GLOBAL PAYMENTS AND BANKING 2020

Experts Weigh in on What's Next

INTRODUCTION

New innovations and technologies are everywhere and quickly become an integral part of how we work and live. The lines between consumer experiences and our expectations for business transactions are blurring, if not disappearing altogether. Consumer experiences driven by artificial intelligence (AI), machine learning (ML), voice recognition, digital identity, automated payments, and faster payments increasingly drive the innovation agenda for business partners.

An ever-changing global regulatory landscape only adds more change, sometimes radical change. Heading into 2020 and beyond, this shows no signs of slowing down. Major industry initiatives like open banking, real-time payments, PSD2, and distributed ledger technology indicate that the banking and payments landscape will become increasingly more complex. The threat of fraud, regulatory compliance challenges, and the rise of challenger banks and brands make navigating this landscape difficult, even for the most established banks and corporations.

Bottomline spoke with some of the most influential thought leaders in the industry, including Alan Koenigsberg, Jennifer Petty, Jim Marous, Duena Blomstrom, and Chris Skinner, to get their perspectives on these topics and more. Read on to discover their insights as they weigh in on what to expect as we enter the next decade.

ROB EBERLE

CEO

BOTTOMLINE

TABLE OF CONTENTS

ALAN KOENIGSBERG

GLOBAL HEAD OF NEW PAYMENT FLOWS
VISA BUSINESS SOLUTIONS

Challenging the B2B Payment Status Quo

Cross-border B2B payments are primarily accomplished the same way they were 20 years ago. They're made on a bilateral basis, which could be slow and expensive to process.

"Whenever we talk to financial institutions, we find a significant amount of their stress and friction comes from the cross-border space," says Alan Koenigsberg, Global Head of New Payment Flows at Visa Business Solutions.

Visa is one of a number of companies aiming to change that. With roughly $120 trillion in annual B2B payment spend, Visa is helping streamline a variety of processes by reimagining the way corporate payments are made from the ground up. In addition, to address the $10 trillion opportunity in cross-border B2B payments alone, Visa created Visa B2B Connect, a multi-lateral network that facilitates corporate cross-border B2B payments directly from the originating to the receiving financial institution. To scale the network, Visa is partnering with technology providers to help financial institutions worldwide easily connect to Visa B2B Connect and provide fast, secure, and efficient international payments for their corporate clients.

"B2B payments have not kept up with consumer payments, which are now the expectation in terms of customer experience," says Koenigsberg. "With Visa B2B Connect, we're able to help our financial-institution clients simplify global payments by removing the friction of costs and a time gap between buyers and suppliers around the world."

This development comes not just from demand by large multinationals, but by businesses of all sizes. "Smaller, digitally native companies are looking at B2B payments and asking why they are so hard to conduct and expensive. These organizations are used to simple payments in their consumer lives, so why not in their work lives? It was time to really rethink what that cross-border experience should be like," Koenigsberg notes. He predicts that over time, these new payment flows will represent a massive shift in terms of how payments are made.

The entry of fintechs helps increase the capabilities of B2B payment solutions on the market. "In many cases, fintechs are a critical part of the answer that we're seeking," says Koenigsberg. "They're often addressing important parts of the value chain or challenges that can be addressed in granular detail, and then cooperatively brought to the market."

For Koenigsberg, innovation means fully embracing the customer's perspective. "The consumerization of B2B payments means customers are going to dictate what the future is," he says. "It's everyone's job to continue the pace of innovation so we can keep meeting and exceeding our customers' expectations."

"THE CONSUMERIZATION OF B2B PAYMENTS MEANS CUSTOMERS ARE GOING TO DICTATE WHAT THE FUTURE IS."

JENNIFER PETTY

GLOBAL HEAD OF CARD AND COMPREHENSIVE PAYABLES
BANK OF AMERICA

Driving Innovation Through Synergistic Collaboration

Beginning the past decade as fierce competitors, banks and fintechs have emerged in 2020 with a matured relationship, albeit one that continues to see a back and forth in terms of collaboration and competition. In the commercial card space, Bank of America and other institutions rely on their fintech counterparts to push technology further and create products for niche customers or markets. Meanwhile, fintechs operating in this sector depend on banks to expand their reach and clout.

"From the bank's standpoint, we offer solutions to many customers from many segments and sizes. We bring capital, as well as the experience of scale and how to support millions of customers on a daily basis," says Jennifer Petty, Global Head of Card and Comprehensive Payables at Bank of America.

"But the value of fintechs is that they're very entrepreneurial in spirit. They can just focus on one specific product and build, build, build, bringing a very specific skillset and approach to looking at a problem that complements the overall expertise of the bank," she adds. "Collaboratively, we can build innovative things that are safe, secure, and organically incorporated into the banking experience. There's never been more synergy between the two."

Each collaboration has its own unique features, but all start from the same basis: the customer. "Everything is driven by what our customers want from us," says Petty. "Clients will often bring to us a fintech in their market to figure out ways we can incorporate them into our service."

When evaluating fintechs, Petty looks at it from a number of different angles. "It's important that our goals are aligned with those of the fintech. Our objective is to achieve a result that neither party could have done alone."

She adds that the primary key is the fintech's approach to data security and customer data, as the bank takes on the reputational risk for the fintech's actions. "That's one of the most critical things we look at," she notes.

However, Petty believes the future of bank and fintech collaboration is bright. "There are very good partnerships that are coming together from both a bank and fintech perspective. Not every fintech will be right for every bank, but the overall collaboration is definitely necessary to continue to drive innovation in the space," she concludes.

> "COLLABORATIVELY, WE CAN BUILD INNOVATIVE THINGS THAT ARE SAFE, SECURE, AND ORGANICALLY INCORPORATED INTO THE BANKING EXPERIENCE."

ED ADSHEAD-GRANT

GENERAL MANAGER, PAYMENTS
BOTTOMLINE

Ready or Not, Open Banking Is Here

Since the launch of open banking in January 2018, it continues to fundamentally change the financial industry as we know it. But this change is happening at different speeds around the world. Some regions, like Europe and the U.K., are leading the way thanks to regulatory standards like PSD2. On the other side of the coin, the U.S. lacks the regulatory mandates needed for a comprehensive open banking plan, therefore leaving open banking initiatives up to individual banks and free market forces. According to Ed Adshead-Grant, General Manager, Payments at Bottomline, this isn't the only point of diversion. Even in markets where open banking is required, there are often two schools of thought.

"In one camp, there are organizations that feel like open banking is being imposed on them and they are doing only the bare minimum to stay in compliance," says Adshead-Grant. "In the other camp, we're seeing more innovative organizations that view open banking as the opportunity to develop new offerings, introduce new technology, enter new markets, and gain a strategic advantage."

He senses that those who feel open banking is an imposition are slowly but surely shifting their point of view toward acceptance. "They're resistant to get on with it," he explains. "They consider their data as their own asset that they've built up over the years, but with open banking the data is now owned by the customer. Banks are beginning to realize they need to compete for the user experience; otherwise, new players are going to come in and put all that data to use while banks become relegated to the backend with no customer touch."

Adshead-Grant believes 2020 is the year all banks will need to develop their open banking strategy, regardless of whether open banking is required in their market or whether they wish to meet only the minimum standards to maintain compliance. While technology will play a role, Adshead-Grant believes open banking strategies will be determined as much by a bank's DNA as by market opportunity. "Open banking grinds against the embedded culture of bankers used to working in proprietary closed systems," he says. "The technology is here now—it's a massive cultural shift."

For banks willing to embrace the opportunity of open banking, Adshead-Grant sees a world of new possibilities. This includes the acceleration of new partnerships between banks and fintechs to open up the innovation cycles. “With all that data, banks can package personalized offerings to their customers, whether corporate or consumer,” he says. “Historically, banks have pushed out bland products where one size fits all. The dynamic nature of open banking means that banks can use many data sources internally and externally to personalize and customize products and services, staying relevant and intimate with their customers.”

Sooner or later, open banking will force every bank to make a choice. “It’s not a matter of if—it’s a matter of when and how banks respond,” Adshead-Grant concludes. “Yes, in areas like the U.K., Europe, and Australia, banks must offer open banking to be compliant, but I’ve really encouraged people to look at this regulation as less of a burden and more of an opportunity. If banks don’t look at this as a commercial advantage, they will be at a competitive disadvantage when offering dumb products in a digital world of smart products.”

“OPEN BANKING GRINDS AGAINST THE EMBEDDED CULTURE OF BANKERS WHO ARE USED TO WORKING ON PROPRIETARY CLOSED SYSTEMS. THE TECHNOLOGY IS HERE NOW—IT’S A MASSIVE CULTURAL SHIFT.”

DUENA BLOMSTROM

CO-FOUNDER AND CEO
PEOPLENOTTECH

AUTHOR OF *EMOTIONAL BANKING: FIXING CULTURE, LEVERAGING FINTECH AND TRANSFORMING RETAIL BANKS INTO BRANDS*

Making Business Banking More Human

In her book "Emotional Banking," Duena Blomstrom writes about the need for financial institutions to rethink the way they engage with retail customers, but the customer experience is something she sees as perhaps even more important as banks engage with their corporate customers.

"If retail customers are disappointed by their banking experience, at least their banking services are more or less free, which lowers expectations," she explains. "On the other hand, business customers are spending good money on banking products that help manage their business, and they therefore have much less patience for a lack of the latest and greatest technology coupled with a poor level of service."

Today's fintech companies use agile methodologies to continuously iterate and improve their products. As a result, the apps business users rely on in their personal lives improve on a weekly or even daily basis, while their business banking interfaces and processes remain frozen in time. The gap between digital best practices and banking realities continues to grow. To close this gap, banks need to culturally reset so they can operate with greater agility.

Blomstrom says it is rigid thinking—not regulations or legacy infrastructure—that prevents banks from quickly adapting to customers' ever-evolving needs—whether they're SMBs or large enterprises. She points to the lack of segmentation in business banking as an example.

"Business banking is an impossibly large umbrella term that can encompass your dentist, a regional trucking company, or an international retailer. This lack of serious segmentation signals the lack of serious interest in tailoring experiences," she notes. "Banks need to shift internally and rebuild around new ways of working so they can match tech's ability to understand business customers and deliver on that understanding at speed."

This shift in thinking will be necessary to unleash the full potential of new technologies like artificial intelligence and machine learning, which are designed to power personalization at scale. In the absence of a deep understanding of the customer, Blomstrom feels the technological potential of artificial intelligence and machine learning is largely wasted on services like chatbots.

"There's enough computing power and largely unexamined transactional data within the banks for any and all of us to deliver intensely emotional and meaningful 'money moments' instead of standardized, transactional products," she says. "However, that's only possible if banks know what those 'money moments' should contain and how they fit into our work or personal lives."

> "BUSINESS CUSTOMERS ARE SPENDING GOOD MONEY ON BANKING PRODUCTS THAT HELP MANAGE THEIR BUSINESS, AND THEY THEREFORE HAVE MUCH LESS PATIENCE FOR A LACK OF THE LATEST AND GREATEST TECHNOLOGY COUPLED WITH A POOR LEVEL OF SERVICE."

JAMES RICHARDSON

HEAD OF MARKET DEVELOPMENT, RISK AND FRAUD
BOTTOMLINE

Navigating the Era of ‘Cybercrime as a Service’

Just as banks are digitally transforming their operations, criminals have digitally transformed the way they rob banks. No longer does a crook walk into a bank branch with the hope of getting away with thousands. Now, a crook sits in front of a laptop robbing banks of millions from the other side of the world.

“We’re now in an era of cybercrime as a service,” says James Richardson, Head of Market Development, Risk and Fraud at Bottomline. “As a result, banks and businesses are on the back foot. They’ve got to up their security game to not only meet the challenges of today, but get ahead of the evolution.”

Today, criminals think and operate like startups that have the ability and agility to quickly explore new opportunities and shift focus. “Cyberfraudsters have the edge because they can chase where the dollar is,” says Richardson. For example, as credit card security has matured, fraudsters have moved to softer targets like wire fraud. Banks need to update their security strategies on a near-monthly basis. A bank that is operating with last year’s strategy is hopelessly behind.

“It’s not like a physical firewall of putting up a barrier into a building,” says Richardson. “These things are constantly being challenged by fraudsters trying to outwit what exists within the market. The best technology out there is adaptive. It recognizes that threats evolve or regulations change very frequently, and it can learn what is normal or abnormal behavior.”

In addition, with every new banking innovation comes new opportunity for theft. For example, while Faster Payments allows organizations to move money around the world almost instantly, it also means there is less time to react to a fraudulent payment. “As payments get faster, banks and corporations will need to work harder to make sure payments are going to the correct destination,” he adds.

Threats aren't the only things that are evolving. New regulations are constantly being introduced, with the first half of 2020 seeing the fifth EU Anti-Money Laundering Directive (AMLD 5), SWIFT CSP 2020, FATF16, and Confirmation of Payee initiatives all coming into force. However, Richardson says many banks are more focused on managing deadlines than becoming secure.

"Too many banks have the mindset of, 'That's next year's problem; I can wait to implement that,'" he explains. "But cybercriminals aren't waiting for a compliance deadline to try to compromise a bank. They're doing it now. Banks and corporations need to stop looking at these deadlines from just the compliance perspective and start working to implement these regulations as soon as possible. That's the only way to outsmart the bad guys."

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JIM MAROUS

CO-PUBLISHER
THE FINANCIAL BRAND

PUBLISHER
DIGITAL BANKING REPORT

Can Banks Think Like a Fintech?

In theory, banks could be technology leaders. After all, they have access to the same hardware, programming talent, and resources as do fintechs. But, according to banking and fintech influencer Jim Marous, it's simply not in the culture or DNA of banks—or longtime bankers, for that matter—to lead that type of change.

"Fintechs are built on a culture of customer engagement, not technology. Technology is just the tool," Marous says. "That's why most fintechs are not being driven by legacy bankers. If you see banking as the way banking has always been done, you're not going to have the mindset to be able to deploy technology in a new and different way."

Marous notes that human nature is difficult to change, especially if there is no pain point to drive it. While the banking industry continues to be warned by industry analysts about the need for digital transformation, banks haven't yet felt enough pain from maintaining their old ways. Banking is still very much a transactional institution focusing more on selling products and services instead of providing that transformational customer and user experience.

"Banks are still making great revenues, and they're doing it with the same leadership and processes that have been in place for decades," says Marous. "When it comes to digital transformation, bankers are unable to get out of their own way."

For example, Marous calls out two conflicting survey responses from the most recent Digital Banking Report. "In one response, 70% of financial institutions say they have a digital account opening process," he notes. "However, later in the survey more than 70% say they require a person to come into the branch to complete the process. That means their perspective of what is digital is not aligned with what customers think is digital."

Marous sees two types of banks that are bucking tradition and embracing technology. “In the research I’ve done, I’ve found that the very largest banks are doing well in implementing technology because they have the resources,” he says. “I also see the very smallest banks and credit unions doing well because they are closer to their customers. It’s that vast middle segment of banks that are driven by legacy cultures, outdated banking systems, and models that aren’t able to react to today’s marketplace realities.”

To survive and thrive, these banks will need a total dedication to the customer experience that is found in partnering with fintechs. While collaboration with fintechs will certainly be a part of the answer, Marous believes that much of today’s fintech/banking collaboration is like mixing oil and water. “They’re coming from such different starting points and trying to solve such different challenges,” he says. “Customers today value speed and simplicity. Being a ‘fast follower’ is no longer a viable strategy. Consumers want to partner with innovation leaders they trust. For banks to keep up, they are going to need to start thinking more like technology companies and less like banks.”

“FOR BANKS TO KEEP UP, THEY ARE GOING TO NEED TO START THINKING MORE LIKE TECHNOLOGY COMPANIES AND LESS LIKE BANKS.”

JESSICA CHENEY

VICE PRESIDENT OF PRODUCT MANAGEMENT AND STRATEGIC SOLUTIONS
BOTTOMLINE

The Netflix Effect on Business Banking

Thanks to companies like Netflix, Amazon, and Waze, people have come to expect their favorite products and services to adapt intelligently to their unique behaviors and preferences. But what happens when these people get to work, sit down at their computer, and expect the same types of interactions?

According to Jessica Cheney, Vice President of Product Management and Strategic Solutions at Bottomline, consumer technology innovation has forever changed the expectations of business users—especially when it comes to their banks. "Corporate customers want the same level of personalization, simplification, intuitiveness, and usefulness they're used to in the rest of their lives," she says.

Cheney describes most business banking applications as "static" simple resources that people extract information from. But what today's users really need are "smart" applications that act as valuable assistants. Because most past innovation in the space has focused on driving transactional efficiency instead of improving the customer experience, the way the application works for each business is exactly the same—even if customers' expectations, behaviors, and needs are very different. The experience is not unique or particularly insightful for the individual user.

"More and more, businesses will come to expect their applications to act as a digital assistant," says Cheney. "This means not just providing insights, but suggestions about what to do with those insights. To do so, the application must be able to understand the personal behaviors and preferences of the user, the business context of the company's transactions, and then have the intelligence to make the right recommendations that can be turned into action."

Banks will need to pivot from both legacy technology and a transaction-focused culture to provide the transformational, personalized experiences that business customers expect.

That means going beyond the custom views that some applications currently support and focusing on how the user interacts with the solution. "By making the shift from transaction-oriented tools to more of a business management advisor, business applications will soon be able to automate actions and provide insights based on the individual situations faced by the business, and the way the individual user works, providing a much deeper level of engagement than what is possible today," she notes.

Another area where personal experience will drive business expectations is real-time payments. While true real-time payments aren't supported by Venmo or Zelle today, for consumers it feels real-time enough. "Business users are starting to ask, 'If I can pay you money for lunch right now, why can't I pay my business invoices the same way?'" says Cheney. "These users expect the same level of instant gratification in all aspects of their lives."

In addition, she says commercial banks will soon need to replicate the contextual and conversational components of social payments in their business payment solutions. "Being able to send additional detail around why payments are being made in the same application as the funds are traveling will be an important benefit," she explains.

As consumer behavior drives the expectations in business, banks that have focused on the customer experience of their consumer applications need to make sure their business applications aren't too far behind, Cheney says. "Banks need to start rolling out business-based, real-time payment solutions quickly. If they wait another 18 months to start thinking about it, they will have a big problem and will surely be left behind."

"BUSINESS USERS ARE STARTING TO ASK, 'IF I CAN PAY YOU MONEY FOR LUNCH RIGHT NOW, WHY CAN'T I PAY MY BUSINESS INVOICE THE SAME WAY?'"

RUTH WANDHÖFER

PARTNER
GAUSS VENTURES

THE FINTECH POWER 50

Reinventing the Face of Banking

Gauss Ventures partner Dr. Ruth Wandhöfer believes digitization of the global economy will create more than just efficiency in the banking space. It may redefine the way we think of banks altogether.

"Digitization has clearly made banks feel disrupted for quite some time now because new players can come to the market with new services that consumers adopt very quickly," says Wandhöfer. "Of course, it's far easier for them to launch new services and use new tools, because they don't have the complex legacy tech and data environment that the big institutions in the Old World sit on."

Wandhöfer sees a world today where neobanks that offer digital- or mobile-only financial services focus on innovative services, while banks provide the balance sheet. "There's collaboration and partnerships happening—although, in my view, certainly not enough," she says. "But neobanks don't want a balance sheet; they largely want to be an almost technical layer so they can bring innovation to the market quickly. At least right now, they want to avoid a big balance sheet because with that comes regulation, restriction, and cost."

In time, the question of fintechs versus banks may surprisingly be answered in the banks' favor. "My prediction is that over time, some of those larger players will be truly improving their systems," she adds. "By then, they'll have acquisition strategies in place and might even be able to create a few things in-house to catch up and regain control of the market."

To do so, Wandhöfer believes banks will ultimately face further disruption. "There still needs to be more of a weeding through to see what can be automated. It has happened incredibly fast with the trading floors: You used to have a hundred people trading, but maybe now there are two or three that press a button when the screen goes red. There's a lot more space for automation across banking."

Automation isn't just about adding new technology. Even as some traditional finance jobs invariably go away, new qualitative roles will rise to oversee this automation. "Even though automation for simple things tends to be fairly linear, there's a risk with the more sophisticated algorithms and procedures that things might go wrong," she says. "People will need to have enough knowledge at a human level of that new technology to be able to intervene and reverse transactions and change procedures around when certain things happen."

As such, one of the biggest changes that Wandhöfer sees coming is that "banks are going to have to significantly rethink the qualifications they look for in their staff, along with their approach to internal rules and procedures. This, in a way, potentially reinvents the face of banking," she says.

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BANKS ARE GOING TO HAVE TO SIGNIFICANTLY RETHINK THE QUALIFICATIONS THEY LOOK FOR IN THEIR STAFF, ALONG WITH THEIR APPROACH TO INTERNAL RULES AND PROCEDURES."

BILL WARDWELL

VP OF STRATEGY AND PRODUCT MANAGEMENT
BOTTOMLINE

Culture: The Key to Successful Bank-Fintech Collaboration

In a world where technology changes by the day, healthy competition between banks and fintechs has helped drive solutions for some of the world's most pressing payments problems. However, Bill Wardwell, Bottomline's VP of Strategy and Product Management, doesn't believe the "winner" will always be one or the other.

The industry is also seeing new technology entrants that are looking to disrupt the banking and payments ecosystem. "We're seeing an expansion of technology companies that would not be classified historically as 'fintechs' working to gain more control of the business banking and payment experience," Wardwell says. "For example, enterprise resource planning systems are working hard to bring new capabilities to their customers that would traditionally be in the realm of the banks or fintechs."

As a result, the lines between banks, fintechs, and other big tech companies will continue to blur. Through partnerships or investment relationships, banks can better understand the technology and even contribute to a fintech's overall business strategy without having to take complex acquisition and business integration steps. "This 'try before you buy' approach is very appealing to banks," says Wardwell. "Over time, I believe this will result in more acquisitions as banks identify the right fintechs that fit best within their strategy and customer base."

While regulators will certainly play a role in influencing the nature of some bank and fintech collaboration, Wardwell believes changes in customer demand will matter more than regulatory factors in how banks and fintechs collaborate in the long term. "We've seen this play out throughout the space as people's personal experiences influence their business expectations," he says. "Corporate users now expect finance and payment technologies to be easy to use, intuitive, as well as easy to integrate into other programs."

Wardwell sees fewer barriers to bank and fintech collaboration than in years past. While he notes that resources and technology capabilities may still stand in the way of some collaboration, the advancement of technologies like application programming interfaces (APIs) will allow banking and fintech platforms to work more cohesively together in 2020 and beyond.

"The biggest risk to a successful collaboration, and one that in a lot of cases is underestimated, will be the alignment of the bank and fintech around what is important to each party and how the success of the partnership should be measured," he says.

As some fintech solutions will make sense only for certain-size businesses or specific verticals, it will be important to address these considerations to ensure happiness. For banks looking for fintech partners, Wardwell advises they seek out not only a winning technology approach, but a shared vision.

"Find a partner that can not only meet customer needs today, but that also has a relentless focus on innovating for what's next in the business payment space," he says. "What is just as important is working with a partner that has an alignment of priorities and culture. A partnership shouldn't just deliver new capabilities or technology, but should allow the bank to deepen and enhance customer relationships."

> "THE BIGGEST RISK TO A SUCCESSFUL COLLABORATION, AND ONE THAT IN A LOT OF CASES IS UNDERESTIMATED, WILL BE THE ALIGNMENT OF THE BANK AND FINTECH AROUND WHAT IS IMPORTANT TO EACH PARTY AND HOW THE SUCCESS OF THE PARTNERSHIP SHOULD BE MEASURED."

CHRIS SKINNER

CHAIR
FINANCIAL SERVICES CLUB

AUTHOR OF *DIGITAL BANK*, *VALUEWEB*, AND *DIGITAL HUMAN*

Making Digital Your DNA

When it comes to digital transformation in the finance industry, much attention has been paid to technology. But for fintech expert Chris Skinner, digital transformation is only as good as the people behind it.

"Technology can solve anything, but the problem has to be something that wants to be solved with technology," Skinner says. "In many cases, a lot of the discussion that we have in fintech is about things that can be solved with technology, but psychologically bankers don't want to."

He elaborates that to make the most out of technology, bank executives must completely reconsider the way they think about their customers. In his research on the topic, Skinner spoke with executives at innovative banks around the world. In those discussions, he notes that each executive spoke at length about the customer journey as the primary driver for their institution.

"For example, at one bank I met the chief financial officer, who didn't mention shareholder return until I explicitly asked," he says. "When I asked why she hadn't brought it up yet, she said, 'If you focus on making the customer journey the best it can be, the rest follows.'"

As any executive can imagine, shifting the focus away from something as fundamental as shareholder value is no easy feat. In a conversation with another bank's head of digital, Skinner explains that the bank spent two years educating its senior management to get them to understand what a customer journey actually means before they could truly drive digital transformation throughout the organization.

Skinner says that digital transformation is not just the act of applying technology itself, but is the organizational infrastructure and thinking behind that technology. For him, the difference between banks that win at digital transformation and those that are falling behind is a matter of culture. "Most banks are still talking about digital as a channel, a project, or a function, all of which are wrong," he says. "Digital transformation has to do with changing the mindset and culture of the company to embrace and incorporate digital into its DNA."

That means banks can't just leave digital up to a product manager or IT team. Instead, it needs to start at the very highest level. "It's up to the board to tell the CEO, 'We're going to alleviate you from shareholder scrutiny and give you permission to focus on transformation instead of profit and shareholder return,'" he explains. "If you don't have that, then you can't do transformation because you're too busy doing business as usual."

"DIGITAL TRANSFORMATION HAS TO DO WITH CHANGING THE MINDSET AND CULTURE OF THE COMPANY TO EMBRACE AND INCORPORATE DIGITAL INTO ITS DNA."

MARCUS HUGHES

DIRECTOR OF BUSINESS DEVELOPMENT
BOTTOMLINE

To Glimpse the Future of Payments, Look at APAC Today

Asia Pacific (APAC) is playing a key role in the exciting journey to digitization, especially in the consumer payment space. This dynamic region spans huge distances, with many countries and multiple currencies. Asia Pacific has over 60% of the world's population and its non-cash payment transactions are growing at over 30% per year, faster than anywhere else in the world.[1]

"The scale and pace of economic growth in Asia Pacific is impressive, to the point that we cannot ignore it," says Marcus Hughes, Director of Business Development at Bottomline. "China's two mobile payment giants, Alipay and WeChat Pay, have leapfrogged credit and debit cards, outstripping Western rivals in terms of integration with ecosystems, technology, user-friendliness, number of users, and ubiquity." To put their scale into perspective, each organization handles more payments in a single month than PayPal does in an entire year. Their user networks are expanding fast into other parts of Asia Pacific and beyond.

In addition to digital payments, APAC is taking a leading role in open banking. In fact, Hughes suggests that anyone who is wondering what future success could look like for open banking initiatives in Europe and the United States should study where India is today. India's Universal Payment Interface (UPI) is a real-time payment system developed by the National Payments Corporation of India and is already offered by 140 Indian banks in cooperation with the fintech community.

"The key to UPI's rapid adoption is the large-scale use of biometrics for identity and transaction authentication, which makes it easier to ensure frictionless but secure bank-to-bank transfers," says Hughes. "It is striking that this success in India has been achieved without any need for regulation, but simply the smart use of technology and market forces. Other countries would do well to follow India's pioneering lead in biometrics for digital ID."

[1] McKinsey and Company, *Global Payments 2018: A dynamic industry continues to break new ground* (October 2018).

Another important trend in Asia Pacific is that regulations and payments initiatives are converging with the rest of the world, as new standards are being adopted globally, no longer just nationally or regionally. For example, China and India have already adopted the international messaging standard ISO 20022.

“This carries richer data than many older payment formats, and therefore makes AML compliance and payment reconciliation easier,” he says. “It’s interesting to note that it’s only now that other parts of the world, such as Europe and North America, are planning to adopt ISO 20022 for their domestic payments systems and cross-border payments.” This migration will be a major global initiative over the next five years to bring the majority of payments systems around the world onto a common standard, with enormous efficiency gains.

In Asia Pacific, there is also widespread adoption of innovative schemes, with Australia and Hong Kong launching open banking and overlay services, based largely on U.K. standards and regulations, albeit with some adaptation to meet local needs. Meanwhile, Singapore regulators are encouraging “organic transition” to open application programming interfaces (APIs) but are preferring not to impose new rules at this stage.

Following closely behind, Japan and South Korea are working on new regulations to apply open banking principles.

This shift toward open banking in Asia Pacific, along with the widespread introduction of real-time payments systems in areas like Singapore, Hong Kong, and Australia, is driving the emergence of an exciting generation of neobanks, operating without any brick-and-mortar branches. This is creating an environment like that in the U.K. in recent years, where so-called challenger banks have been developing innovative propositions for highly segmented target audiences, with a major focus on user experience and data analytics. This growing trend is a good indication of the way in which many countries around the world are closely watching developments in the U.K. payments market and are adopting similar models for their own flavor of digital transformation.

As the U.K. was the first to create a regulatory environment for open banking and was a pioneer in real-time payments more than 10 years ago, Bottomline’s expertise and experience in this exciting journey to digitization is proving invaluable not only in the U.K., but also in other geographies as open banking and APIs become more widely adopted around the world.

“OTHER COUNTRIES WOULD DO WELL TO FOLLOW INDIA’S PIONEERING LEAD IN BIOMETRICS FOR DIGITAL ID.”

CHRIS GLEDHILL

FINTECH EXPERT, WRITER AND SPEAKER

How Open Banking APIs Are Changing the Way Banks Work

Driven by external regulations, open banking is causing banks to quickly get up to speed with application programming interfaces (APIs). By working together, both banks and fintechs can use APIs to enhance the customer experience. However, fintech expert Chris Gledhill believes banks have as much to gain from open banking as customers do.

"Financial institutions will see a number of benefits from open banking," notes Gledhill. "Once banks start pulling data from other financial institutions, they can use that combined data to improve back-end systems like risk scoring. In addition, banks can use this new wealth of data to better understand their customers and target marketing, and sell more tailored products."

Although there are myriad ways that financial institutions can leverage data to improve customer experiences and business performance, they must focus first and foremost on gaining consumers' trust and mitigating privacy concerns. "Banks need to make sure anything they do is permission-based," says Gledhill. "Just because you have the ability to use data and someone signed a terms and conditions form when they opened an account, that doesn't mean you have consent. You need to go to the customer and say, 'Do you want to enable this feature?' It is very, very important that customers consent and opt into a service instead of having it pushed on them."

The key to gaining consent is to be extremely clear about the value exchange. Just as customers expect to earn interest on their deposits, customers will expect to see value if and when banks use their data. "We as a society are now used to the idea of services like Facebook or Gmail being free in exchange for data," he says. "However, customers will get upset if banks only want to use data for their own benefit and not to deliver additional value. Banks need to pay 'interest' on data just like they do on deposits."

For banks beginning their open banking journey, attention must also be paid to liability issues. In a traditional case of fraud, only two entities are liable: the bank or the customer. Once you start working with APIs, things can get murky. Gledhill posed a significant question: "If a customer is accessing their bank through a third-party service and there's an issue, then who is liable? There's the potential for everyone to shrug their shoulders and point the finger at someone else."

Another potential issue Gledhill foresees is the risk from an overreliance on other organizations' APIs. As banks become more reliant on other APIs for their services to work, along with APIs becoming dependent on a chain of other APIs, it can take just one break in some other organization's service for a bank's system to go down. "As open banking drives banking systems to become more complicated and reliant on APIs, banks will need to prioritize proper dependency management to keep everything working," he explains.

Gledhill already has a clear picture of what comes after APIs. "In the future, we'll see individual personal interfaces, or IPIs, that allow customers to master their own data and push it out to financial institutions on a need-to-know basis. This will have a powerful impact in terms of the way banks manage data."

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