Corporate Treasury Network

The future of payments: a corporate treasury perspective

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The conventional wisdom is that the payments landscape in 2020 will be unrecognisable from today; that globalisation and digitalisation have encouraged companies of all sizes and sectors to internationalize their businesses, both conventionally and via e-commerce; and that the incumbent payment providers, in both the core infrastructure of payments and at the level of the bank intermediaries, are under existential threat from new, FinTech and non-bank competitors; and that new technologies, such as the blockchain, will render current methods obsolete.

It is certainly the case that regulatory change, particularly the introduction of PSD2, is already affecting the payments ecosystem. In combination with new technology it has attracted new competitors into the payments space.

Most target retail customers or the smaller companies without easy access to global transaction banking. Some aim to create what they call an improved version of correspondent banking, networks that "re-intermediate" banks in consortia offering "global ACH" services, appropriate for certain types of cross-border corporate payment.

Others use versions of blockchain technology to provide a service superficially similar to correspondent banking, but with improved performance. In addition, dozens of new and more established platforms offer service-layer access to the global payments network, tailoring their offerings to businesses of a particular size, types or location. Banks too are partnering with FinTechs and are also active in blockchain experimentation in order to better compete.

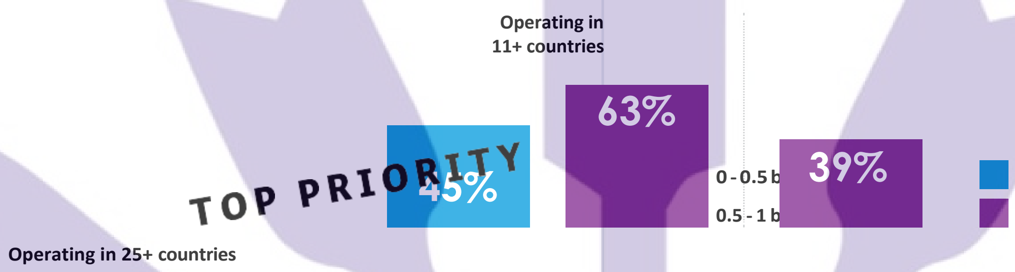
However, it is not clear how many of the new developments in payments are truly relevant to corporate treasury or will be. It is not clear that the new technologies have been proven viable and scalable and can pass muster with global regulators and compliance legislation. Most importantly, if there is to be a payments revolution in corporate treasury, the new solutions must solve the problems treasury put at the top of their list of priorities.

So, to discover whether any of the assumptions made in the payments space hold true, SWIFT and EuroFinance teamed up to ask the treasurers of a wide range of corporates around the world to reveal their current experiences in cross-border payments and their policies and intentions.

The Economist Group

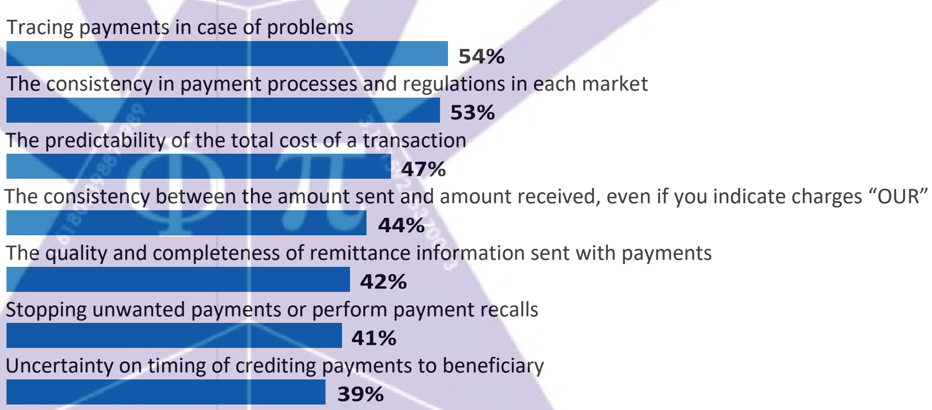
Globalisation is the norm

45% of the smallest companies polled (less than $500 million in turnover) operate in **11** or more countries. For companies between $500 million and $1 billion, **63%** operate in **11** countries or more with **39%** in **25** or more.



Pressing issues in cross-border payments

Taking only those issues which treasurers marked as extremely challenging (4, or 5 on our scale), it is clear that firms feel there is much room for improvement in:



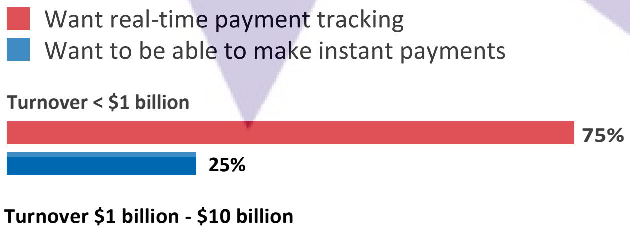
Size is a key factor in levels of frustration

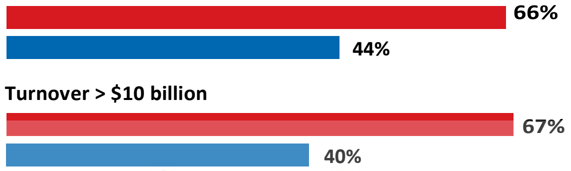
For firms between $500 million and $1 billion in turnover, few issues merited a "**5**" (extremely challenging) and most responses clustered in the middle of our range, indicating some degree of concern but no standout pain points.

For firms between $1 billion and $10 billion, the pain points begin to be apparent across the board, with between a quarter and a third of treasurers saying that the above issues merited a score of "**4**".

But it is firms with turnover of $10 billion or more who drive the overall table, with between approximately **40%** and **60%** saying that these issues are problematic.

Real time: tracking vs payments – size matters





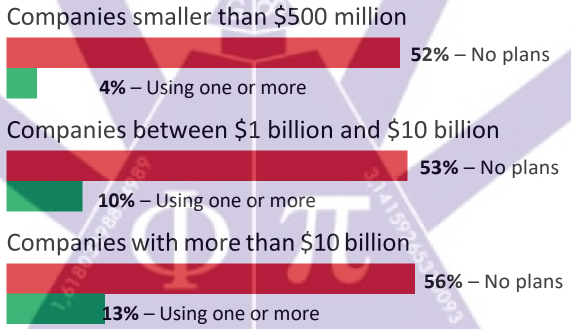
Bank selection criteria remain conventional, not high-tech

84%
require efficient payment processes and effective customer support

57%
Competitive pricing and transparent charging

52%
Innovation and new methods

The myth of FinTech adoption



The biggest concern is the ability of these providers to ensure security and fraud prevention.

The cross-border payments landscape is in a state of flux. The traditional correspondent banking model is increasingly unable to deliver the service required by customers, and the regulators.

Customers expect the systems they use in business to replicate the technical sophistication and efficiencies of the technology they use at home and at play. For them, digitalization has become synonymous with real-time, straight-through, always visible. In payments, since domestic payments are going real-time, it is unsurprising that their expectations for cross-border payments are also becoming more demanding.

Regulators are wrestling with the problems of control, of know-your-customer, fraud and money laundering, and the compliance burden they have imposed, both on the banks but also on corporates, is another driver of change across the global payments infrastructure.

And digital innovators offer new disruptive solutions that threaten the disintermediation of the Global Transaction Banks (GTB) by holding out the promise of an enhanced value proposition.

Correspondent banking disintermediated at origin

The conventional wisdom is that the payments landscape in 2020 will be unrecognisable from today; that the incumbents, in both the core infrastructure of payments and at the level of the bank intermediaries, are under existential threat from new, FinTech and non-bank competitors; and that new technologies, such as blockchain, will render current methods obsolete.

Regulation changing the game?

However, it is regulation, and in particular the second European Payment Services Directive (PSD2) that many people believe is the key game-changer in payments. However, it's important to note that the focus of PSD2 is consumer protection and legislative harmonisation. So most of the key effects are in the retail space and affect retail banking margins.

PSD2 breaks banks' monopoly on customer data. It allows Account Information Service Providers (AISPs) to aggregate customer bank account information in one place. It permits Payment Initiation Service Providers (PISPs) to initiate payments on behalf of their users in a wide variety of different ways – one being that merchants will no longer have to re-direct customers to third-party payments platforms or banks. Disruptive AISP and PISP services have already emerged in Direct Debits, money transfer, customer product recommendations and real-time account information supplied via open APIs.

Those radical consumer-side changes will undoubtedly affect banks significantly, allowing banking to be separated from "banking technology" and effectively letting consumers build their own bank service providers by picking and choosing different providers for different activities, delivered in all likelihood via mobile phone.

That is a retail revolution. What changes for treasurers? Leaving aside the vague predictions of new collaborations between bank and non-bank players, for those whose transactions are triggered as single payments, many of the same benefits accrue as in the consumer space. In addition, PSD2 will bring easier management and overview of cross-border accounts via the same AISP and PISP mechanisms as above. Corporates, like household customers, will be able to view all of their multi-bank account details under a single portal, however, implementation of any solution by a large corporate will face hurdles such as integration with ERP systems as well as treasury management systems. This is hardly a revolution in cash management but it may well increase convenience and efficiency. Increased competition and transparency will have the same effect in the corporate space as retail: products will improve and their prices will fall.

These changes clearly address to some extent core treasury concerns over the level and visibility in fees and product pricing revealed in this survey. However, it is equally clear

that the main effects will be felt by retail customers and the retail divisions of the banks who serve them.

A FinTech treasury future?

In a similar way, the retail-oriented revolution in digital payments technology is held up as a harbinger of change in corporate treasury. The argument is essentially that there will be a transfer of retail expectations to the B2B space and that new entrants to the market will provide alternative ways for corporates to make payments at the expense of the traditional correspondent banking market.

It is certainly true that retail customers are clearly adopting new payment methods at a very rapid pace. Any technology that makes paying easier and faster, from platforms like PayPal to new technologies like Apple Pay and NFC, is driving out cash, cheques and even cards. As mobile phones become the de facto vehicle for our interaction with money, this trend will clearly continue.

For corporations with retail-heavy customer bases, these developments create a critical business issue. To survive, they must ensure that they can accept payments from customers in any form those customers demand, ship goods as soon as the customer believes payment has been made and refund instantly if there is a problem. For most companies, the answer is to plug into a service layer that aggregates payment mechanisms, using whichever conduit makes sense for the company or the payment type.

It is this e-Commerce model to which people often point when they make predictions about the future of payments technology, the threat to the banking industry and the likely shape of corporate treasury.

So, for example, "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 …. 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." (Global Payments 2020: Transformation and Convergence, Bank of New York Mellon)

The idea that retail preferences for digital payment map directly onto a revolution in B2B ignores the fact that these new, and not so new, 'payment providers' are not payment providers at all. Leaving aside crypto-currencies and the types of wallet that can directly exchange tokens of value, payments that require the exchange of fiat currencies are still intermediated by banks.

New competitors have definitely targeted the retail payments space and extracted vast revenues from services that could just as easily have been provided by the banks themselves. And it is true that this has occurred to an extent at a corporate level as well.

Dedicated payments platforms have sprung up to solve a host of internal automation, reconciliation and bulk payments issues, especially for businesses that are growing rapidly and having to deal with more and more global suppliers. These platforms can help with on-boarding suppliers, vetting them, communicating with them, offering the payment methods that work for them, capturing and processing invoices and ensuring tax and AML compliance, all services that could also be offered better by banks and which represent lost revenues to them.

But, just as Paypal does not change the fact that its customers are ultimately paying by credit card or directly from a normal bank account, these new payment platforms, with one possible exception, do is not fundamentally change the nature of payments, they simply move treasurers' core payments issues from one set of banks to another.

In the same way, the "clearing and network solution providers, whose business models are reshaping global markets" mentioned by BNY Mellon are not actually providing fundamentally changed payment methods.

So, the Earthport/Paycommerce model reinvigorates (or, as they say "re-intermediates") local bank and ACH networks and makes them easier to access. But they do not change the fundamental constraints of ACH payments. Visa's blockchain initiative with Chain relies upon Visa's network of 17,000 partner banks, it doesn't revolutionize the underlying payment mechanism, nor does Western Union's Edge service and others like it.

These initiatives are quasi-retail in their focus: they are designed for small corporations who do not have access to a full-service, competitively priced international payments solution, who are less likely to connect with SWIFT and who will not be a core customer of a Global Transaction Bank. This is a huge and profitable marketplace, but these services do not represent a revolution in payments from the perspective of the corporate treasurer – a position by definition found only at the larger corporations and they are not, in general, solutions to the problems treasurers face.

As an aside, these FinTechs may find themselves competing with SWIFT anyway. Its new gpi (global payments innovation) service (described in more details below) creates benefits throughout the banking system, benefits that can be passed on to SME clients via their banks just as larger companies access them more directly.

Old treasury problems are the real drivers

The current digital revolution in payments then boils down to the creation of new, easy-to-use portals into existing networks, most of which, though improved by an upgraded network effect, perform their previous function in exactly the same way as before. How customers are paying for products, which is what most of the payments hype concerns, is not directly relevant.

For treasury, the core concerns are the pain points in B2B payments revealed in this survey. It is their demands for solutions that will prompt fundamental changes in the cross-border payments space. And these problems are not new:

- Uncertainty on length of time for payments to be credited to the beneficiary
- Tracing payments particularly in case of problems
- The quality and completeness of remittance information sent with payments
- The predictability of the total cost of a transaction
- The consistency between the amount sent and amount received
- The length of time it takes for rejections and investigations
- Stopping unwanted payments or perform payment recalls
- The consistency in payment processes and regulations in each market

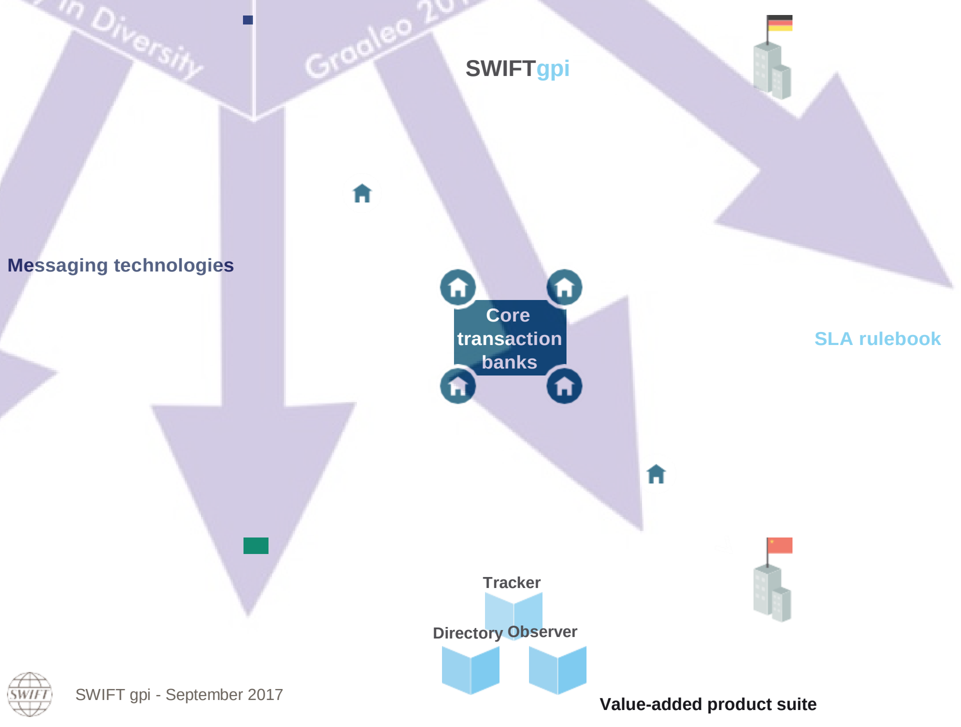
All of these problems conflict directly with treasurers' need to automate processes prevent fraud, increase cash and fee visibility and optimise liquidity management and they arise largely from the structure of the correspondent banking system. This turns a simple payment between two parties into a game of pass the parcel for six: payer, payer's bank, payer's bank's correspondent, beneficiary bank's correspondent, beneficiary bank, beneficiary. These parties do not themselves act consistently: some have STP, some do not; some take longer than others to release funds; the fees charged along the way differ bank to bank, country to country and FX spreads are inconsistent. The addition of KYC/AML, OFAC sanctions and an inconsistent global regulatory playing field has simply thrown sand into what was already an inefficient engine.

SWIFT Global Payments Innovation gpi

The most obvious solution to treasury's pain points is to re-engineer the existing correspondent banking system. Since most of the issues in cross-border payments arise from behaviours and processes that banks could change, rather than technology, changing those processes is a key first step. This is what makes SWIFT's Global Payments Innovation (gpi) Initiative potentially so powerful.

As the survey results show, even among smaller firms, SWIFT connectivity is common and among larger firms it is unusual to find companies with international businesses who are not connected to the SWIFT network either through a service bureau or via Alliance Lite 2. So an improvement to the service levels provided through SWIFT would bring immediate relief to corporate treasurers without the need for substantial investment in potentially risk, untested new technology. For companies not connected to the SWIFT network, they have access to the payments service via their banks.

SWIFT gpi concept



This is what SWIFT sets out to achieve. It combines the traditional SWIFT messaging and correspondent banking system with what SWIFT calls a new set of "'business rules' captured in a set of multilateral service level agreements (SLAs) between participating banks". Those SWIFT member banks who commit to gpi agree to provide "same day use of funds, transparency of fees, end-to-end payments tracking and unaltered transfer of remittance information."

SWIFT has also built an "observer" system which allows gpi banks to monitor the SLA compliance of their partners across the system as well as a payment tracker, on which payments' progress can be viewed in near real time. This will be white labelled by banks for their clients.

"Already today, with so many banks supporting SWIFT gpi, corporates are getting an enhanced experience directly from their banks, in over 100 country corridors."
– Wim Raymaekers, Head of Banking Markets and SWIFT gpi at SWIFT.

Available since January 2017, more than 110 leading transaction banks from Europe, Asia Pacific, Africa and the Americas are signed up, representing the overwhelming majority of cross-border payments. More than 20 global transaction banks are actively using the SWIFT gpi service, with another 50 in the implementation pipeline. Hundreds of

thousands of gpi payments have already been sent across more than 100 corridors.

Member banks

Over 110 member banks sending payments into more than 224 countries and territories; representing or 75% of all SWIFT cross-border payments.

110+	220+	75%
Banks	ntries and territories	IFT cross-border paymen

The new service is designed to address end-customer needs without compromising banks' abilities to meet their compliance obligations and market, credit and liquidity risk requirements. It operates on SWIFT's secure and resilient global platform; and participation is open to any supervised financial institution (SWIFT Group 1 category)that agrees to comply with its business rules.

Value for corporates

Better cash flow management
Speed and visibility on critical payments
Certainty for buyers and sellers
Transparency on bank fees
Reduced exception handling and investigations

Enhanced predictability and traceability
Greater planning and decision making
Improved reconciliation and forecast reporting

Reduced settlement time
Leverage investment opportunities
Higher visibility for capital and credit management
Reduced FX risk

Gpi directly addresses treasurers' core pain points. It offers:

- Faster, same day use of funds*
- Transparency of fees
- End-to-end payments tracking for
- Remittance information transferred unaltered
- Grow international business
- Enhance supplier relationships
- Increase treasury efficiencies

In particular, the payments tracker addresses the most common issued raised by treasurers in the survey. When they send a payment, they want to know what is happening with it and when it has been received. Until now, this has not been the case in cross-border payments as each bank has only been able to guarantee and share information on its own leg of the payment.

Now SWIFT gpi enables banks to provide end-to-end payments tracking. SWIFT has developed a Tracker database 'in the cloud' securely hosted at SWIFT, to give end-to-end visibility on the status of a payment transaction from the moment it is sent until it is confirmed.

The Tracker can be updated by FIN message or via API. It can be accessed via a graphic user interface (GUI) and also via API calls to allow the service to be embedded in other back-office systems and front-office portals.

SWIFT gpi is the first concrete step to improve banks' cross-border payments service

"Yesterday" **"Today"**

No transparency on costs
No transparency on time
No confirmation of credit

Global payments innovation (gpi)

Faster, same day * use of funds
Transparency of fees
End-to-end payments tracking
Remittance information transferred unaltered

* within the timezone of the receiving gpi member.

The first phase of SWIFT gpi is the first step on a long road of improvement to the traditional system. It does not include instant payments, increasingly demanded by treasurers but not yet an absolute must have. It does not deliver the up-front, pre-transaction fee schedules many treasurers would like. However, it does mitigate many of the key pain points this survey reveals.

Crucially, it does so on the existing infrastructure. The simplicity of its integration into existing bank business processes and infrastructure allows a large number of industry players to standardise their way of working to achieve large-scale industry impact.

In its first phase, SWIFT gpi provides a set of multilateral business rules designed to harmonise the banking processes in cross-border payments. As a result of SWIFT gpi, corporates are able to obtain faster, same day use of funds, transparency of fees, end-to-end payments tracking and remittance information transferred unaltered.

Next, gpi has a solid roadmap delivered in two additional phases running in parallel.

The second phase goes one step further, enhancing the digital transformation of cross-border payments by enabling banks to offer new services such as:

- The facility to immediately stop and recall a payment, no matter where it is in the correspondent banking chain.
- The ability to transfer rich payment data along with the payment, with the item data necessary for payments compliance checks or line details; thereby enhancing reconciliation with invoices.
- Use of an international payment assistant at origination, to further increase the straight-through-processing rates of cross-border payments.

The third phase is exploring the potential of using new technologies such as distributed ledger technology (DLT) and blockchain as part of its gpi service, which is explained below.

SWIFT also continues to explore the possibilities of DLT. In January 2017 it launched a proof of concept (PoC) to determine if distributed ledger technology (DLT) could help banks reconcile their nostro databases in real time. Initially six banks, Wells Fargo, Bank of New York Mellon, Australia and New Zealand Banking Group, BNP Paribas, DBS Bank, and RBC Royal Bank, participated, joined in July by 22 additional global banks. The PoC is part of the SWIFT gpi (global payments innovation) service, the new standard for cross-border payments.

As SWIFT explains on its website, "under the current correspondent banking model, banks need to monitor the funds in their overseas accounts via debit and credit updates and end-of-day statements. The maintenance and operational work involved represents a significant portion of the cost of making cross-border payments. This PoC will test whether distributed ledgers may be able to help banks reconcile those nostro accounts more efficiently and in real time, lowering costs and operational risk."

SWIFT will deploy open-source Hyperledger technology, and combine it with key SWIFT assets to bring it in line with the financial industry's requirements. Using a private blockchain in a closed user group environment, with specific user profiles and strong data controls, user privileges and data access will be strictly governed.

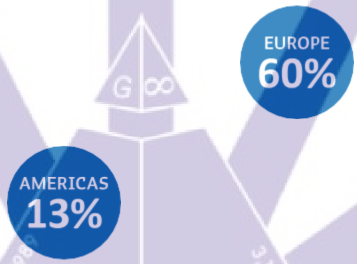
Key banks will test and validate the PoC's blockchain application, currently under development by SWIFT and the group of six founding banks that launched the PoC earlier in the year. Working independently of the founding banks, the 22 institutions will act as a validation group to further test the application and evaluate how the technology scales and performs.

SWIFT is also working with FinTechs to improve gpi. Ebury, one of the fastest growing FinTechs for corporate cross-border payments and growth lending which is a gpi member, is significant because it hastens the integration of gpi into corporate processes and systems. SWIFT's annual innotribe competition encourages FinTechs to build overlay services on the SWIFT infrastructure including gpi.

A treasury win-win

For treasurers, all these initiatives look like a win-win. gpi pushes banks to improve their core payments offering to corporates. The additional new technologies save banks money which they can pass on to clients. In all scenarios, treasurers benefit from FX and fee savings and transparency, the compliance certainties and the data retention and visibility. It's hard to see how things are not going to get better in payments for treasury.

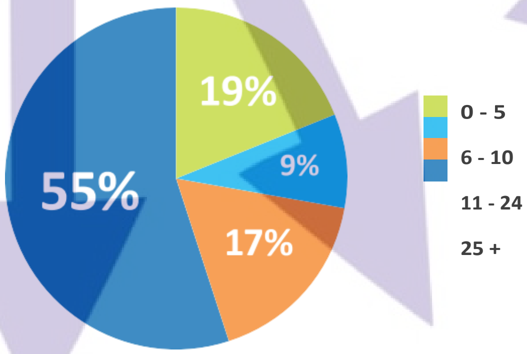
An e-mail invitation to take part in this survey was sent to senior corporate treasury professionals on 22nd May 2017. The survey comprised of five multiple choice 'point and click' questions together with a profiling and an optional text questions. The survey was closed and analysed on 20th June 2017. Nearly 300 corporate treasury professionals responded to the survey, with participants coming from the following locations:



Globalisation is the norm

The need for change in the cross-border payment market is normally predicated on two assumptions: first, digitalisation is changing everything and second, that companies are increasingly looking abroad for growth. The first assumption has been examined above, with the conclusion that most of the trends used to justify it actually apply to retail and the smallest corporate customers and the banks that provide their services. The second is examined in this survey: one of the first question we asked was, "approximately how many companies does your company operate in?"

Across all companies surveyed, the answers looked like this:



In approximately how many countries does your organisation operate?

However, since it is a given that the largest companies will have been operating globally, the more interesting findings were that

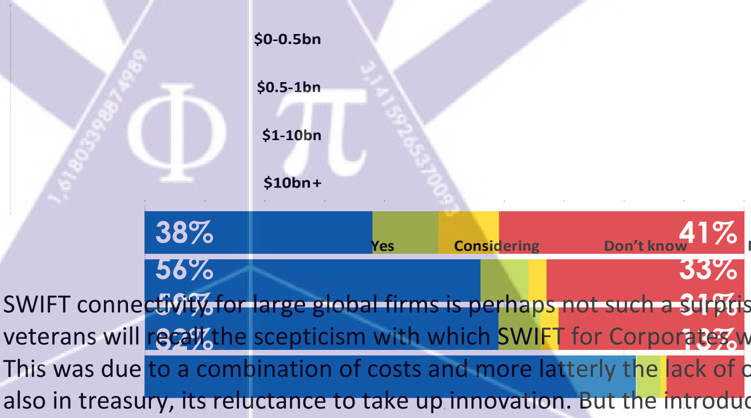
- 45% of the smallest companies polled (less than $500 million in turnover) operated in 11 or more countries
- For companies between $500 million and $1 billion, 63% operated in 11 countries or more with 39% in 25 or more
- These results are consistent across regions

This bears out the assumption that companies across the board really are pushing into new markets overseas in search of new markets and new growth. It is therefore a reasonable assumption that the smaller companies will also be using digital channels as a key way of doing this since it offers a cost effective way to quickly bring new products to market and establish a brand presence.

SWIFT connectivity is the de facto standard

A key finding, reflect how the corporate treasury market has changed in the past few years, is the ubiquity of SWIFT connectivity. For firms between $1 billion and $10 billion 60% are connected to SWIFT with 35% of those connecting directly using Alliance Lite 2. For firms with turnover exceeding $10 billion, 82% are connected to SWIFT, with 47% of those connected directly.

Are you connected to SWIFT?



SWIFT connectivity for large global firms is perhaps not such a surprise, though treasury veterans will recall the scepticism with which SWIFT for Corporates was initially met. This was due to a combination of costs and more latterly the lack of cloud activity, and also in treasury, its reluctance to take up innovation. But the introduction of service bureaus and Alliance Lite 2 increased corporate take-up. The financial crisis in 2008 was also a driver for corporates to seek bank agnostic solutions and better visibility. Clearly the benefits of using SWIFT to help drive core treasury objectives – visibility, security, efficiency – have been recognised.

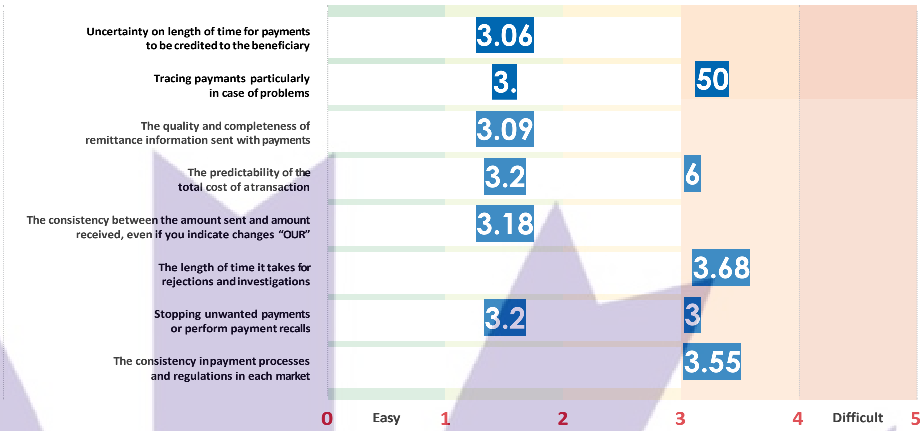
Pressing issues in cross-border payments

Treasurers in the survey were asked, “Managing cross-border payments can be challenging for organisations with many aspects to take into account. Based on your experience in making and receiving cross-border payments - on a scale of 1 to 5, where 1 is ‘not at all challenging’ and 5 is ‘extremely challenging’ - how challenging, if at all, are the following [the criteria in the charts below]?”.

A huge number of data points are created by this seemingly simple question, but the key conclusions are clear. The first chart shows the aggregated answers – this is respondents of all sizes, globally. And it illustrates that treasurers still face a significant number of issues all of which they give approximately the same rating – significantly challenging (the average being around 3.5 on our scale).

These are not new issues. However, they are becoming increasingly urgent as companies of all sizes in all sectors are forced by competitive pressure to expand across borders, to move into e-Commerce, to comply with new regulations and ensure better levels of cybersecurity. Their urgent demand for a modern and efficient cross-border paymentprocess is an opportunity for those banks and payment providers willing and able to solve the problems.

The challenges of managing cross-border payments



Digging deeper into the data, and taking only those issues which treasurers marked as extremely challenging (4, or 5 on our scale) it becomes clearer which issues are most pressing and also to what extent company size affects companies' prioritization of problems.

So, taking the score of 4 and 5 only, the list looks like this:

- Length of time for rejections and investigations: 61%
- Tracing payments in case of problems: 54%
- Global payment process consistency:53%
- Transaction cost predictability: 47%
- Amount sent matches amount received even if charges = "OUR": 44%
- Quality and completeness of remittance information sent with payments: 42%
- Payment stops/recalls: 41%
- Uncertainty on timing of crediting payments to beneficiary: 39%

In other words, the shortcomings of the present system are most evident when something goes wrong. Once a payment has failed for some reason, treasurers find it extremely challenging (and so time consuming and costly) to find out what has happened and fix it. This is an obvious impediment to the increased efficiency firms seek, to automation and to cost saving.

Interestingly, the larger the company, the more problematic treasurers find things. So, for firms between $500 million and $1 billion in turnover, few issues merited a "5" (extremely challenging) and most responses clustered in the middle of our range, indicating some degree of concern but no standout painpoints. For firms between $1 billion and $10 billion, the painpoints begin to be apparent across the board, with between a quarter and a third of treasurers saying that the above issues merited a score of "4". But it is firms with turnover of $10 billion or more who drive the overall table, with between approximately 40% and 60% saying that these issues are problematic.

This merits further research, but the most obvious conclusion is that large firms have more cross-border payments and more finely tuned internal cash management processes and so operate at the limits of the system's constraints, while smaller firms' needs are more easily accommodated. This suggests that as all firms push to operate more efficiently and to maximise working capital, they will all become less tolerant of systemic obstacles to optimum payment, cash and liquidity management.

Top priorities for change

We asked treasurers to pick the three things that they would most like to see improved, to see whether the issues identified as critical problems directly resulted in their priorities for change.

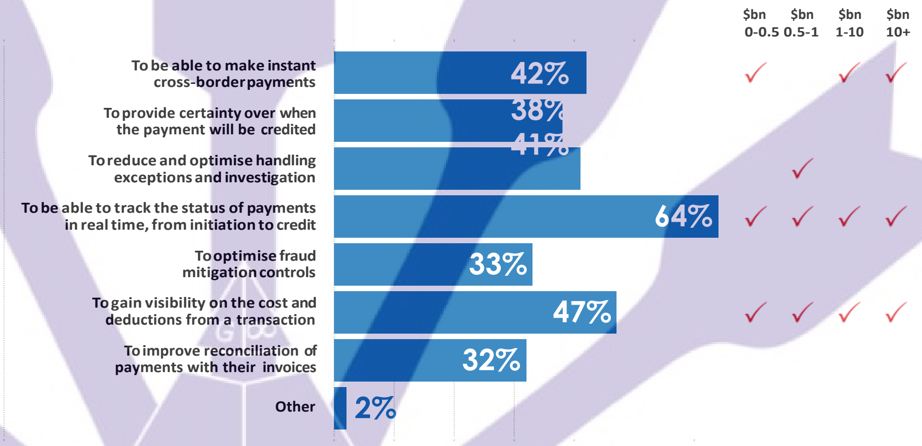
Tracking payments and gaining visibility came top, both of which would directly improve error rectification. At first sight it looks odd though that reconciliation score so low. After

all, reconciliation errors are a big part of the inefficiency of payments. But it is also true that helping improve that problem is not solely the role of the cross-border payments system. That type of reconciliation error occurs earlier in the chain, whether through deliberate actions of the payer (paying multiple invoices with one payment, part paying invoices so that more payments than invoices exist etc.) or through inputting errors, and it is hard to see how a payments system can help without taking over other key parts of the AP function. There perhaps FinTech is an answer. SWIFT's gpi is also looking more closely at this.

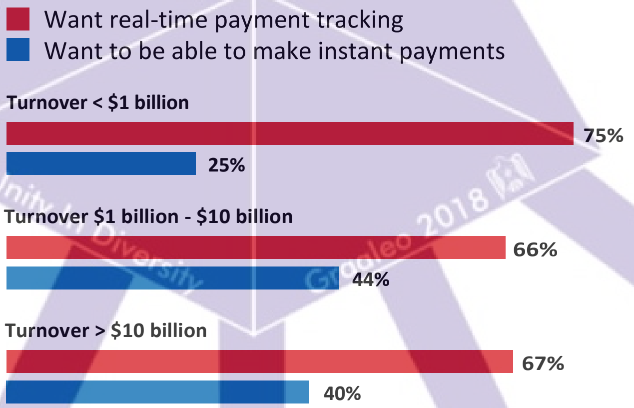
Real-time: tracking versus payments, size matters

The debate over instant payment has been fierce. Banks and payment platforms have essentially argued that no-one either needs or is demanding real-time payment and have asked "why would anyone need this, what they need is certainty of payment on a particular day?". Those who want it reply that it is critical to better working capital management, as it enables companies to hang on to cash for longer. So what do treasurers say?

What would be the top 3 priorities for improving cross-border payments?



In the above table we can see that, in aggregate, 42% did indeed want to be able to make instant cross-border payments. And again, as you might expect, it is the larger, more sophisticated companies who are more sensitive to every marginal gain they can squeeze from their cash management processes who want it the most:



Bank selection criteria remain conventional, not high-tech

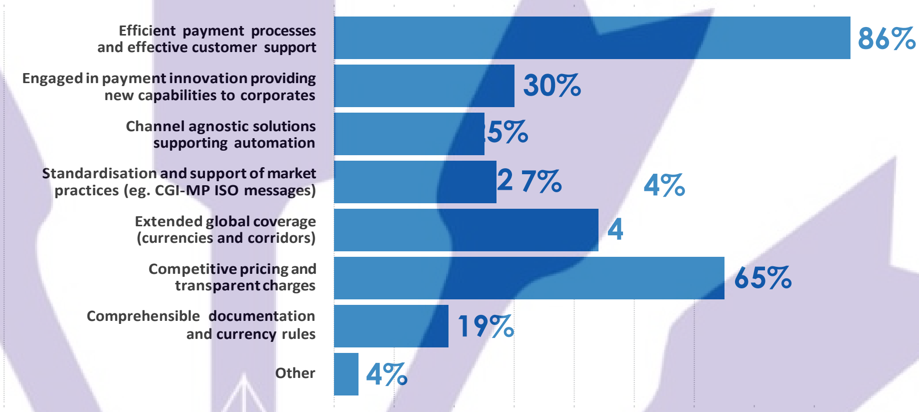
In the same way that treasurers' core issues have remained remarkably constant over the years, their demands of their banks have not been overly affected by the digital revolution that has marked the consumer side banks' operations.

When asked to choose the top three aspects they prioritise when choosing a bank for cross-border payments, in aggregate, companies overwhelmingly require the basics: efficient payment processes, effective customer support, competitive pricing and transparent charging. Regardless of size, companies also place extended global coverage high – backing up the earlier findings that companies across the spectrum are multi-national in outlook. Channel agnostic solutions supporting automation come near the bottom of the list and even engagement in payment innovation providing new capabilities is a distant fourth.

Here though, one group stands out. For companies below $500 million and all those above $1 billion, innovation is a low priority. As the survey makes very clear throughout, treasurers key concerns are their age-old bugbears. They want those solved first before they embrace new technology. Of course new technology may solve these problems, but the question specifically asked whether treasurers wanted innovation to provide new capabilities.

But for firms between $500 million and $1 billion things are different. These firms are much more in favour of innovation.

Which of the following aspects are more important for you to select a bank for cross-border payments?

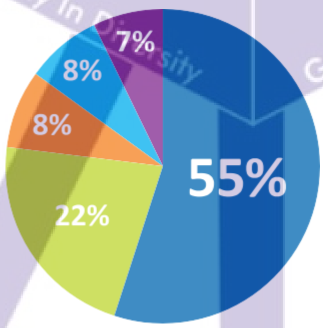


The myth of FinTech adoption

As was discussed in the introduction to the paper, most FinTech and other new technology development, and indeed the key regulatory changes, are aimed squarely at reducing transaction costs for retail and small business. This is natural since it is essentially a cherry picking exercise: identify the least sophisticated clients and the products with the highest margins and the profits from re-engineering the process will be highest. Extracting profits from the most complex and lower margin wholesale markets is a less attractive target for FinTechs, most of whom are small start-ups with limited funding.

Even so, the results are startlingly clear. Aggregating all the respondents, 55% have no plans to use alternative providers to their current banks to make cross-border payments. 22% are "considering using" alternative providers but not actively since only 8% are "currently actively investigating alternative providers. Just 8% are using an alternative service.

Are you using or investigating alternative providers other than your current bank(s) to make cross-border payments?



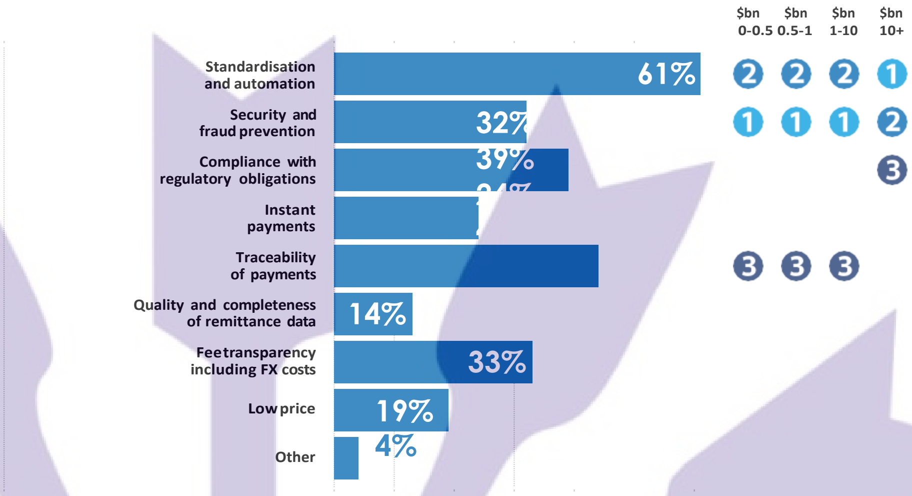
This is not a size issue either.

Of companies smaller than $500 million, 52% have no plans to use alternative providers and just 4% are using one or more.

- Of companies between $1 billion and $10 billion 53% have no plans to use alternative providers and just 10% are using one or more.
  Of companies with more than $10 billion in turnover, 56% have no plans to use alternative providers and just 13% are using one or more.

So what have alternative providers got to do to attract treasurers at all? We asked "If you were to use an alternative payment service provider other than your current bank(s), which top three features would have to be provided?"

If you were to use an alternative payment service provider other than your current bank(s), which top 3 features would have to be provided?



We can assume that these requirements are in addition to the overwhelming demands seen in above in the question "Which of the following aspects are important for you to select a bank for cross border payments?" It's a long and impressive shopping list and it is a stark illustration of the true barriers to entry for these new players. Clearly change is possible and new technologies have disrupted companies, markets and sectors that believed they were safe. However, to succeed, not only do new entrants have to deliver this set of products and services better than the incumbents, they have to do while those incumbents continue to improve their own products and services.

The prominence of security and fraud as treasury concerns in FinTech mirrors a more general rise in cyber-risk and cybers-security awareness. High-profile data breaches and monetary thefts have made information security a C-suite concern as well as a treasury issue. Well-publicised vulnerabilities in advanced ERP systems have also been picked up by central finance teams.

A key problem for FinTechs is that most are small or newly-established, and they find it difficult to persuade large companies that they are as secure as the established mechanisms. This is one area in which the banks truly benefit from the level of regulatory oversight they endure and from their scale. They have more stringent standards to meet and they have much greater resources to ensure security than almost any other kinds of company globally. It is hard to avoid the conclusion that FinTechs which attempt to meet those same standards will at best lose much of the agility and flexibility they tout as benefits, and at worst will simply not be able to afford the investment.

It is no surprise that companies under $10 bn find that a major concern is the traceability of payments, ranked third in importance. The time and inconvenience caused in having to manually track payments requires staffing capabilities of which larger companies are more likely to have appropriate resources. The impact to a smaller company's forecasting and working capital will be all the more noticeable. For companies over $10 billion, compliance was the third biggest pain point, again hardly surprising as the bigger and more complex a company, the more time and money that has to be directed into

KYC/AML and OFAC.

The digital revolution in payments is real, not least because the wider dematerialisation of cash is real. But it is critically important to distinguish between retail and wholesale, between "payments" meaning "how consumers pay" and "payments" meaning "how banks process", between domestic payments systems and the global correspondent banking systems and the global transaction banks. E-commerce and service layer channel aggregators (from PayPal to Adyen), FinTechs and digital wallets and AP/AR platforms are all in the payments chain, but they do not provide the fundamental infrastructure of payments that matters to corporate treasurers.

Similarly, the regulatory revolution is real. For example, PSD2 will radically alter the nature and profitability of key banking services. It will undoubtedly open banks up to new FinTech competition. But the most significant legislation is aimed squarely at the retail market not the wholesale market.

Isolating just corporate treasury at the larger corporations and the cross-border payment mechanisms they use, a clear picture emerges, backed up by the results of this survey.

This group has already globalised. It has largely digitalised. It is mostly connected to SWIFT and so has invested time and resources in the current correspondent banking system. It has a defined set of issues with the current payments system and these have not changed radically over the past five years, despite the advance of technology. This is an additional indication that the digital innovations that drive much of the excitement in "payments" are not directly relevant to treasury and the systems upon which it relies.

Those issues are:

- Length of time for rejections and investigations
- Tracing payments in case of problems
- Global payment process consistency
- Transaction cost predictability
- Amount sent matches amount received even if charges = "OUR"
- Quality and completeness of remittance information sent with payments
- Payment stops/recalls
- Uncertainty on timing of crediting payments to beneficiary

These frustrations are caused by a combination of policies and processes at correspondent banks and inherent limitations in the architecture of the underlying global payments system. They can therefore only be solved by the banks themselves agreeing to change and by changes to that architecture.

That is why SWIFT's gpi initiative is so important: the new SLAs that banks are signing up to represent many of the service changes required to reduce key treasury problems without the need for treasures to do anything at all. Even the additional functionality required for tracking and for a higher degree of fee predictability is provided by SWIFT without the need for revolutionary new technology.

SWIFT gpi phase one delivers a number of significant improvements and solves key treasury painpoints. The next phases do even more. But it may be the case that more radical changes to the architecture are required to provide instant payment and full up-front fee predictability, amongst other things. Blockchain technologies offer one possible avenue, though one that has so far not been accepted by key central banks, and SWIFT itself is also actively exploring how blockchain products could be used to enhance its service.

However, as this survey shows, instant payment is not an absolute priority for most corporate treasurers. Real-time tracking is of far greater concern. In addition, asked

whether innovation and new capabilities were a key criterion for choosing a cross-border payments bank, again most treasurers ranked that low on the list.

So it is reasonable to conclude that treasurers will be unwilling to invest significantly in adopting new systems which only offer an incremental improvement over the current incumbents. There are also significant questions about the suitability of blockchain as the foundation of the global payment system that remain to be answered. Treasurers are correct to adopt a wait-and-see attitude.

This is backed up by what seems at first sight to be the most surprising finding of the survey. Aggregating all the respondents, 56% have no plans to use alternative providers to their current banks to make cross-border payments. 22% are "considering using" alternative providers but not actively since only 8% are "currently actively investigating alternative providers. Just 8% are using an alternative service.

Given the hype surrounding FinTech and payment technology in general, this looks odd. But is it? Since, as we have discussed, most FinTech initiatives are designed to profit from the margins available in retail and small SME payments, and from helping smaller businesses gain some of the advantages of digitalisation. They do not address the cross-border payments issues facing companies large enough to have a corporate treasury.

In addition, treasurers have long been sophisticated purchasers of tech solutions. They know that most FinTech start-ups will disappear through failure or M&A; they know that in an initial burst of innovation, few ideas survive the marketplace; and they know that the incumbents upon who they rely – such as SWIFT and the global transaction banks – have a huge incentive, as well as the deep pockets required, to innovate themselves. In those circumstances, their preferences make a great deal of sense.

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