Bottomline

2023 Market Outlook Report

PAYMENTS AND CASH MANAGEMENT

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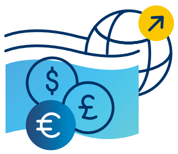
As we move into 2023, look for financial institutions to take a more aggressive approach toward commercial payments and cash management and make overdue investments to modernize their infrastructure. The goals: Cater to commercial customer demands and deliver a B2C-like experience.

Bottomline, a leader in intelligent engagement solutions for businesses, has compiled industry research from respected third-party sources, government data, and our own industry experience and analysis to produce this market outlook report. This report explores where commercial payments and cash management are today—and where the industry is headed, including:

- Why the lines between commercial and consumer banking continue to blur
- The monetization of payments data
- The reality of real-time payments
- How open banking will change institutions' value proposition for corporate and small and mid-sized business customers
- The acceleration of financial institution and fintech collaboration

Where We Are Today: The State Of The Industry



By 2025, over $100 trillion in payments will be transacted globally, from $84 trillion in 2021.[1]

Compared to innovations on the retail side of the business, commercial payments and cash management have been in a time-warp. Admittedly, commercial business is typically more complex than serving retail consumers, but that still doesn't account for the chasm between retail and commercial payments. For example, P2P payments are ubiquitous for consumers, but B2B has not yet approached this level of utility.

As we move into 2023, financial institutions are expected to begin to significantly close this gap.

Consumerism Continues to Impact Investments in Commercial Banking

Consumer retail payment mechanisms have changed dramatically in the past few years. Some changes were accelerated by the pandemic and economic conditions and the rise of challenger banks, while other changes are the result of long-simmering shifts in consumer expectations and behavior.

Here are just a few statistics that highlight how payments are changing:

- Between 2020 and 2025, global cashless payments are expected to increase by more than 80% and almost triple by 2030.[2]
- More than four in five Americans used some form of digital payment in 2021.[3]
- 89% of consumers use mobile banking. Among Millennials, 97% do.[4]
- Digital wallet transaction values will grow 60% by 2026.[5]

This transformation is starting to bubble over to the commercial side of the business and impact B2B payments. For example, 45% of bankers expect to increase investment in mobile technology beyond retail payments to support B2B payments and the digitization of supply chains.[6]

Financial institutions are paying attention, incorporating features and functions common in retail payments into their commercial payments and cash management business.

Personalization—even in commercial banking—is table stakes for providing a good customer experience.

Economic Pressures Worry Businesses

While opinions vary widely about whether the U.S. will sink into a recession or how long inflation will remain a challenge, businesses across many industries are preparing for the worst and looking to become more resilient in an uncertain economic environment.

As a result, businesses need better cash management tools, including forecasting, reporting, disbursement capabilities, and automated collections. They also need access to dashboards with real-time updates to help them optimize their cash positions, invest idle cash, and manage cash inflows and outflows.

Regulatory Updates Spur Concerns

Increased regulatory compliance burdens are also driving financial institutions to re-evaluate their commercial banking offerings. Even though open banking is not yet formalized or regulated in the U.S., financial institutions are concerned that data aggregators and brokers will need to be constrained as data is shared among companies.

"Corporate customers want the same level of personalization, simplification, intuitiveness, and usefulness they are used to in the rest of their lives."

— Jessica Cheney, Vice President of Product Management and Strategic Solutions, Bottomline, Global Payments and Banking 2020

Increased Competition Has Financial Institutions on Their Guard

Traditional financial institutions are realizing that they no longer have a stranglehold on corporate customers. Similar to what's occurring in retail banking, a range of neo-banks and challenger banks have risen to address the gap between what corporate and small business customers want and what banks are able to provide.

For example, challenger banks Relay and Brex provide an all-in-one banking and money management platform. Mercury is an online banking solution for high-growth, digital-first technology startups.

All these factors are creating a payments and cash landscape that is ripe for modernization.

While it may seem like business payments and cash management have been frozen in time, in reality, financial institutions have been working to modernize their payments infrastructure. For example, financial institutions are beginning to move cash management applications and their payments platform to the cloud. They have also implemented some modern accounting, payments and cash management solutions.

However, there is still much more for financial institutions to do.

Executive Summary

Key highlights of the *2023 Market Outlook Report*:

- The consumer payment environment is forcing financial institutions to modernize their payments and cash management offerings.
- Businesses see increasing value in real-time updates to cash positions.
- Real-time payments are quickly moving from a wish to a reality.
- Financial institutions are turning to fintechs to add features and functions to payments and cash management.
- Application programming interfaces (APIs) remain critical to payments and cash management modernization.

What's Next: 5 Predictions For Payments And Cash Management

The payments and cash management landscape will continue to evolve. Following are Bottomline's predictions for change in the next 12 months or so:

ISO 20022 will change how payments are conducted.

Real-time payments will move closer to reality.

More financial institutions will partner and collaborate with fintechs.

The U.S. will (finally) get onboard with open banking.

Financial institutions will begin to use their payments and cash management functions as a competitive differentiator.

#1: ISO 20022 Will Change How Payments Are Conducted

ISO 20022 is a global initiative to create a common vocabulary for sending electronic payment information. By creating a consistent structure or format to convey information, it will be easier for financial institutions to develop programs to automatically identify and process payment information.

For instance, rather than having to manage multiple market systems that speak different languages, ISO 20022 provides a universal messaging language.

In addition to being a global payment messaging standard, ISO 20022 carries richer data than older payment formats and will make it easier for banks to comply and reconcile payments with the Bank Secrecy Act and AML. It also allows financial institutions to improve the client experience and screen more readable content by identifying where payment data starts and ends.

For example, since current payment messaging was not designed to effectively carry remittance data, more than 90% of the time that information is sent separately in an email, according to the Federal Reserve Bank of Minneapolis. Businesses must manually reassociate the information in the email with what the bank received, which costs businesses between $11 to $40 per transaction.

"While PSD2 poses serious threats to current business models, it also creates opportunities for banks to compete as technology innovators, wielding powerful analytical tools to extract valuable insights from their vast stores of proprietary data."[7]

— Alessio Botta, Nunzio Digiacomo, Reinhard Höll, and Liz Oakes, McKinsey

#2: Real-Time Payments Will Move Closer to Reality

The financial services industry has talked about real-time payments for years, but there was no consensus about which payments rail would be the rail to rule them all.

There's still no industry consensus, but there are two initiatives in the U.S. that are making significant progress:

- The Clearing House's (TCH) Real-time Payments (RTP) network. RTP's strongest use case is in B2B payments, notes Cornerstone Advisors in The Payments Modernization Report.
- The Federal Reserve's FedNow payment service, planned to launch in 2023.

Nacha's Same-Day ACH (automated clearing house) launched in 2016. Although not real-time (payments are settled at the end of the day rather than intra-day), Same-Day ACH did whet businesses' appetite for real-time payments. In the not-too-distant future, real-time payments will become standard.

Both corporates and small businesses will benefit from real-time payments. Corporates will be able to manage intra-liquidity better and take advantage of products such as intra-day loans or overdraft protection. Small businesses will have a better handle on cash flow and avoid late payments.

One of the most promising real-time payments is FedNow, an instant payment service enabling financial institutions of every size, and in every community across the U.S., to provide safe and efficient instant payment services in real-time, around the clock, every day of the year.

To drive adoption, the Fed will need private-sector alternatives in the market, such as TCH and Zelle. The challenge now is to ensure that this service is interoperable with these private providers. Thankfully, the Fed and TCH have a historical blueprint detailing how to ensure it works, based on lessons learned from creating the national ACH network.

The vast majority of the financial services industry is anticipating that real-time payments will have a positive impact on payments. While some in the industry are concerned that the speed and irrevocability of real-time payments make it harder to play defense against fraud, the reality is that real-time payments provide a mechanism for two-way communication in a secure channel that the funds actually traverse as well.

The size of the real-time payments market is set to explode from a market size value of $17.56 billion in 2022 to $193.07 billion by 2030.[8]

#3: More Financial Institutions Are Partnering and Collaborating with Fintechs

Faced with increased competition, business demand for personalized payments and regulations, financial institutions will finally accept that it's impossible to go it alone. Instead, expect increased collaboration and even M&A between banks and fintechs.

Some of this collaboration will focus on bringing new features and functions to market quickly by embedding a fintech offering into financial institutions' core payments platform through APIs for solutions such as eSignatures and electronic check processing.

Other initiatives will focus on integrating payments and cash management systems to improve efficiencies and remove friction from payments and cash management functions. Simplifying accounts receivables and payables with automated reconciliation will be one of the first focus areas as banks begin to modernize their offerings.

Banks will resemble fintechs instead of staid traditional financial institutions as they change their mindset, culture, and how they innovate and bring business bill payment and cash management products to market.

"86% of our survey respondents agreed or strongly agreed with the prediction that traditional payment providers will collaborate with fintechs and technology providers as a main source of innovation."[9]

— PWC, The Future of Payments

#4: The U.S. Will (Finally) Get Onboard with Open Banking

Open banking is a reality in Europe and Asia-Pacific, but U.S. financial institutions have been hesitant to adopt open banking standards. Open banking operates under the premise that businesses, rather than banks, own this data. Businesses are no longer locked into proprietary, closed payments systems and can literally take their business elsewhere.

To compete in an open banking environment, financial institutions will need to find ways to collect business data and repackage and deliver that data in ways that businesses can use for analysis and decision making. There's also an opportunity for financial institutions to use artificial intelligence (AI) and machine learning tools to provide businesses with personalized offerings based on transaction history and behaviors.

On the backend, open banking will allow financial institutions to pull data from other places to improve functions such as risk scoring.

Due to privacy concerns, businesses will need to opt into data sharing. The onus will be on financial institutions to show the value in having this data available.

Current core payments platforms cannot support open banking, forcing financial institutions to move from a proprietary system to a payments hub infrastructure that allows them to use APIs to share data easily and in real-time with other systems.

#5: Financial Institutions Will Begin to Use Their Payments and Cash Management Functions as a Competitive Differentiator

Over time, payments and cash management has become commoditized. To remain competitive, financial institutions will need to modernize their offerings, and data is the key. Payments generate roughly 90% of banks' useful customer data, including information about who is buying what, how much, and when.

Expect financial institutions to retool their payments and cash management offerings to transition from static to smart solutions that leverage data analytics. Banks that can successfully monetize this data have the opportunity to uncover new revenue streams.[10] For instance, financial institutions will begin to offer business customers recommendations for cash-flow planning based on transaction and other data.

Banks will also begin paying real attention to making cash management interfaces more intuitive. Using APIs, financial institutions will provide businesses with the ability to easily integrate payments and financial data into their own internal systems for analysis and business intelligence.

This change in mindset will breathe new life into the cash management function as it evolves to cash forecasting, improving collections and leveraging ISO 20022 to send additional payment details to business customers.

"Relationships between banks and corporates goes beyond the provision of services. Being a trusted partner with a high level of relationship focus is a core differentiator."[11]

— David Shinkins, Global Head of Cash Management Sales, Barclays Corporate Banking

"Integration of banking services into existing corporate systems is key."[12]

— Christof Hofmann, Global Head of Corporate Cash Management, Deutsche Bank

4 Steps To Take Today To Prepare For The Future

1. Modernize your payments and cash management solutions to support open banking, new services, and new revenue streams.
2. Help business customers prepare for global financial uncertainty.
3. Leverage payments data to improve the B2B payments experience, improve retention, compete with fintechs, and increase cross-sales.
4. Pick your fintech partners wisely, and get ready to collaborate and innovate.

The Bottom Line

For years, innovations in commercial payments have lagged far behind changes in consumer payments. But financial institutions can no longer afford to offer business customers solutions that don't embrace convenience, ease-of-use, and transparency. Businesses demand a more consumer-like experience from all their business partners, including their financial institutions.

Hopefully, financial institutions are up for the challenge. Using APIs, financial institutions can connect to a variety of features and functions from fintechs to provide businesses with a better payments and cash management experience.

As a result, financial institutions will evolve from a transaction-based approach to a partnership approach as they help customers with cash forecasting and accounts receivables and payables, and providing customers with data intelligence that businesses can use to navigate through any headwinds that occur.

All of this is good news for those financial institutions that recognize the important role that payments and cash management play in attracting and retaining profitable business customers. A modern approach to payments and cash management will become an increasing key competitive differentiator in 2023.

RESOURCES:

1. https://www.juniperresearch.com/researchstore/fintech-payments/b2b-payments-research-report
2. https://www.pwc.com/gx/en/financial-services/fs-2025/pwc-future-of-payments.pdf
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