Payments Tech

Delivering Strategic Advantage

By **Tom Alford**, Deputy Editor

The payments space has been put to the test over the past 18 months or so as businesses continue to face up to the challenges of the pandemic and intense commercial pressures. As new channels of operation and innovative technologies come on stream, Luc Belpaire, Product Management and Business Development, Trax, Enterprise Treasury and Payments, FIS talks to TMI about how the industry is changing to meet corporate needs.

Tom Alford, Deputy Editor, TMI (TA): We've seen businesses being placed under a lot of pressure in recent times. To what extent has technology in general, and payments tech in particular, proven its value in this unsettled period?

Luc Belpaire (LB): Corporations have faced numerous challenges over the past year from market volatility to increases in cybersecurity attacks to a dramatic change in working habits with the move to remote workforces as a prime example. Without centralised payments technology, it would have been challenging to effectively process global payments. The good news is that companies are investing in technology. According to the 2021 FIS Readiness Report, 68% of respondents will invest more in new payments technology over the next 12 months.

This past year has demonstrated that newer deployment models, especially cloud, have proven to be fit for purpose. Even though many of our customers have deployed payment technology in the cloud over the past five years, we still see companies leveraging older technology or on-premise deployment models. The cloud is playing an important role as companies move their payments processes to the latest technology. According to the report, 88% of treasury and finance professionals will increase their reliance on the cloud or business-process-as-a-service (BPaaS) in the next 12 months.

As a partner offering the latest in digital, cloud-based technology, we make sure all systems deliver. Customers are able to help themselves far more, our in-house teams have been ready online to support continuity and development, and system availability has been delivered according to our stringent SLAs [service level agreements]. If the pandemic had hit 10 years ago, from a business perspective it would have been a very different story...

***TA:* So there's no turning back from cloud delivery?**

LB: If we're looking at current RFPs [requests for proposals], there is simply no appetite to do so. Every client now wants cloud-based solutions. Payments technology provides a critical ability to pay and to collect. Tools such as direct debits are about making sure the cash ends up in the hands of the supplier. These are mission-critical functions, and no one is talking about going back to on-premise, or even questioning if a process needs to be cloud based. It's now the natural way.

***TA:* When it comes to managing change, how has such technology been used specifically to overcome challenges such as decentralisation, increasing fraud risk, lack of visibility, and even process controls?**

LB: For almost a decade, FIS has surveyed the market annually, and each time several key challenges are revealed in the payments space for treasurers of large corporates. Many of these challenges also apply to smaller organisations. One of the top concerns this year is fraud. According to the 2021 FIS Readiness Report, 30% of respondents cite cybersecurity and fraud risk (and cybersecurity) as huge operational and technology challenges over the next 12 months. Treasurers want to be able to prevent any questionable transactions from progressing, yet still retain fluidity around any necessary checks and balances.

A closely related issue is internal control, where the need is to ensure organisational policies are being imposed effectively. Additionally, visibility is always a concern, where the need is not just to see transactions but also to act upon that information. This is required regardless of whether updating cash positions, responding to transactional bottlenecks, or using data to inform financing activities.

One of the main solutions to these challenges is the centralisation of payment workflows. This doesn't mean necessarily having to centralise business operations because payment workflows can easily be controlled through a payments hub. By adopting this model, a business creates an easier means of imposing its internal policies and controls across every relevant stakeholder. It also provides a means of centralising every payment data point, making it easier to check, for example, for unusual payment patterns or instruction changes. In doing so, it provides process visibility.

We're increasingly seeing deployment of enterprise-wide hub models across the market. Even if a hub is implemented within a very decentralised organisation – and we have clients operating at a business unit level with multiple management layers – it's still entirely feasible to run some centralised core workflows, such as payments, because cloud technology is designed to enable such an infrastructure.

***TA:* Are the benefits of centralisation and standardisation now well understood by corporates? If so, what's the next step?**

LB: For payments traffic, yes. It's largely seen as a back-office function, and with the back-end operating smoothly on a cloud-based infrastructure, most companies now want to start focusing on more strategic activities such as product organisation and sales channel development. Treasurers

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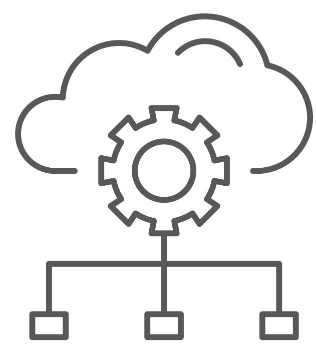

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in particular understand that the solution delivering centralisation and standardisation brings several additional advantages.

I talked about the quest for visibility and how if you centralise payments flows and their associated data points then you can bring transparency to cash positioning. But a by-product of this is that it also enables treasurers to begin asking key questions about banking relationship management, for example. Share of wallet for each bank, for instance, takes a long time to calculate in a decentralised environment, but within a payments hub, the data is already there and can be acted upon.

TA: Immediate accessibility, or real time, is a popular topic within the industry. In the context of payments, are you seeing any new use cases or innovation that will drive uptake among treasurers?

LB: Progress in real-time technology presents a nuanced picture. Real-time payments offer some genuine advantages, even from a treasury perspective.
There are a few mature and well-established mechanisms for traditional bulk payments that are clearly not real time but are cheap and work well, so change away from them is unlikely for now. But there are some use cases where real-time payments do make sense.

Anything related to customer payments – in refunds or insurance settlements, for example – have a sensitivity and reputational element about them. We are seeing increased uptake of real-time payments here because it improves the customer experience, paying them immediately and notifying them in an entirely digital workflow.

But we are beginning to see increased interest in the supply chain space too, where goods are released only upon payment. I'm also seeing scenarios where, from a collections perspective, costly card payments are being replaced by lower-cost real-time payments.

I believe real-time payments are the way forward for these types of use cases. This is why FIS has developed a cloud-based software-as-a-service [SaaS] platform – FIS RealNet – that specifically uses real-time payment networks for account-to-account transactions.

It's true that real-time payments require users to understand and respond to the fact that they really are more or less instant, and that errors cannot be rectified during an extended settlement period. The need to validate payments information as far as possible before executing is seeing the rise of pre-validation services, notably from banks. In helping to prevent errors, these solutions reinforce the value of real-time payments.

Currently, however, there is no standardisation among service provision, with domestic and even individual bank initiatives making it challenging for vendors to build a solution for treasurers that works across banks and borders. That said, at FIS we're working closely with SWIFT towards a standardised approach. We're also developing our payments hub concept as a SaaS proposition. This would enable us to better distribute it, at lower price points, with the opportunity to aggregate banking activity data and services such as compliance and pre-validation, across multiple customers. The aim is also to facilitate easier integration with other third-party cloud-based solutions, so our platform can become part of a wider treasury technology ecosystem.

TA: I can see some strong use cases developing in real-time payments, but do you see more value for treasury in real-time cash reporting?

LB: The adoption of real-time systems beyond payments, especially under the watchful eye of regulators, has seen the idea of APIs [application programming

interfaces] progress rapidly. We're being approached by banks who want us to plug our systems into their APIs, particularly for cash reporting. Certainly, in our conversations with clients, it's become clear that this is the real-time aspect that they want most of all.

But in making API connections we are encountering that same lack of standardisation that afflicts processes such as pre-validation. There are nationally co-ordinated approaches to APIs, in France and the UK for instance, but where a client operates across a number of borders, as a vendor we have to create solutions for each different initiative. It's far from optimal. So, alongside some of our clients, we're working with a number of banks and SWIFT on a pilot programme that is seeking a more co-ordinated approach to cash reporting APIs. This will really give treasurers real-time optionality.

***TA:* You've highlighted how the adoption of cloud-based solutions has almost become the norm now but are you seeing any developments or new approaches here?**

LB: I think cloud solutions are largely accepted as the way to go, and the level of investment by Big Tech in infrastructure bears this out. As a vendor, we make sure we are keeping pace with every advance, making sure our applications continue to be cloud ready and scalable.

Indeed, one of the primary benefits related to the cloud delivery of payments technology is that it is truly 'elastic.' We can build commercial models in this space that didn't exist just a few years ago and we are watching closely and continue to invest as part of our own roadmap. By doing so we bring new efficiencies. Clients may consume only the parts of the underlying infrastructure that they need, so that, for instance, a business with millions of direct debits to collect on a single specific day in a month will need appropriately scaled infrastructure at that time. If its collections revert to a relative trickle for the rest of the month, the cloud model enables it to scale back its consumption and costs accordingly.

***TA:* You talked earlier about your work with SWIFT. It would be fair to say that its gpi outbound payments tracking programme has been very successful. What are your views on the still-developing inbound service?**

LB: We worked with SWIFT and some of our clients on developing and incorporating outbound functionality, and it has produced great results. Inbound needs to find a clear use case among corporates. I think it could certainly be useful in enabling better reconciliations. The beneficiary knows upfront that the payment is due and so processes related to receivables and cash application can therefore be made ready with full confidence.

We have carried out an inbound pilot with a client whose main focus was its use as an advance notice cash application tool. We've delivered that and are now moving forward with inbound programmes with other clients.

It will evolve and that's why we're trying to roll it out in a gradual manner. We are working with small pilot groups to ensure they are capturing only the aspects that are most important to them, and then incorporating these into our core products. As with standardisation programmes, it then becomes a matter for the user community, including the banks, to decide if it offers sufficient value to be progressed further.

I must say that with our inbound projects, we found few banks in a state of readiness to proceed, even with a pilot. Many were focused on ensuring gpi was enabled only in their own API channels, not on the core SWIFT channel. This makes standardisation for a multi-banking corporate rather difficult to manage. Success comes from finding a killer proposition and use case, then making sure there is a standardised rulebook that can be adopted in payment and treasury solutions.

***TA:* It sounds like the payments sector is still on a journey, so where to next?**

LB: It is definitely still on a journey. Now it's about a lot of business processes moving towards cheaper and faster delivery. There is more competition, with traditional banks now facing competition for payments processing from fintech and Big Tech players and even merchant services providers. This is the reality even in the corporate space. With more competition and innovation, payments will become cheaper.

With the advent of real-time payments, it's a given that even traditional ACH [automated clearing house] transactions will move to shorter clearing cycles. We've already seen a huge investment in Europe in clearing technology. And with the adoption of standards like ISO 20022, not only increasing payment speeds are inevitable, also the changes happening to the ecosystem will bring advantages in terms of the exchange of considerably richer payment data. This will have a huge positive impact for businesses. In general, I believe the payments sector will evolve quite significantly and rapidly over the next few years because of the level of competition, and because of the changes to the underlying infrastructure. At FIS, we know what our treasury clients want, and we are aligning our strategy – including who we partner with – and our investment schedule, and we are delivering. ■

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