworks.

**E-commerce Turnover**

2009-2012 Compound Annual Growth Rate: 29%

**E-commerce Mix by Payment Type****At a glance**

2012 Population (mil)

**199**

2012 GDP (USD bil.)

**\$2,189**

E-commerce Turnover

**\$16.2 billion**

Mobile Ownership

**84%**

Smartphone Ownership

**28%****Popular Alternative Payment Methods**

Boleto Bancario  
 Transferencia Bancaria Local  
 PayPal  
 MercadoPago

*Fig. 5: Worldpay. Your Global Guide to Alternative Payments, 2013*

The role of e-commerce is significant in Brazil; exhibiting turnover at annual compounded growth rates of 29%. According to estimates by McKinsey & Company (What Drives Payments, 2013), Brazil is the world's third-largest payments market, generating around US\$230 billion annually in payment-related revenues, although 85% of transactions are still settled in cash.

**MIDDLE EAST**

While corporate expectations and demand are evolving significantly in areas such as cash management – where visibility of cash positions is increasingly viewed as critical, and local banks are developing electronic banking capabilities – the pace of change, and the ability of banks to deploy such solutions, is very much dependent on the approval of local authorities.

The Middle East has been home to trade and cross-border activity since ancient times. While the majority of importers and exporters across the region continue to prefer traditional settlement mechanisms such as documentary letters of credit, certain markets are adopting leading-edge technology in trade and trade-related settlement. The leadership of Dubai Trade – the cross-border facilitator – in promoting the ICC/SWIFT Bank Payment Obligation is one such example.

A number of markets in the Middle East and North Africa (MENA) region are subject to significant restrictions and sanctions in the area of commercial and financial activity. But populations that feel excluded from the global system, either as a result of a lack of infrastructure or for other reasons, will find ways to address their needs – perhaps by seeking trading and commercial partnerships with jurisdictions that have a worldview around the imposition of sanctions, or by using currencies that are not traditionally leaders in cross-border settlement. Grey- or black-market activity can also be a reaction to such restrictions.

‘In Turkey, the banks are trying to respond to increased competition, client demands for enhanced service capabilities and downward pressure on fees and commissions. Many banks are trying to adapt to the changing environment where there is more regulation and constraint, both from the authorities and from their partners. This is where we will need counterparties that have a deep understanding, knowledge of and expertise in the Turkish market’.

Aycan Özden Yeşilbayır, Regional Manager, Yapikredi, Turkey

### Payments, accounts and trade generate over \$50 billion, or about 45%, of total banking revenues in the MEA region

#### 2011 banking and payments revenues

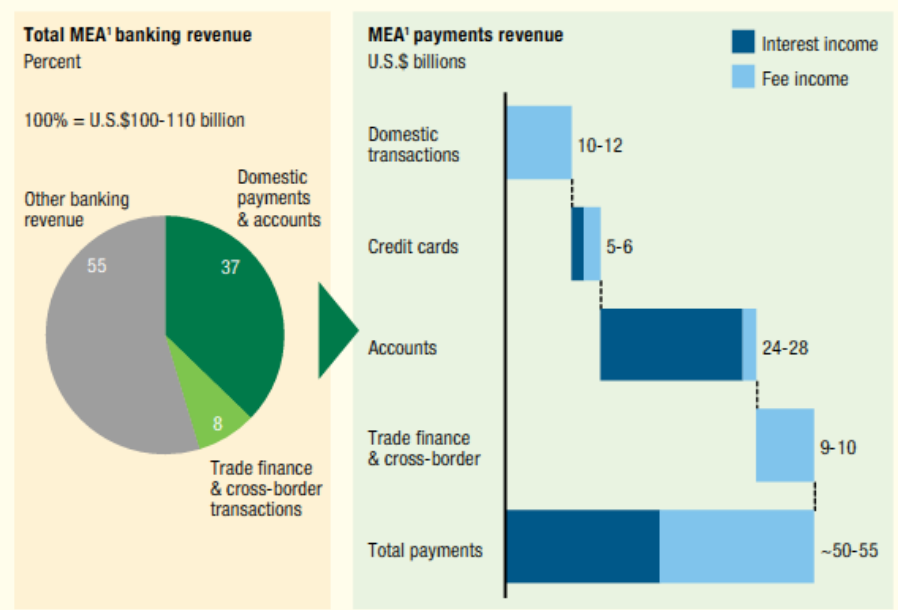


Fig. 6: Putting Growth Back on the Banking Agenda, McKinsey & Company and SWIFT, 2013

One distinctive feature across the MENA region is the power and level of active engagement by central banks and other regulatory authorities.

Traditional conservatism also remains apparent, partly due to the fact that a significant portion of local and regional GDP is garnered from family-owned enterprises. Such enterprises exhibit significant concern around cybercrime, fraud and security in general and thus will often limit the use of e-banking channels to basic functions like statement inquiry only (rather than transaction processing), affecting the region's rate of adoption of technology options available today.

**“The nature of the markets, including preferred business practices, regulatory requirements and the pace of technology adoption are such, that market disruptors gaining momentum in other parts of the world will not be as serious a factor – or as significant a competitive threat to the banks – in the MENA region for some years to come. Regulators in the region require that KYC and KYCC activities go through the banking system, for example, and such requirements will keep the banks at the forefront of certain types of business.”**

*Hani AlMaskati, Cash Management Matters, Bahrain*

Progress is apparent in other forms, however. Indeed, the MENA region has been the focus of concerted efforts to “bank the unbanked” and ensure broader financial inclusion. Such initiatives, including the recently-announced UAE mobile wallet project, will have long-term significance and Dubai's intention to become a global centre of Islamic Finance, entailing huge volumes of related flows, will further create a critical mass of payments activity in the Gulf Cooperation Council (GCC) countries and MENA region.

The efforts of MENA authorities to diversify activities from petroleum-based extraction and export, and petrochemicals, result in significant outward investment flows often facilitated through highly liquid sovereign wealth funds.

At the same time, several of the larger economies in the region have made large investments in infrastructure development, from road and transport to logistics to educational facilities and beyond, generating inflows of investment, as well as large volumes of outward remittances from foreign workers engaged in construction and related activity. While jurisdictions like Qatar, Kuwait and the UAE actively seek external investments, it is notable that Saudi authorities focus more on domestic investment, and tend to favour securities over less liquid assets, investing perhaps primarily as a hedge against unfavourable shifts in the price of oil.

**“The payments business is expected to maintain the strong momentum so far as this region is concerned. The GCC oil exporting economies are expected to grow 3-4% in 2014. Petro dollar savings flows over the coming year are expected to hit US\$70 billion per month. Much of this money will be spent at home. Saudi Arabia alone is spending US\$130 billion; a staggering 30% of its GDP according to The Gulf magazine. One could expect a strong turf war between established non-bank players and banks fighting to regain lost space.”**

*Lakshmanan Sankaran, Deputy General Manager and Head of Operations and Trade Finance, Commercial Bank of Dubai*



Between now and the end of 2015, the UAE is expected to become the first country in the world that will have a fully integrated digital payment platform supported by all banks operating in the country.

*Gulf News, June 2014<sup>9</sup>*

## AFRICA

Africa is widely expected to begin making substantial progress on several levels, including attracting greater international trade and increasing intra-regional trade, forming economic blocs, attracting inward investment, and accelerating its adoption of increasingly affordable technologies.

In its “Africa Mobile Observatory 2011 report” released in November 2012, the GSM Association cites Africa as the world’s second largest mobile market by number of connections after Asia, as well as the world’s fastest growing mobile market. The research found that mobile penetration in Africa has reached 649M connections in Q4 2011, having exceeded 50% mobile penetration in 2010. In the last five years, the number of subscribers across Africa has grown by almost 20% every year, and it is expected to reach more than 735M by the end of 2012.

*Innipay Mobile Payments 2013*

The development of mobile technology is critical to the evolution of payment and settlement capabilities across the continent, arguably indispensable to the most challenging poverty-reduction and development objectives of local authorities, and certainly key to reaching the majority of “unbanked” individuals and micro-enterprises that underpin economic activity. Mobile technology will emerge as a viable and credible payments channel across Africa, and its evolution must inform the solution strategies of providers aiming to meet the needs of this fast-growing market and its young demographic.

Kenya has emerged as a regional leader in the implementation and uptake of mobile payment solutions such as M-Pesa. However, even Ethiopia, long isolated and repressed by a harsh dictatorial regime, is taking steps to implement technology-based settlement options. At the same time, oil-rich Nigeria is a note-worthy medium-term adopter of emerging settlement technologies, and South Africa, with its significant trade flows, FDI activity and related payment traffic, is expected to help shape the future of the payments region.

BelCash is a mobile wallet software solution developed in Ethiopia for the domestic market, which enables consumers to transfer money between mobile phones and agents. Currently BelCash has partnership agreements with major financial institutions in Ethiopia.

*Innipay Mobile Payments 2013*

Ethiopia remains the seat of the African Union and an important market in the region. As it continues a process of reintegration and growth, its influence will expand and, in any event, the country's progress so far will allow models like BelCash to be expanded, or even replicated, to other parts of East Africa and beyond.

No single African currency stands out as a potentially globally influential currency. Until there is adequate liquidity in the trading of currencies belonging to African states, Africa will not be able to extend the reach or influence even of its most trusted currencies. The challenge is apparent in the ongoing reluctance of countries to accept or exchange the currencies of even neighbouring jurisdictions.

There is geopolitical overlap between North Africa and the Middle East, which is relevant to trade and investment flows and other commercial relationships. Arab states are known to have invested significantly in East Africa, acquiring arable land, long before China became a primary driver of investment and development on the continent. These connections, including related and "payment-proximate" flows, will grow in importance through 2020.

Financial inclusion initiatives, such as those driven by various UN agencies and international financial institutions, will also be of critical importance in the continued evolution of the payments space in Africa.

**Mobile financial services have the potential to dramatically increase financial inclusion for vast sections of unbanked households and small businesses. The IFC's global programme aims to support the development of innovative and sustainable payment solutions, using technologies such as mobile phone and payment card infrastructure to deliver payment and other financial services at low cost.**

[\*IFC Access to Finance Annual Review, 2013\*](#)

Kenya and South Africa figure prominently as examples of markets where the journey from cash to "cashless" is progressing. The South African Reserve Bank's (SARB) approach to South Africa's payments ecosystem reflects a comprehensive view of the world of payments, and an appreciation of the critical role and impact of regulatory regimes on the payments space.

**A National Payment System (NPS) does not only entail payments made between banks, but encompasses the total payment process. This includes all the systems, mechanisms, institutions, agreements, procedures, rules and laws that come into play from the moment an end-user, using a payment instrument, issues an instruction to pay another person or a business, through to the final interbank settlement of the transaction in the books of the central bank.**

**Within the South African context consumers and corporates have a choice of about 18 different payment systems, which jointly form part of the NPS. These payment systems range from low value debit card transactions to high value bond exchange payments, and all these payment instructions are eventually settled at the SARB.**

*South African Reserve Bank<sup>10</sup>*

## ASIA

Asia, like the EU, is often mistakenly represented as a homogenous region in political, commercial and financial terms. In actuality, circumstances vary so much across Asia – and even within individual Asian nations – that they capture nearly every possible scenario that can be encountered across the globe.

From frontier markets such as Myanmar, to growth economies like Vietnam, and Indonesia with its increasing wealth and growing middle class; all are part of the “Asia story”. However, it is China and India that have the greatest influence on regional and global payment flows, and so deserve a larger focus.

## INDIA

India has succeeded in positioning its economy at the higher end of global value chains, developing infrastructure and competencies in the service sector; from programming, information technology and call centres to outsourcing a wide range of services. The country is also a trading hub, with a large, internationally-active diaspora and huge domestic population, and weathered the global crisis through effective export activity and significant investment in domestic infrastructure. By direct extension, payment volumes are significant (in both a domestic context and on a cross-border basis) and are underpinned by trade, remittances and FDI flows, among other factors.

The National Payment Corporation of India (NPCI) has been actively involved in expanding the range of services available to mobile banking users. Most recently (more precisely, in September 2012), the NPCI has launched a value-added service dubbed IMPS Merchant Payments as part of its Interbank Mobile Payment Service (IMPS) in a bid to enable Indian mobile banking customers to make payments to merchants via their mobile phones. Here we see how the confidence of consumers using mobile phones in one financial context sparks the development of another.

### *Innipay Mobile Payments 2013*

Recent acceleration in uptake and use of mobile payments has brought India in line with China. 64% and 66% of their respective populations report recently using a mobile payment to settle a transaction – well ahead of France, for example, where only 13% report having done so.

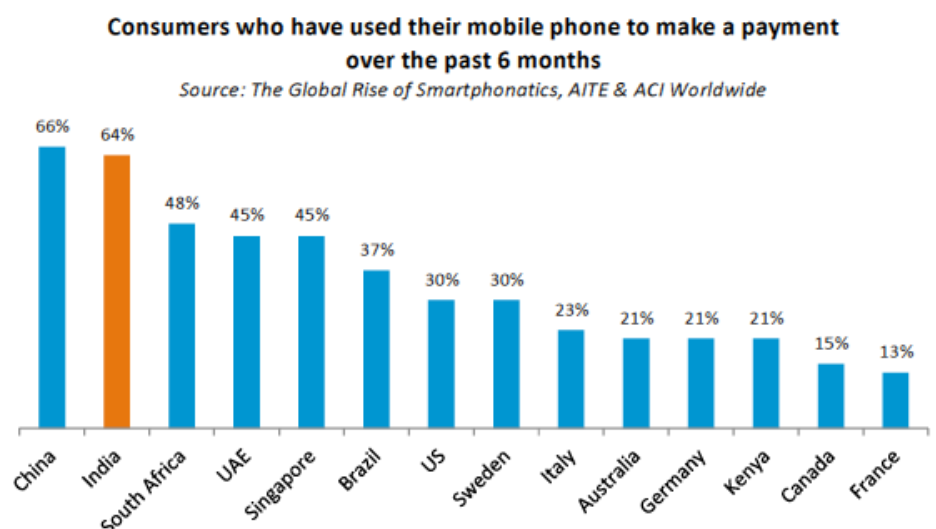
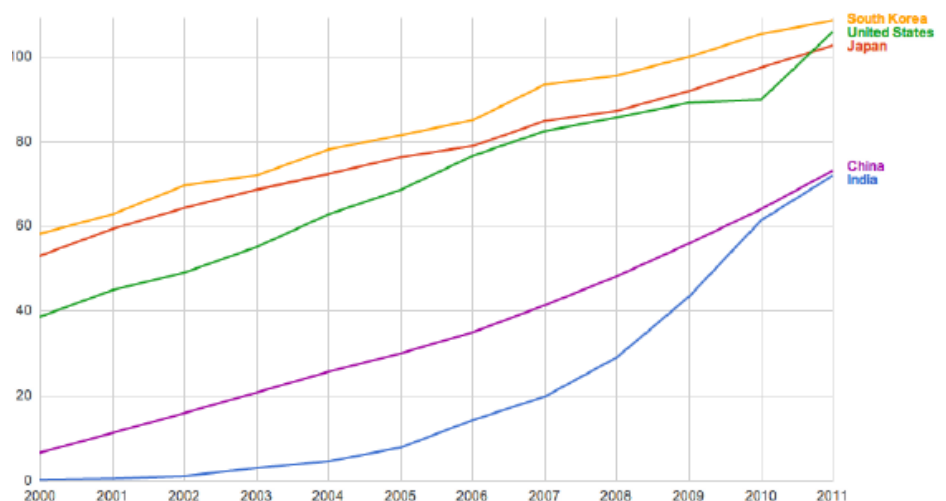


Fig. 7: Innipay, Mobile Payments 2013; The Global Rise of Smartphonatics, AITE & ACI Worldwide

The impact of this accelerated uptake driven by a young and increasingly 'tech-savvy' workforce, is reflected in significant growth rates in e-commerce activity, and forms part of explicit strategies aimed at reaching large rural and unbanked populations challenged by limited and unreliable financial and communication infrastructure.

“India’s e-commerce business jumped to US\$13 billion in 2013 – reflecting more than 80% growth. A big driver of this business is the emergence of smartphones; over half a billion Indians are expected to switch to smartphones in the next five to six years, which will keep the e-commerce momentum continuing for the rest of the decade. Adding to this would be the fast growing internet-connected population – especially in Tier II and Tier III cities – and improvement in related infrastructure like payment and delivery systems, which will push e-commerce to touch US\$60-70 billion by 2020. And this is leading to a rapid development of new payment concepts and business structures which will displace cash and other traditional forms of payments.”

*Aneish Kumar, Country Executive, India, BNY Mellon, Treasury Services*



*Mobile Penetration, 2000-2011, in percentage, 2012*

*Fig. 8: Innopay Mobile Payments 2013*

The convergence of accelerated adoption among retail and commercial end-clients, together with world-class skills in programming and development, suggests India will be well-positioned as a leader in the evolution of the global payments landscape through 2020 and beyond.

## CHINA

China, of course, demands attention by virtue of its size, projected economic growth, the scope of its activities (domestic and international), and the rapid advancement of the Renminbi as a currency of regional significance today, and potentially global significance by 2020.

According to a report released by research-based advisory and consulting services Kapronasia in 2012<sup>11</sup>, the Chinese mobile payment market – worth US\$7.6 billion and serving 218 million mobile payment users at the end of 2011 – is expected to be worth more than US\$84 billion and have 441 million active users by the end of 2015; virtually doubling in size each year. Although China has already surpassed the US as the world’s largest smartphone market, the penetration of smartphones among Chinese consumers is still low: owned by less than 10% of China’s 900 million mobile phone users.

Asia-Pacific has shown the fastest growth in the e-commerce market compared to other regions, with a turnover of US\$461 billion in 2012 (27% global share) and a compound annual growth rate of 34%. 23% of transactions were made using e-wallets in Asia Pacific and this trend is set to grow over the next five years.

*Worldpay Your Global Guide to Alternative Payments (Second Edition)*<sup>12</sup>

Simultaneously, China's level of influence, as a direct outcome of its investment activity throughout Africa and Latin America, has been transformative. The activities of cash-rich Chinese sovereign wealth funds are widely acknowledged as a strategically important channel and, in practical terms, the commercial engagement of Chinese state-owned enterprises can make business a direct extension of public sector ambitions and national policy.

While energy investment has been a historical area of focus for China Investment Corp – the country's US\$575 billion sovereign wealth fund – priorities appear to be shifting and infrastructure investment in developed and developing markets appearing to gain favour.

RMB usage in traditional trade finance – letters of credit and collections – grew from an activity share of 1.89% in January 2012 to 8.66% in October 2013, propelling the RMB to the second most-used currency in this market. It ranks behind the US dollar, which remains the leader with a share of 81.08%, but overtook the Euro, which dropped from 7.87% in January 2012 to 6.64% in October 2013. The top five countries using RMB for trade finance in October 2013 were China, Hong Kong, Singapore, Germany and Australia.

*SWIFT Watch, 3rd December, 2013*<sup>13</sup>

## EUROPE

Europe – particularly the EU – shares two characteristics with the United States: its consumer economies are able to fuel export-based growth across the globe, and stunt it in times of crisis, and the reach of its regulatory regime extends far beyond its political jurisdiction.

Like the US and other markets, Europe's future needs, expectations and preferences related to settlements and payments are shaped by the changing nature of the most influential demographic sectors. Tech-savvy consumers and entrepreneurs, accustomed to multiple-access channels and near-instant transaction completion, will drive the reshaping of the payments landscape, just as new generations in Europe and the Americas – perhaps even globally – are influencing the nature of the workplace and the dynamics of political and consumer activism through social networks.

It is fair to note that the influence of the Euro as a currency of global commerce has not evolved as quickly or significantly as its strongest proponents would have liked, given their prognostications about the currency's eventual ability to challenge the US dollar in international commercial transactions. Indeed, the recent sovereign and economic crisis that threatened the very existence of the currency may make it even more difficult for the Euro to gain influence in proportion to the size of the economies it represents.



Like Asia, the EU is far from homogenous. It conducts a significant portion of its trade on an intraregional basis, while continuing to seek greater engagement with Eastern Europe and working to maintain certain colonial ties in direct response to the global venturing of emerging economies.

The recent introduction of the Single European Payments Area (SEPA) – which has created a significantly more harmonised environment for Euro cross-border payments, with corresponding cost and efficiency benefits – means the trend for intra-regional commercial, retail and investment flows within the EU is likely to strengthen in the coming years.

Remittance flows to developing countries within Europe and Central Asia (ECA) declined directly after the financial crisis, which deterred migration within the region, and as a result, remittance growth in 2009-10 fell back to 1.3% (compared with South Asia, East Asia and Pacific and Middle East and North Africa, where remittance growth to developing countries reached 8.2%, 7.4% and 6.2% respectively), according to a World Bank<sup>14</sup> report.

These figures are recovering, however. A 2013 World Bank<sup>15</sup> report has revealed that remittances to less-developed economies within ECA reached US\$42.6 billion in 2013, having grown by 10.8%, (remittance values in 2010 were US\$34.9 billion) and are expected to increase by another 10.3% in 2014.

While initiatives such as SEPA will support such payment flows, other regulations may prove more of a challenge for payment providers. As of January 2015, EU-based institutions will be required to report on intra-day activity. This will have a direct impact, from a capital adequacy perspective, and is seen as part of what may become a near-global trend. One implication for non-banks may be the need to develop relationships with central banks – typically requiring assets on deposit, in turn directly affecting large-value payments requiring proportionately high levels of collateral.

**“The cost of collateral, particularly as relates to high value payments, will be even more critical in determining an institution’s ability/willingness to provide related services than the pricing models and margins set for this type of business. There are already debates about how to build the cost of collateralisation into the pricing of related payments flows, and the implications of such developments may begin in the EU, but could very well extend globally.”**

*Andre Van Laer, Head of Treasury, Euroclear, Belgium*

Developments in the securities markets in the EU are equally significant, with “Target II Securities” (T2S) driving the market to a netting model which will drastically reduce settlement activity, with some institutions estimating an absorption of 50-60% of the flows that exist today.

Despite some slowing of pace, the EU has taken important steps towards creating pan-EU standards in areas as varied as financial regulation and invoice settlement timeframes helping maintain liquidity for SMEs. Indeed, from Electronic Invoice Presentment and Payment (EIPP) to SEPA, the EU is actively shaping the evolving global payments landscape.

“There are several clear drivers and developments in the EU relating to the payments business. These include regional regulation, including the upcoming new Payment Services Directive, international regulations, the entry of non-bank competitors and pressure on pricing models. The shift to 24/7, near-real time payments is also key, with some markets already settling within 15 minutes.”

*Steffen Härtel, Product & Sales Specialist Transaction Banking, Landesbank Baden-Württemberg*

The original Payment Service Directive (2007) opened up the market to some non-bank payment service providers. Overall, Ecommerce Europe very much welcomes the changes to the PSD. In short, third-party payment providers (TPPs) will be included in the scope of PSD II. This will inject some competition into the payments market and enabling third party providers to initiate payments will help innovative players offer cheaper services and make use of technological advances in e-payments.

In addition, the PSD is extended to cover all e-transactions made through IT devices, e.g. mobile, internet (previously these could be exempted). TPPs registered under the PSD will be able to initiate payment transactions on the part of consumers (i.e. banks have to allow them access to payment infrastructures) as long as the consumer gives prior consent and TPP fulfils security requirements.

*Ecommerce Europe press release July 2013<sup>16</sup>*



# The World of Payments: Looking To 2020

## THE FUTURE OF PAYMENTS: A NOTIONAL END-STATE

“End-clients on the commercial and wholesale side will demand more than a commoditised transaction, and more than ancillary information related to a transaction. They will expect a level of richness – a robust underlying analytics capability – that will assist them in making informed business decisions.”

*Saket Sharma, CIO, Treasury Services, BNY Mellon*

### THE VISION

An “end-state” view of the world of payments – a goal for the industry to aim for – depicts a rich landscape of capability and added value, underpinned by technology and actualised through high levels of market adoption. It is likely to show:

- increasing alignment in the capabilities and expectations of retail/consumer and commercial/corporate end-clients,
- high levels of integration in global settlement and clearing systems,
- platform-agnostic channels allowing maximum access and flexibility for end-clients,
- real-time delivery,
- information-rich delivery based on sophisticated analytics,
- effective leveraging of open source technology and “big data”, and
- enhanced visibility in response to more uniform regulatory requirements.

Banks are likely to remain key players in the payments space, provided they respond quickly and with compelling value propositions. Based on the cost and logistics of developing a globally secure and trusted network, SWIFT – the Belgium-based, member-owned cooperative – will likely remain the only global, fully-trusted, secure payments network: a reality that is further supported by the organisation’s active push to develop “SWIFT for Corporates” as a complement to its traditionally bank-centric proposition. Newcomers will have an increasingly important role to play, however, with non-bank providers likely to carve out a greater share of the market in the consumer and small business segments, especially in high-growth, low-infrastructure developing economies.

Longer-term predictions are harder to define, thanks to the wide range of market dynamics already at play.

**“The payments space today involves significant cost and a degree of transactional “friction”, both being unattractive to end-clients, and both presenting opportunities for truly disruptive and creative solutions to supplant the banks as providers of payment solutions. Transformational trends can be seen across the payments landscape, and the pace will only increase.”**

*Sanjay Mody, Head of Global Operations, Silicon Valley Bank*

A new payment instrument, namely electronic money (e-money) is gaining recognition. The Central Bank of Ireland is now an authorised e-money institution and has authority to issue e-money under the European Parliament’s directive 2009/110/EC. It has been reported that Facebook has applied for regulatory approval to provide e-money financial services. This would mean it could potentially provide digital services across Europe through “passporting”.

What is clear, however, is that client expectations, technological innovation, the expanding effect of regulation and the complex interplay of new non-bank providers’ and traditional providers’ market strategies will all play a role in shaping the eventual “end-state” of payments post 2020.

## PAYMENTS IN 2020

### CONTEXT AND SELECTED TRENDS

#### **Transformation and convergence**

Equally certain is that the notion of payments as more strategic, and the importance of “payment-proximate” activities as opportunities to drive delivery of value to end-clients, will be widely acknowledged. The payments landscape will be transformed in a number of respects, from the way it is positioned by its providers, and its new value-added propositions, to the nature and range of the providers themselves. Indeed, new kinds of competitors are likely to arise; some resulting from alliances and partnerships, and some from the transformative power of technology. The aspirations of social networks, online payment providers, virtual marketplaces and others in the areas of payments, small business lending and working capital support, already in evidence today, will only expand in the coming years.

There will also be convergence in key areas; from product- and solution-level integration to closer cross-border alignment of payment and clearing infrastructures, and the eventual convergence of regulatory regimes across major jurisdictions.

#### **The transformative power of technology**

Because the payment industry’s core business – and enabling advances, such as electronic invoicing and documentation – are all relatively easy to understand, the industry can be transformed by technology at a faster pace than many other areas of business. The rapid acceptance and adoption of such advances is central to the payments industry’s fast-paced evolution, particularly (but not exclusively) in the consumer sphere. This relative ease of understanding also contributes to the entry of transformational and disruptive players into the payments landscape.

On the commercial side, recent advances in previously paper-based trade finance (such as the data-driven Bank Payment Obligation, the increasing market acceptance of electronic bills of lading, and the evolution of value propositions linked to the financing of global supply chains) prove that even the most conservative of business lines can progress significantly with the help of technology and data-based transaction models.

### **Changes in wealth distribution and in trade and capital flows**

The payments landscape of 2020 will develop against a background of accelerating global redistribution of wealth, liquid assets and payment-related resources across the globe, particularly towards emerging markets. In the Global Trends 2030: Alternative Worlds publication, the National Intelligence Council<sup>17</sup> reported that as recently as 2000, the US and Western Europe were home to about 69% of global financial assets – but by 2020, they are expected to account for only 46%. In contrast, China, which held 3% of global financial assets in 2000, is likely to see its share rise to 17% by 2020.

Coupled with reshaping trade and capital flows, such redistribution will directly impact the nature of the global payments business, leading to greater fragmentation in the medium-term unless leading providers are able to redeploy their capabilities accordingly.

### **Changing demographics**

Global demographics will also play a vital part in shaping payment flows between now and 2020. The world's middle class population is expected to grow by a staggering three billion over the next two decades; an increase predominantly originating from Asia. The accelerating growth of young, educated and affluent middle classes in emerging markets such as China and Indonesia will in turn fuel payment flows from these countries. For developed markets, the search for investment opportunities to adequately fund pension schemes for their growing number of retirees will increase investment outflows. These shifts in demographics, combined with the changes in wealth distribution and capital and trade flows, should drive infrastructure improvements, further fuelling trade to the emerging markets.

### **Small and Medium-Sized Enterprises**

Changes in the corporate landscape are equally important. Traditionally underserved by providers of finance and payments, SMEs will be targeted by alternative, emerging providers, delivering solutions through cost-effective technology platforms similar to those offered to younger consumers on the retail side. Alongside an expectation for speed and convenience, SMEs will in future require a broad choice of solutions encompassing cross-border transactions.

While success stories exist – for example, Germany's family-owned "Mittelstand" businesses, and those created by microfinance and microenterprise initiatives in developing economies – many SMEs continue to suffer under post-crisis financial constraints. Stable and sustainable cash flow and working capital are critical, and growth depends on sufficient liquidity. At the same time, financial institutions face a combination of local political pressures together with the search for more attractive margins – compelling some banks to focus more on their SME customers, setting the stage for a longer-term outcome of strong competition, or creative, non-traditional alliances in the payments space.



Supply chain finance (SCF) programmes, accelerated or timely payment initiatives driven by public policy, and the development of “real-time” financing models will all play a part in improving the service offered to SMEs. The volume of cross-border factoring (a form of invoice financing) has exploded in recent years, exhibiting a compound annual growth rate of 25% or more. (See also page 28: Recovering trade flows and innovation in trade finance).

As Jaap Jan Nienhuis, Mounaim Cortet and Douwe Lycklama state: “The ‘SME long-tail’ is under-addressed, while it represents an enormous addressable market. SMEs are the backbone of Europe’s economy: there are 23 million SMEs in Europe, representing around 99% of all companies. Taking SCF for European SMEs to the next level, by making it easily accessible, should be the common goal of all players involved.”

*Journal of Payments Strategy and Systems, Volume 7<sup>18</sup>*

### **Maturing businesses**

At the other end of the corporate life-cycle – in India, China and parts of the Middle East, for example – there are a growing number of “older” businesses that have matured into regional or multinational enterprises and have correspondingly developed increasingly complex needs and expectations regarding finance, treasury, trade and payments. These companies are increasingly multinational in scope of operations, and thus require advanced treasury and cash management support, effective currency hedging solutions and similarly complex advisory support related to tax, transfer pricing and related financial management challenges. At the same time, the managers of these growth-oriented enterprises are expected to demonstrate financial and treasury management practices, including reporting disciplines, in line with global standards.

### **Regulation**

Regulatory pressure – the hot topic of today – will be just as significant in 2020. The cross-border nature of the payments business will require greater oversight, and the wider scope of payment flows across currencies (and across differing political objectives and geopolitical interests) will further inhibit the ability to implement globally-agreed standards. Major regulatory initiatives by region and market are reflected in the heat map below, with the latest additions shown in red.

The significant and growing regulatory pressure (including monitoring and reporting requirements) faced by banks today will only increase through 2020. It has been suggested that these increasingly material and costly demands, however necessary or legitimate, will slow banks’ abilities to develop client-facing solutions and enhancements to existing propositions.

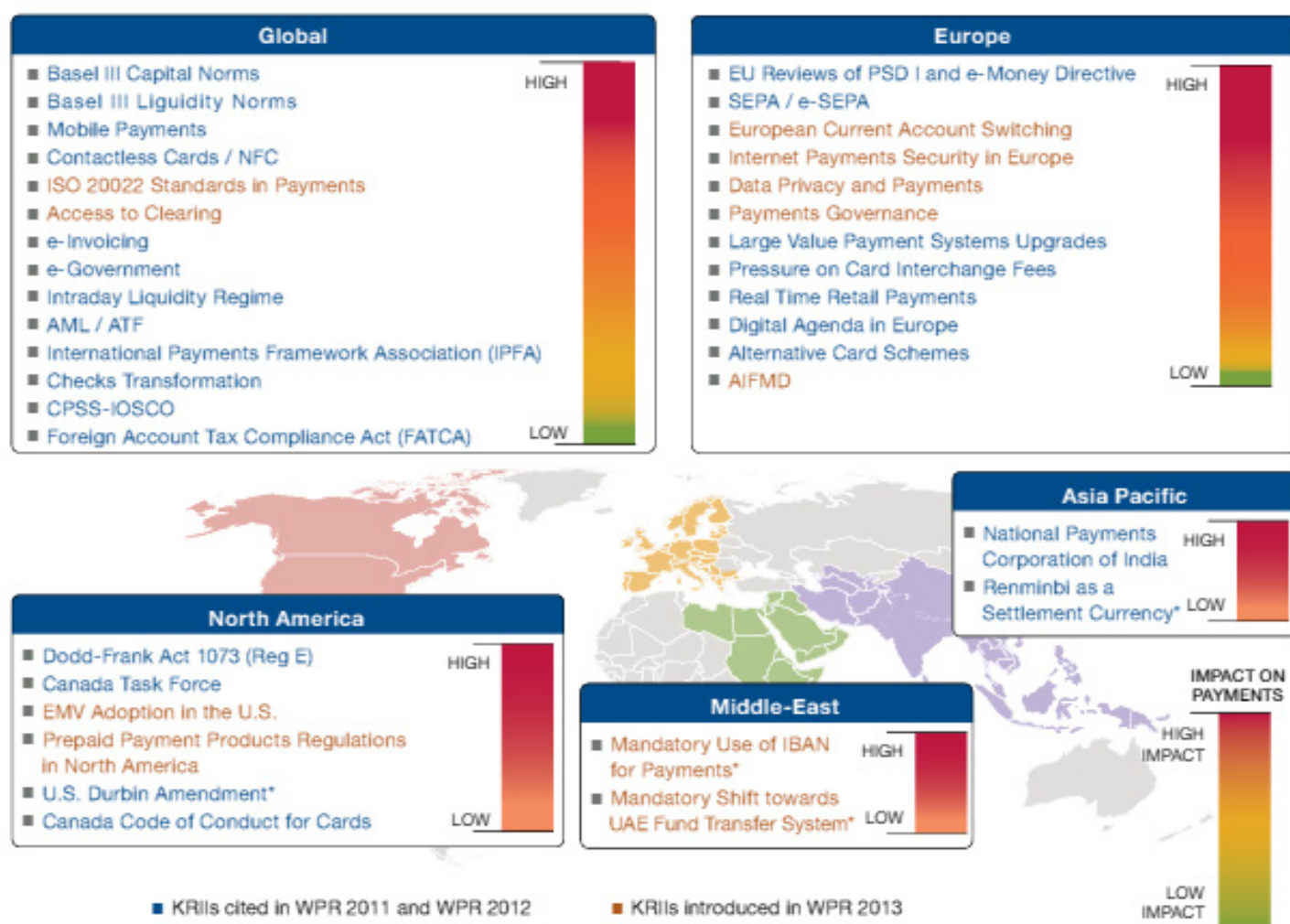


Fig. 9: World Payments Report 2013, Capgemini and Royal Bank of Scotland

Extrapolation of this scenario several years into the future suggests the emergence of a “market gap” in payments; one that will create a significant competitive opportunity for non-bank providers such as large technology and social media companies, as they develop increasingly advanced and attractive offerings across consumer, commercial and corporate client segments, as well as for public sector clients. This trend is likely to have most impact in developed regions of the world, where many banks also have the added complication of legacy technology, which can further hinder the ability of banks to implement new technology systems.

In the short- to medium-term, there is the possibility of ‘regulatory arbitrage’ given the significant variations in regulatory rigour across markets, added to the inherent advantage of unregulated non-bank entities. Over the longer term, and even more probable in an eventual end-state, the regulatory playing field is likely to be levelled across jurisdictions and providers.

Meanwhile, the opportunity for disruptive influence by non-banks is enhanced, while banks with limited financial resources – or limited vision – will focus on regulatory activity at the expense of client-facing innovation.

## MARKET TRANSFORMATION

The global payments environment is being transformed from all directions: from traditional payments providers; new market entrants; retail, commercial and financial institution end-clients; enabling technologies and post-crisis regulations.

All of these dynamics will be magnified and accelerated by 2020.

### CONSUMERS SHAPING CHANGE

By 2020, consumer experience and expectations – and the role of technology in meeting these expectations – will account for perhaps 70% of what shapes the evolution of payments, with the needs and expectations of commercial and corporate customers supplying the remaining 30%. Mobile smartphone and tablet technologies – with their rich functional capabilities supported by increasingly sophisticated applications, capable of enabling complex transactions in a relatively secure technical environment – will be critical to this shift in influence.

The process may well accelerate as next-generation entrepreneurs and business owners take the helm of economic and commercial activity, unencumbered by traditional delineations of personal and professional activity.

### MARKET PARTICIPANTS

**“The payments landscape will be increasingly shaped by the needs and expectations of retail/consumer – rather than enterprise – clients, as the retail segment builds on its lead in developing new payment solutions and raising the bar in terms of the added value that must accompany basic execution and settlement capabilities. This includes an expectation of being able to settle anytime, anywhere, across any channel – which implies a high level of interoperability across systems and across geographic markets.”**

*Saket Sharma, CIO, Treasury Services, BNY Mellon*

By 2020, bank consolidation will be largely complete, concentrating the core/infrastructure of the payments business among top-tier global institutions, while allowing bespoke or market-specific solutions to be delivered through local financial institutions that are clients of the global players.

While such institutions are currently primarily US- and European-based, the rapid growth rates of payment flows in the developing markets could create a more geographically-balanced global payments market, with the potential emergence of new money centres in countries such as India and China. This is all the more likely if their currencies, the Renminbi and Indian Rupee, become more widely used for international payments.

In March 2014, Forbes magazine proclaimed a US\$15 trillion “gold rush” in pursuit of opportunities in the payments space, quoting the then-CEO of PayPal as wanting “to redefine the concept of money.” Non-bank providers, from telecommunications and mobile providers to payment platform providers, will play an increasingly central and disruptive role in the payments business, across all geographies and client segments.

**“Banks should continue to play to our strengths, including platforms, technology, networks and operational competency. The scale of what can be developed on this foundation can be substantial. There are very few global organisations with trading desks and large-scale payments businesses in-house, upon which new propositions can be built. Through challenging the status quo to develop innovative payment solutions, we can deliver new opportunities for our clients.”**

*Vineet Malhotra, Managing Director and Head of Alternate Solutions Group, and Retail Solutions Group, CIBC*

Such disruption will come from established organisations such as PayPal, moving from a pure retail to a retail and corporate focus. It will also be driven by new electronic currencies such as Bitcoin, and technology and social media competitors seeking to monetise their considerable reach in terms of end-clients, both in geographic terms and in the astronomical numbers of ‘users’ that form the potential customer base of the most successful platforms.

## **REGULATION AND GLOBAL POLITICAL FACTORS**

As diverging foreign policies shape commercial engagement, the multipolar nature of political power (including the increasing influence of G20 Member States and emerging powers in Asia) will impact the demand for, and provision of, solutions aimed at cross-border transfers of value.

Looking at economic initiatives, the recent announcement of the creation of a new “BRICS” (Brazil, Russia, India, China and South Africa) bank, named the “New Development Bank” (NDB), reflects a certain shifting of global influence. Intended to provide a counterbalance to the US and EU-dominated World Bank and IMF, the NDB will doubtless change the geopolitics of international development to at least some degree, and with it, the geopolitical links to payment and financial flows.

**The BRICS will initially pool US\$50bn or just under £30bn in the NDB, with each country contributing an equal amount. Its main function will be to mobilise “resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries”.**

*GT News, April 2012<sup>19</sup>*

The evolution of the Renminbi as a prospective reserve currency, playing an increasingly key role in global commerce, will continue to affect payments and the way in which banks extend the reach of their payment propositions globally, depending on extraterritorial application of laws and regulations.

By 2020 it is likely that non-bank providers, including electronic currency solution providers, will have attracted greater attention from central banks and regulators as their economic impact (and potential for risk) grows. Ireland’s central bank has lead the way ahead in this respect – implementing regulation around electronic payments, and is now in the position to review Facebook’s European-based request to enable its members to store digital credits (valid throughout Europe via a process known as ‘passporting’) on the social media site; a form of e-money which could be used to pay recipients and could be converted back into cash. Such regulatory control of non-bank providers is far from the norm, however, and as long as such entities remain unregulated, restrictions driven primarily by political motivation (including financial flows to sanctioned countries and individuals on “watch” lists) will present commercial opportunity for non-banks.

## RECOVERING TRADE FLOWS AND INNOVATION IN TRADE FINANCE

Trade flows will continue to recover and deepen, to once again decisively outpace global GDP growth. However, these flows will include far greater participation from (and activity between) developing and emerging markets.

Industry and client expectations of trade finance are evolving, both in relation to traditional trade finance and newly emerging solutions in supply chain finance. Long-standing efforts to move from expensive and time-consuming documentary letters of credit to technology and data-driven alternatives have come to fruition in the development (and increasing use) of ICC/SWIFT's Bank Payment Obligation (BPO).

**"We were able to share shipping documents with our banking partner electronically and in a matter of hours we received confirmation that they were fine. In terms of ease of working, it's very positive, and we plan to conduct BPOs with full cargoes in the future."**

*Michael Van Steenwinkel, Global Credit Manager, BP Petrochemicals; BP agrees first European multi-bank BPO, Global Trade Review, 28th May 2014; Market adoption of BPO, SWIFT 2014*

At the same time, newer propositions in SCF are evolving quickly, enabling greater support of global supply chain ecosystems, including the increasingly important SME suppliers that sustain such supply chains. Financing and risk mitigation linked to payment in the context of a trade transaction – including, for example, an invoice approved for payment – are very much a part of the evolution of the global payments business with regards to value creation. This may revitalise the role of banks in the high-growth side of trade finance, but also allows for significant contribution from non-bank, platform-based providers.

The trade area – specifically trade conducted on open account terms – targeted by emerging supply chain finance solutions provides a view on the way in which banks have responded to the very real threat of disintermediation in one area of their business, with regards to value creation and might likewise do in the broader context of the payments world should the threat become sufficiently serious.

## REPOSITIONING PAYMENT AND TREASURY FUNCTIONS IN CLIENT ORGANISATIONS

In line with the core thesis that payments are taking on a decidedly more strategic character, the payment and treasury functions of large corporates are also seeking a more strategic position within their own hierarchies. Corporate/commercial and investment clients seek greater visibility and immediacy, in direct response to continuing constraints on liquidity, and in response to the imperative to turn financial and treasury management processes into more than an overhead. Additionally, there is widespread urgency for businesses of all sizes to leverage their financial resources to generate positive returns while maintaining appropriate levels of risk control. This will drive demand for strategic solutions from bankers, payments providers and other financial sector partners.

A younger generation of finance and treasury executives are increasingly conscious of the technological advances and the disruptive business models reshaping settlement transactions in personal and retail contexts, and are shifting expectations – and raising the bar – around what a commercial or corporate solution provider ought to be able to deliver, and how quickly (and through what channels) they should do so.



## TECHNOLOGICAL LEAPFROGGING IN DEVELOPING MARKETS: M-PESA

The pace of technological development differs between established and emerging/developing economies. With a lack of conventional payments infrastructure, and in the absence of progress-impeding legacy technology, emerging markets are “leapfrogging” developed economies, and cutting-edge technical platforms are progressing quickly to fill the gap.

A good example of this is mobile payments provider M-Pesa in Kenya. Offering an electronic payment and store of value system accessible through mobile phones, it was developed by mobile phone operator Vodafone and launched commercially by its Kenyan affiliate Safaricom in March 2007. Once assigned an individual electronic money account linked to their mobile phone number, customers can deposit and withdraw cash to and from their accounts by exchanging cash for electronic value, and can transfer funds to other M-Pesa users and even non-registered users.

Vodafone is now turning its services to Eastern Europe, where M-Pesa will be available in Romania, targeting almost a third of the population who currently settle the majority of their transactions in cash. Users will be able to pay utility bills, purchase basic items and transfer money using this mobile-banking tool.

Kipochi, a web-based wallet service, has linked M-Pesa with Bitcoins, enabling Kenyans to send and receive value beyond their borders, where M-Pesa is unavailable. This combination of services enables a flow of funds both within and beyond the country, including the affordable transfer of remittances to Kenya.

At the leading edge of the payments evolution, such propositions, rather than being luxuries, have been developed to address a fundamental need for financial inclusion in markets where bankability lags behind the adoption of mobile technology by a significant margin.

These developments present a serious competitive threat to traditional, bank-based settlement mechanisms – or they can be seen as creating a viable path to serving an otherwise unattainable client base in high-growth markets, through creative partnerships or the development and deployment of solutions that are fit-for-purpose in developing markets.

## NEW BUSINESS MODELS

While major players across a variety of industries are working furiously to devise new business models around the transfer of value – from electronic currencies to social media-based transactions – others are looking at “excess capacity” in the global markets as a proxy for value and, in an attempt to decouple commercial transactions from the unavoidably political nature of major currencies, have sought to create their own medium of exchange.

While these exchange platforms may resemble technology-enabled variations on barter, their transformational potential is based on their potential reach and scale, their coupling with existing member-based networks, and the potential use of independent electronic currencies.

## CONVERGENCE

The payment market’s segments and geographical regions currently exhibit widely differing characteristics, and there is a high level of expectation that there will be a degree of convergence, seamlessness and standardisation across the entire payments landscape by 2020. How much is achieved will, however, depend on client expectations and needs, as well as on the ability and willingness of providers to create uniform processes and settlement solutions.

## MARKET PARTICIPATION

The payments market is clearly in a period of significant transformation. While some banks appear to be retreating from the commercial and corporate payments space in response to regulatory and economic pressure, there is growing interest in the sector from non-bank providers. They may begin servicing retail clients, but will extend their propositions to SMEs as the payment delivery becomes increasingly commoditised.

**“Technology companies will become a more significant player in the global payments business because they look beyond the payment transaction to what is happening commercially: they are very good at flow-charting business processes and truly looking at what happens on either side of a payment. We may find that payment providers in 2020 will operate more like technology companies in this respect.”**

*Jeffrey Horowitz, Head of Sales and Relationship Management, North America, Treasury Services, BNY Mellon*

Convergence is evident in non-bank payment solutions, with technology-intensive, platform-based models reaching large numbers of international end-clients, leveraging developments such as electronic invoicing and electronic currencies. Relatedly, the development of financial sector marketplaces by banks and technology providers – akin to the Apple “App Store” and the Android equivalent – illustrates a convergence in the way organisations are conceiving new delivery models, typically drawn from the retail context and applied to commercial clients.

## INTEROPERABILITY

There will be significant convergence between expectations and capabilities in 2020, and in the quality and scope of solutions available across markets. Interoperability will be a core aspiration across regions, despite the differing pace of development and “leapfrogging” advancements of emerging economies (see Technological Leapfrogging in Developing Markets: M-Pesa on page 29 above).

Technology adoption, the interoperability of infrastructures across markets, and the increasing engagement of non-bank providers will combine to enable the creation of global payments platforms providing 24/7 service on a near real-time basis, across multiple currencies, geographic regions and markets.

**“Two significant themes will define the next major evolution for the payments industry. The first will be convergence of non-bank payment infrastructure into bank platforms and the second will be sophisticated, proprietary decisioning software that chooses the most effective payment route, currency, delivery date and time of day, etc.”**

*Thomas McCabe, Managing Director, Global Head of Transaction Banking, DBS Group*

## REGULATION

“The regulatory environment is an overriding factor in shaping the future of the payments business. An example of this is how Banks are being asked to report on intra-day liquidity and available facilities. This is partly to increase the transparency of payment processing and to better manage the overall market risk associated with the extension of intra-day credit through payment cycles. For payments this could in turn impact availability of funds and timeliness of processing, not to mention increased cost for the business.

It will be important that regulatory standards are aligned between traditional and emerging providers in the payments space.”

*Colin Robertson, Regional Sales Manager, EMEA, Treasury Services, BNY Mellon*

While certain examples of convergence appear to support the evolution of the payments business, other dimensions – such as the increasingly global nature of bank regulation – may be said to impede it. 60% of those responding to the 2014 ICC Rethinking Trade & Finance<sup>20</sup> survey identified lack of harmonisation of compliance standards as problematic.

However, while it may be surprising to think of regulation as a driver towards innovation, it can create the opportunity to reassess and revamp.

“There are a lot of complaints in the industry today about compliance and regulation. However, regulators have done a great deal, intentionally or not, to protect the banking sector and to keep banks in the payments market. Current realities require banks to collaborate and to “industrialise” compliance activities in order to make them efficient, affordable and effective.”

*Mark Buitenhek, Global Head of Transaction Services, ING Group*

It has even been suggested that the future could see the use of artificial intelligence in the scrutiny of individual payment transactions, possibly as an industry-wide, collaborative initiative, although the “final mile” and ultimate liability for non-compliance will remain the responsibility of the individual institution. An important question is whether collaboration, technology, and advocacy in relation to regulatory authorities can reduce this “final mile” to a fraction of its current distance, and ensure the cost of compliance is shared across the industry.

## **INTEGRATION SO FAR**

Banks globally have renewed their focus on core competencies and so-called “real economy” activity. For many this has meant refocusing on transaction banking; a significant component of which is payments. The much-discussed convergence under the umbrella of ‘global transaction banking’ – envisioning the integration of trade, cash management, foreign exchange and payments – has been achieved to a degree, although some institutions have reverted to a more silo-based structure. Overall, there is a higher level of integration and convergence today than before the crisis, and it is here that banks will find more readily-apparent opportunities for a more strategic approach.

## **CONCLUSION**

By 2020, greater levels of convergence will be observable across regions and markets as the technology environment stabilises. While some markets clearly lead in aspects of payment services delivery, the market in a decade or so will reflect greater alignment of regulatory frameworks, a multi-polar geopolitical environment, and at least one fast-growing currency which will begin to rival the US dollar as the primary currency of international commerce and settlement.

Banks wishing to remain sustainably and profitably active in the payments business will be compelled to re-think traditional business models, delivery channels and alliances, and will have to deliver on the long-delayed promise of client-centric solution delivery. In the absence of this, the market disruptors of today will inexorably become the market leaders of 2020 and beyond.



# The Bridge: From Here To 2020

## BRIDGING DEVELOPMENTS

Just as there is often a first step in the reshaping of reality (e.g. the arrival of the first tablet), it is possible to anticipate sea-changes by observing certain “leading” or “bridging” developments between the current reality and a materially different next phase of evolution.

A path to the future-state world of payments is already being blazed by next-generation solutions across a range of activities, markets and relationships, including:

- the evolution of non-bank boutique solutions,
- the development and uptake of technology-enabled propositions in consumer settlement,
- the evolution of traditional trade finance models from paper and process-intensive models to a data-driven, automated decisioning mode, and
- the interest and inevitably transformational engagement of social media giants in the payments space.

## NEW SOLUTIONS FROM NON-TRADITIONAL SUPPLIERS

Historically, banks drove evolution in the payments industry. That reality today is being redefined in some contexts, particularly in the retail customer segment, where competing non-bank options – such as PayPal, M-Pesa, Hal-Cash (another mobile-banking service) – allow customers to choose and shape options based directly on end-client needs and expectations. These include speed, convenience, visibility and the choice of access channels and modes of interaction, among others. The expectation of near real-time settlement of financial transactions increasingly dominates all segments, and has a critical impact on cashflow and working capital. This is also being extended to so-called “real-time financing” on the basis of electronic invoicing with accelerated information flow between lender and borrower.

With all these factors in mind, it is unsurprising that customers in the retail, commercial and corporate space, and increasingly in the public sector too, feel less constrained by financial ‘norms’ and are demonstrating a willingness to explore non-traditional suppliers, sources and channels.

The graphic below illustrates the rapid growth of non-bank options in a short 4-year period: a growth rate that will accelerate in the coming years to 2020.



*Fig 10: World Payments Report 2013, Capgemini and Royal Bank of Scotland*

Such developments also partly influence the options that individual institutions – and the industry as a whole – are looking at in terms of potential partnerships and industry-wide initiatives. The familiar construct articulated by SWIFT – that there is both a collaborative and competitive space in the banking industry – can be applied as a lens through which to view certain developments (and expected developments) in the payments business.

Industry collaboration in managing regulatory demands, and even building enabling technologies, is one obvious illustration – as might be the eventual development of bank-agnostic platforms or channels, where individual institutions “layer” their unique solutions and service offerings on such jointly-developed platforms. Defensive measures aimed at keeping the industry engaged in the payments business, in the face of significant competitive threat by non-banks with huge customer bases, might be another area of collaboration, while regional, market or currency focus are more likely to be areas for competition and differentiation.

In addition to convenience, immediacy and access through various channels, end-clients have varying needs relating to “payment-proximate” services including cash management, financing and other such solutions, with the largest corporates and non-bank financial institutions (particularly insurance companies) exhibiting the highest levels of sophistication. As established norms and procedures are broken down, the retail and consumer payment business is exerting significant influence on the (slower, but nevertheless clearly evolving) commercial, corporate, financial institution and public sector payment spaces.

## THE EFFECT OF REGULATION

Such transformational dynamics are reinforced by regulatory pressure on banks to reduce intra-day exposures under Basel III. Regulatory demands at the transactional level are increasing exponentially, given the need for banks to monitor parties for “know your customer” (KYC) and “know your customer’s customer” (KYC-C) purposes and guard against money laundering and terrorism finance.

“It appears, somewhat paradoxically, that regulators in some markets are creating conditions that will drive transactions out of the banking sector, where that business is currently best regulated and policed. People and businesses will find ways to get money from “A” to “B”: current approaches may reduce the number of illicit transactions in banks, but there is a risk that over-regulation will drive transactions out of sight and reduce the overall effectiveness of regulation and enforcement.”

*Frederick L DiCocco, Head of Sales and Relationship Management, APAC, Treasury Services, BNY Mellon*

In addition to timeline compression and regulatory pressures, the payments business, viewed through a transactional lens, is being reshaped by expectations of value-added analytics for end-clients. Leading providers are seeing demand for data-driven analysis, including predictive liquidity analytics which assist clients in decision making. This is a sea-change from simply providing visibility on transaction status and payment flows, and will demand significant investment in technology, channels and processes.

Financial institutions seeking services in the payments space on an outsourced or white-label basis are mirroring end-client expectations in their requirements, with the addition of regulatory and reporting needs which are becoming more complex and demand increasingly robust capabilities.

The evolution of supply chain finance in the context of international trade illustrates the way in which financial settlement fits into a broader, value-adding framework impacted by regulatory pressure while concurrently seeking ways to extend the value proposition around a payment.



*Fig. 11: A new start for Supply Chain Finance, SWIFT, 2013<sup>21</sup>*

The growth potential in trade finance today, and certainly between now and 2020, is very clearly in the open account/supply chain finance space (see Recovering Trade Flows and Innovation in Trade Finance on page 28). The longer-term evolution of trade finance includes current developments such as the application of technology and data-based process management to the settlement, financing and risk mitigation aspects of international commerce. The bridge between current-state practices and those likely to prevail in 2020 is already under construction, though perhaps at a slower pace than in some other areas.



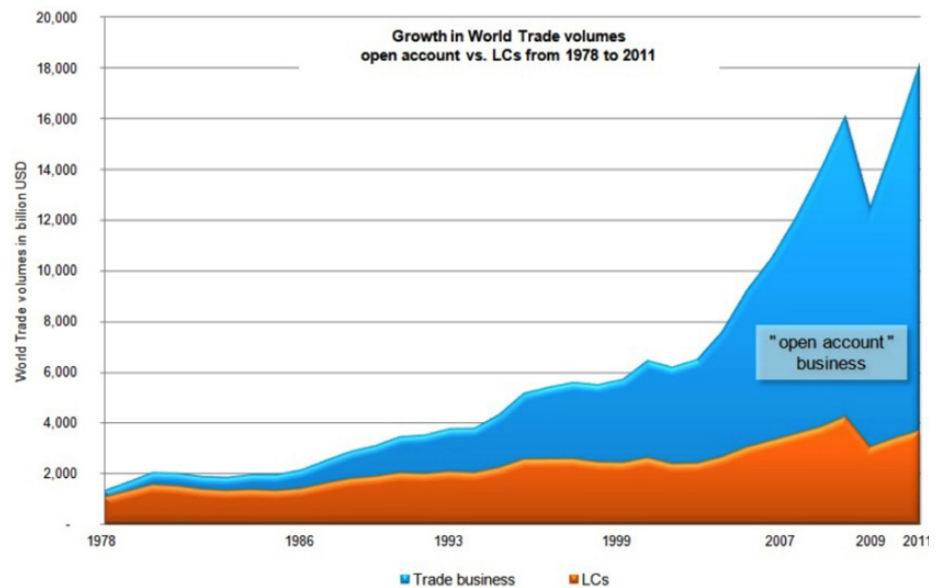


Fig. 12: Open Account versus Documentary Credit Business WTO Public Forum 2013, UniCredit Group

### BUILDING THE BRIDGE TO 2020

Financial institutions have not, historically, been quick to respond to competitive threat or to transformational evolution. There is real risk that complacency will result in loss of ground to more nimble competitors.

Perhaps less obviously, financial institutions underestimating the need to articulate and market their unique propositions (such as the provision of prompt and secure transactions through the global SWIFT network) will find their position eroded by the highly effective and targeted marketing machineries of social network or technology-based solution providers.

“Decision makers in the commercial/corporate space are about two generations removed from the end-users shaping the future of payments: it is not unusual to require a full week for simple decisions to be approved, in sharp contrast to expectations of immediate responsiveness and access in the consumer space, particularly among younger-generation users. Relatedly, the old expectations of a 10-year product lifecycle are a thing of the past”

Anil Dala, Market Manager, EMEA, Treasury Services, BNY Mellon

In an increasingly ‘value’ sensitive world, payment providers seeking to ensure sustainable businesses and compelling value propositions must provide something more than a straightforward utility solution around payments. Such value-added elements might range from complementary services along the broader lifecycle of a transaction or commercial relationship, to supporting analytics, or benefits related to convenience and accessibility. Mobile and wearable technology will continue to reinforce expectations in the retail sector for “anytime, anywhere” access and immediate settlement, with finance and treasury executives seeking similar capabilities on the commercial side.

Solution providers will likely need to consider new forms of partnership and strategic alliance, even with familiar partner groups, and certainly with new potential partners, to remain competitive and to deliver solutions, channels and capabilities that will meet the needs and expectations of end-clients with a relative abundance of alternative choices in 2020 and beyond. These partnerships will be defined more by their depth and sophistication than by their breadth and global reach, as ‘global’ becomes the new normal.

The recasting of traditional correspondent banking relationships, previously approached as “the more the better”, is a stark illustration of the transformational forces at work and the resultant new efforts required to build a bridge to the future of the payments business.

**“The familiar model of ‘I trust you, you trust Party X and therefore I trust Party X’ does not work anymore in this world of stringent regulatory requirements, unprecedented focus on the management of reputational risk and increasingly global commercial linkages. The ‘chain of trust’ is broken.”**

*Michele Gentile, Global Transaction Banking, UniCredit Group*

Additionally, the development of increasingly integrated, possibly global, Automated Clearing House (ACH)-style models will drastically reshape the payments business, shifting the focus from traditional correspondent banking and wire-based solutions to arguably more efficient and less costly models that effectively cut out the correspondent “middleman”.

**“Global ACH type payment networks such as those provided by companies like Earthport are becoming adopted as the de-facto standard payment delivery channel by global, regional and local banks around the world. These networks enable a far greater degree of transparency, predictability and efficiency of payment execution, by leveraging existing domestic clearing infrastructure on a single global platform. This is likely to have implications for the historic correspondent banking model, when responding to evolving regulatory demands and customer needs.**

Some leading financial institutions have recognised that their business is in a transformational phase, with the nature of traditional correspondent banking revenues likely to fundamentally change over the coming 3-5 years. The more innovative institutions have recognised the imperative to develop global strategic partnerships with non-bank solution providers and such partnerships are helping leading banks to enhance their value proposition so they better meet their customer needs. In doing this they will capture significantly more share of the available global payments wallet.”

*Jonathan Lear, President for North America, Earthport*

The state of cross-border investment flows, securities and capital markets-related transactions, and foreign currency-related settlement, will all to some degree be in flux as global demographics evolve, middle classes grow in developing and emerging markets, and commercial influence likewise shifts to leading emerging economies.

While the US dollar is likely to continue to dominate as a currency of international business (and an indirect instrument of commercial and political influence), there is a degree of interest among some markets to seek viable alternatives. In this context, the Renminbi is the most likely candidate to emerge as a currency of international commerce, even if its initial critical mass of activity remains concentrated in the Association of Southeast Asian Nations (ASEAN) markets, and even when the Euro regains surer footing in a post-crisis environment.

This will be driven by a combination of the volume of financial flows to and from China and the ASEAN, and what has so far been a matter of policy in China to adopt a posture of non-interference in the domestic affairs of trading partners: a posture that is very attractive to certain jurisdictions, and is easily differentiated (for better or worse) from foreign policies that include significant degrees of intentional influence.

### **CROSSING THE BRIDGE**

The business of payments is well on its way to taking on a decidedly more strategic character and commensurately greater profile. The core thesis that payments are now more than a utility product must underpin the response of financial sector service providers seeking to remain in the payments business, whether aiming to provide services directly or through a partner institution on an outsourced or white-labelled basis.

“Payments will inevitably be commoditised. It is more about helping the end-customer with their experience of a transaction and not with the payment itself. We go into a shop to buy something, not to make a payment. Banks need to branch out into activities around a payment, but leveraging what banks do well, including their trusted position – perhaps even taking the role of broker in a data marketplace, structured in an “app store” model that involves strategic partnerships and open-source foundations, on which an individual bank ‘layers’ its unique products and services.”

*Mark Hartley, Chief Innovation Officer, Clear2Pay*

### **SCOPE OF PAYMENT TYPES**

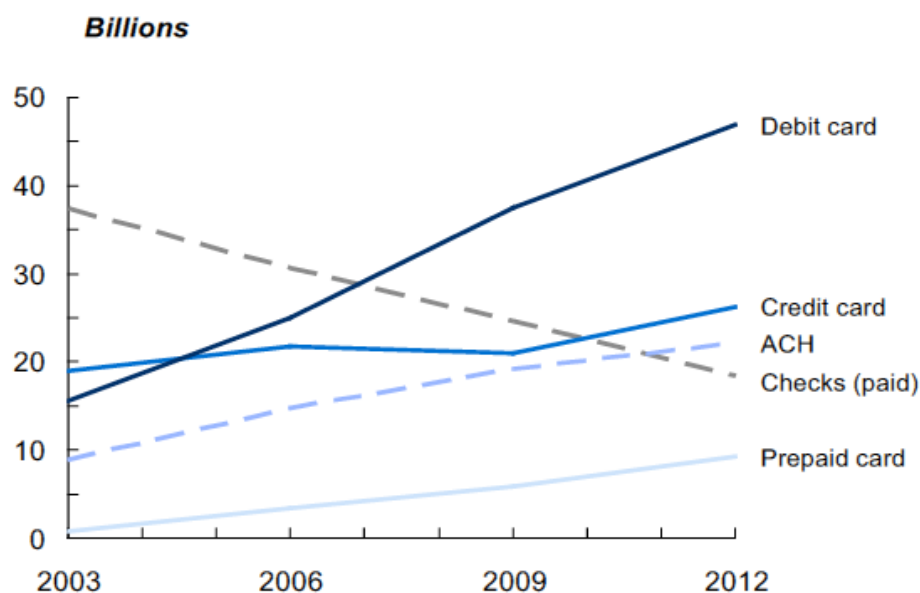
“At some stage, the payments business in the commercial and corporate segments will evolve so that settling a payment will be as straightforward as sending an email or “WhatsApp” message. The next generation of users will expect simplicity and security in both personal and commercial payments.”

*Klaus Kubelka, Head of Product Management Payment Services, Landesbank Baden-Württemberg*

Leading providers shaping the path to 2020 must appreciate the scope and breadth of the payments business, encompassing retail, commercial, public sector and cross-border activity, including:

- trade,
- capital and investment flows,
- retail transactions,
- public sector transactions, including tax payments, and
- cross-border remittances.

Globally, there is clearly discernible growth in non-cash payments, driven primarily by emerging markets. Numerous economies are exhibiting a notable shift away from cash or cheque-based transactions in favour of cards (as depicted below) as well as web-based solutions, and increasingly smartphone or tablet-based mobile solutions. So-called advanced economies are shifting to debit cards, while developing markets are leapfrogging to mobile payments, electronic currencies and other more advanced modes of settlement.



*Fig. 13: The 2013 Federal Reserve Payments Study*

In 2009, cash transactions represented 83.5% of all payment transactions [by volume] in Europe, card payments 10.2% and electronic transactions 5%. By 2012, cash transactions decreased to 80.3%, while card payments and electronic transactions increased to 13.4% and 5.3% respectively. Forecasts predict the trend to continue, as cash transactions will slowly diminish while card payments will grow at a faster rate.

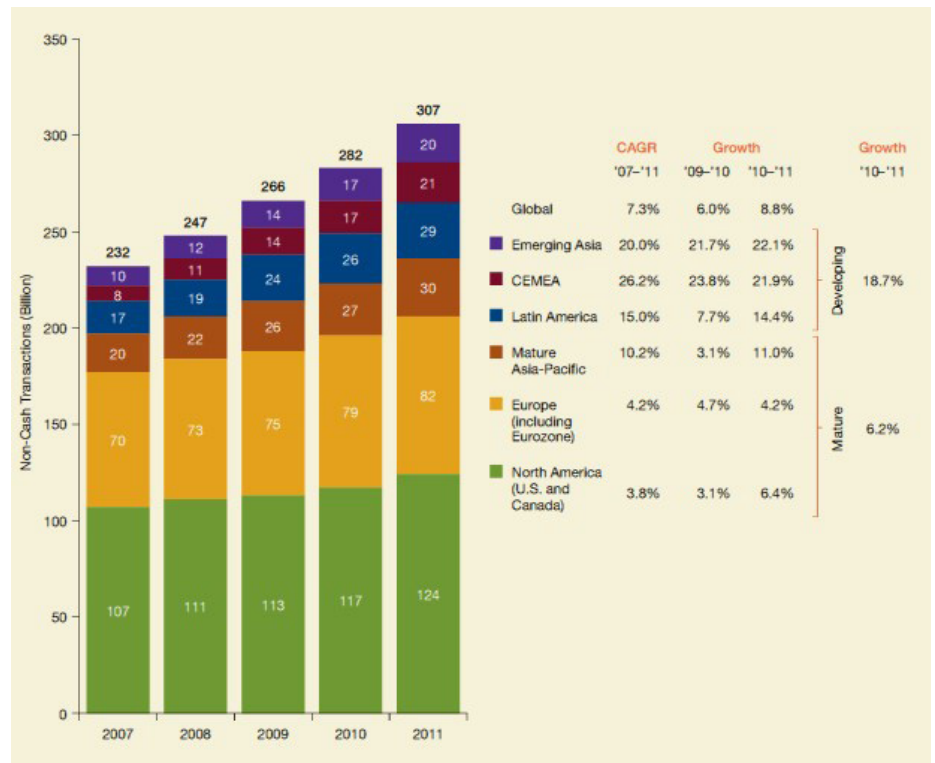


Fig 14: World Payments Report 2013, Capgemini and Royal Bank of Scotland

“While payments activity is increasing in all regions, there are widening gaps between how the industry is evolving in mature economies, and in rapidly developing economies (RDEs), in line with what has become known as the two-speed world”.

Global Payments 2013, The Boston Consulting Group <sup>23</sup>

RDEs are characterised by high growth rates, young populations supporting adoption of technology-based payment systems, and an absence of legacy technologies allowing a degree of “leapfrogging” to advanced models.

While RDEs exhibit significant growth rates and upside potential, mature economies are a source of large transaction volumes and values: the US Federal Reserve estimates that non-cash payments, excluding wire transfers, in the United States were in the range of US\$79 trillion in 2012 alone, across nearly 123 billion transactions.

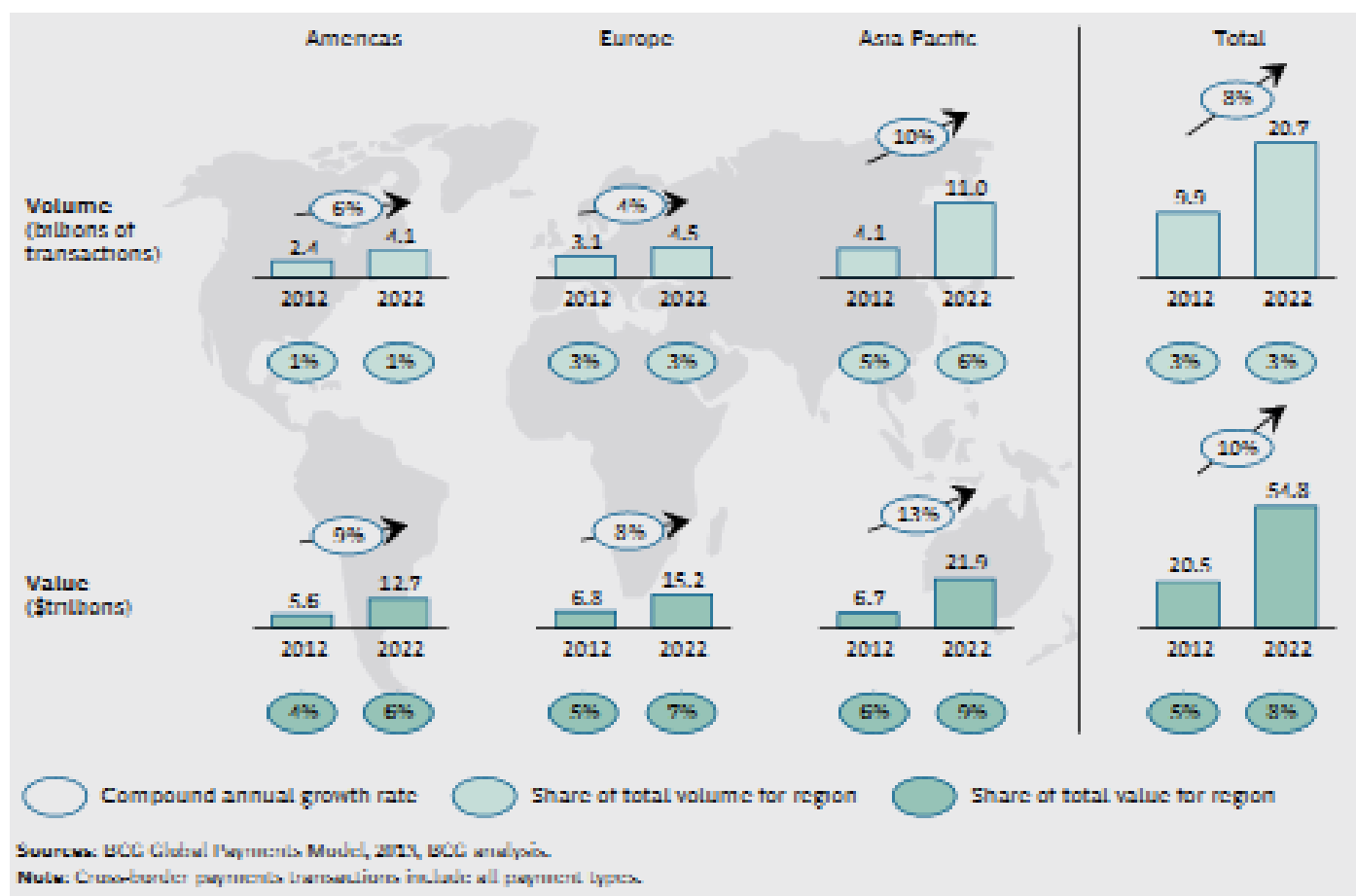


Fig. 15: Global Payments 2013, Boston Consulting Group

The way in which banks and other providers respond to the current shifts in the payment landscape will largely determine whether they successfully adapt to the next level of evolution – “crossing the bridge” to the future of payments - or fail to read and respond to changing client needs and expectations.

Certainly, the payments landscape is in a period of dramatic change – with payment methods, types, providers, destinations and even the broader purpose of a payment all factors that are currently in a state of flux. As banks prepare to address these changes, they must be fully aware of all that this will entail, and establish clear strategies detailing how exactly they will traverse the new payments terrain.

While these strategies will vary according to each institution, the first step for all will be ensuring they are alert to all these changes, and in a position to anticipate future trends. With new players reshaping the payments space, it is vital that banks are proactive and provide relevant, attractive payment (and “payment-proximate”) propositions if they are to compete successfully in the market. “Added-value” will become the industry’s key priority.

In addition, as new payments providers emerge, banks should explore the potential benefits of establishing strategic alliances, to leverage mutual strengths and previously untapped client networks.

With these two strategic cornerstones in place, banks will be equipped with a solid foundation on which to build their new and evolved offering, ensuring they are in an optimal position to succeed in the new world of payments.

## Conclusion

“No smart bank or financial institution can afford to lose sight of various non-bank payment platforms and solutions, including those that have been in operation for a number of years and are shifting from consumer to commercial segments. The exit of top-tier global banks from certain markets and market segments, or their shift “upmarket” in pursuit of greater margins, will create a gap in the market for non-banks to step into: it is unclear where this additional capacity will originate.”

*Frederick L DiCocco, Head of Sales and Relationship Management, APAC, Treasury Services, BNY Mellon*

The global payments landscape is in a state of transformation. Taken as a whole, the changes are perhaps as significant as the advent of downloadable entertainment that largely ended the video rental business in many markets.

The common “wait and see” approach will not work. Banks and other providers currently active in the payments business must become increasingly aware of the dynamics at work today, that will fundamentally redefine the marketplace by 2020. Institutions seeking to truly lead – and profit from – current and future developments, must work actively to evolve their propositions in ways that are more aligned with the emerging expectations and needs of end-clients. They must also communicate effectively their still formidable competitive advantages which will otherwise be lost amidst the attractive and engaging technology-based propositions (including PayPal, Google Wallet, Bitcoin, Facebook and M-Pesa) that are currently competing for a portion of the global payments business.

Providers who persist in looking at payments as commoditised utility services, managed in factory-like volumes, without considering the clear demand from the market for added value, will lose. Those who persist in seeing the world through traditional industry spectacles and fail to grasp the implications of a shift in generational leadership that is seeing Facebook moving into payments, or PayPal moving into lending, will lose.

Social networks and other entities with access to large communities of members or users, who enter the payments business as a supplement to their core offerings and do so with simple, accessible solutions, will continue to redefine the payments landscape. Providers who recognise such developments, and seek to devise new forms of partnership with technology companies that are currently disrupting the traditional payments models, will win.



Markets and providers that insist on building future models on the foundation of current technologies, processes and propositions will lose. High-growth developing economies with successful leapfrogging strategies aimed at delivering workable payments models to unbanked populations (through mobile and other technologies) will win.

Passive banks will lose. Financial institutions that choose to respond to a market that is increasingly client-centric will win. Providers who recognise and respond to the shifting generational, geopolitical and commercial environment by devising tailored, fit-for-purpose solutions will win.

**“Only relying on clearing capabilities and access to central bank relationships is far too ‘old school’: banks should forget about relying on these privileges, as competing providers will eventually gain access. Why are banks even in the equation today, when Alibaba provides a commercial platform, and adds banking services on the periphery of its core offering? One can even envision the evolution of auction-based banking services offered as a complement to online trading platforms – very likely non-bank!”**

*Mark Buitenhok, Global Head of Transaction Services, ING Group*

Providers who carefully prepare for the evolution of the regulatory environment will win. Those who adopt a reactive posture and fail to see the importance of advocacy in shaping the evolution of global regulation, will lose.

**“The traditional cross-sell model used by bankers is becoming less relevant and less effective, as non-bank competitors take meaningful shares of wallet by targeting specific components of offerings that are attractive to customers and lucrative to the service providers. The banking space is getting smaller, and the degree of product/customer ‘stickiness’ is decreasing materially. Today, banks are spending significant funds on regulatory and compliance matters, and thus have fewer resources to invest in client-facing innovations and solutions.”**

*Monika Aminiova, EMEA Market Manager, Treasury Services, BNY Mellon*

Banks in major markets across the globe are undergoing a period of de-risking, at the level of customers, lines of business and specific product sets. While the payments business is attractive in many respects, it will not, by 2020, be for everyone. Decisions about whether to develop propositions around payments should be made with care, and should consider both the tough competitive landscape and the promising environment around strategic alliances evolving in this domain.

Transformation and convergence are two forces shaping the evolution of the payments business globally. They will drive some to success and push others to costly failure in the redesigned landscape of 2020.

**“Banks will need to be smart: they will need to create solutions around the ‘utility’ payment transaction, realising that their main competitors are evolving and will evolve from other industries, and that these competitors understand a core requirement of end-clients – to get money from ‘A’ to ‘B’ quickly and securely, adding value along the way.”**

*Daniela Eder, Product Line Manager non-USD Clearing, Treasury Services, BNY Mellon, Germany*

The current model where a bank might use 4,000 people to run a highly-regulated yet undifferentiated business will not withstand competition from nimble and disruptive enterprises that make quick decisions and leverage technology to their advantage. These could run a similar-sized business with 30 staff supported by leading-edge infrastructure, providing such solutions on a near frictionless basis at one third of the price.

Banks that can recognise and leverage the value of their unique capabilities – including domain expertise – and package this with efficient, partner-supported delivery channels and complementary capabilities, will win. Those that continue to believe that they occupy an unassailable market position, and fail to recognise the major shift represented by market disruptors, will lose.

Convergence will be at the core of the transformation of the payments landscape, through 2020 and beyond, with leading providers looking much more holistically at the payments they process, to encompass “payment-proximate” activities and opportunities to add value beyond the transfer of value. It is only by recognising – and actively responding to – this truth, that industry leaders of today will be able to ensure they are the leading providers of tomorrow.

## Recommendations

While it is challenging to map a specific path to 2020 for banks seeking to remain active and significant in the payments business, there are certain clear steps that must be considered in any plan

These include:

- taking a more strategic view of payments and “payment-proximate” activities with a view to devising value-added solutions and products across the range of activities where transfers of value take place,
- updating technology to deliver services and solutions in line with changing customer expectations, and not, as was historically the case, in alignment with banks’ operational silos,
- identifying and engaging actively in all those markets and lines of business where payments and transfers of value are a prominent aspect, and where there is evidence of transformational change, such as in trade finance,
- becoming more nimble, less conservative and using industry associations to drive a dialogue with regulators in order to help shape the future regulatory framework and benefit from any potential competitive advantage such a leadership position may bring,
- understanding and positioning themselves for the increasingly cross-border, even global nature of payments through multi-currency offerings,
- using technology to develop global views of end-to-end payment activity, and cross-product views in transaction banking where the solutions and services can be closely related from a commercial perspective,
- devising regional or market-specific strategies in the context of a broader global approach, that recognises the unique needs, character and evolution of the payments space in each market or segment,
- actively targeting flows related to demographics, such as the compensation and pension flows linked to the baby boomer generation, or the emerging middle classes in China, Indonesia and elsewhere, or the significant global remittance business aimed at high-growth economies in Africa, South Asia and other areas,

- developing a competitive 'raison d'être' and exploring non-traditional alliances and partnership models, both within financial services and beyond the industry sector to complement core capabilities and facilitate access to new client bases, perhaps even considering propositions around payments that are "end-to-end",
- targeting high-growth customer segments such as SMEs, for whom advanced payment solutions can mean survival in the context of commercial activity, as well as access to a wider range of international business relationships.

## FOOTNOTES

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