A Treasurer's Guide to Payment Innovations and Embedded Finance

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A Treasurer's Guide to Payment Innovations and Embedded Finance

Contents

Mark Brant, Chief Payments Officer, NatWest Group

Positive Payments

Instant, Frictionless and Embedded

The payments landscape has evolved rapidly in the 21st century, developed through advances in technology and regulation that have heightened consumer and business expectations. Today, we all want our transactions to be more immediate, easier to access, and available 24/7.

As such, successful innovations in the payments space are driven by the experience they provide. A positive encounter with a new payment method dramatically enhances the chances of it being adopted. Open banking is an interesting case in point because it can act as a dynamic alternative to established payment methods such as direct debits and card payments.

Thanks to API technology, open banking is also driving the proliferation of embedded payments, which create a seamless customer experience, with 'invisible' and frictionless payments built in – rather like the Uber experience.

In the B2C sphere, consumers can choose to purchase goods and services through innovations such as Apple Pay and Google Pay, for example. And for B2B transactions, rather than issuing an invoice with their company bank details printed at the bottom, treasurers can now simply embed a payment link into that invoice. In turn, this enables the customer to settle the invoice quickly and easily as opposed to having to access a different system to do so. As a result, AR processes and timeframes can be improved and working capital metrics may also benefit.

While the domain of payment rails and methodologies once sat outside of treasury, with the role of the treasurer becoming much more strategic and innovation-focused, treasurers are in an ideal position to drive the internal discussion around adopting new payment methods. Specifically, they can explain to other stakeholders which methods work best for the business in terms of cost and time – and in the future, potentially also carbon footprint.

But that's not to say there won't be pushback from the business around switching up payment and collection methodologies, especially from niche departments that are used to legacy flows. Nevertheless, the benefits of removing friction from payments are becoming much more evident, particularly in today's hyper-competitive world, where the company that is easier to do business with will be the one that will get paid quicker and acquire and retain more customers.

Fortunately, treasurers are not alone in this drive towards more efficient payment and collection processes. Senior management increasingly understands the importance of accepting some of the initial pain associated with putting a new payment method in place because of the benefits it will reap further down the line.

Banks too, are on hand to help. At NatWest, we've been on our own journey of payments innovation. Thanks to our broad range of customers, we regularly review our payments propositions and evaluate whether we are delivering the right experiences. Serving both businesses and consumers enables us to learn from and share best practice around B2B and B2C payments experiences, helping companies to understand how certain payment types and related APIs can add value.

Throughout this Guide, as in everyday business, we consider all payment opportunities, including longer-term developments such as blockchain and CBDCs, through a customer-centric lens. Ultimately, if a payment form has a good business case and delivers added value, corporates and consumers will adopt it – and this is where treasurers can play their part in shaping the future, alongside their banking partner(s).

PAYMENT INNOVATIONS

Tapping Today's Hottest Payments Innovations to Reap Business and Treasury Benefits

Ritu Sehgal
Head of Transaction Services & Trade - Commercial and Institutional, NatWest

Simon Eacott
Head of Payments/ Payments CoE, NatWest

Raffaele Brusco
Senior API Growth Manager, Bank of APIs, NatWest

Technology, shifting consumer behaviour, new business models, and regulatory initiatives are propelling dramatic changes across the entire payments ecosystem. For corporate treasurers, successfully adapting to this changing world – whether it be embracing variable recurring payments, leveraging APIs, or harnessing the power of open banking – provides a wealth of business opportunities.

Professionals working in the payments industry could easily claim it to be the most innovative area regarding treasury management right now – with new tools, technologies, and initiatives driving transactions to become faster and more transparent. One of these drivers has been the rate of change in consumer behaviour because people now want, and even expect, instant information at their fingertips and the ability to receive payments in real-time.

This demand has pressured retailers and the new influx of e-commerce marketplaces to focus on the user experience (UX) and how they engage with customers through their payment interfaces. Questions such as how many clicks are necessary in a payment journey or how easy the technology is to use – whether through hyperlinks or QR codes and on a mobile app or a desktop computer – are being carefully considered by both retailers and manufacturers embracing the direct-to-consumer trend as they look to put flexibility and convenience in the hands of the consumer.

Ritu Sehgal, Head of Transaction Services & Trade - Commercial and Institutional, NatWest, comments that consumer behaviour is also driving numerous instant payments use cases within treasury.

> *"It is the data that goes with the payment that is really driving where the innovation and the customer proposition is, especially with ISO 20022 coming online."*

"When it comes to refunds, compensation or insurance claims, consumers want the settlement to be ASAP," she says. "Corporate treasury has then incorporated these behavioural changes, and we've seen a shift in their approach to real-time payments. Most treasurers now recognise the benefits of instant payments, whether for internal synergies or client benefits."

One of the critical internal use cases is for cash flow forecasting, where cash visibility can be enhanced through the real-time data that comes with instant payments. Another is their beneficial impact on a treasurer's working capital cycle.

"Instant payments are forcing treasurers to question whether they want to keep some payments as batch and stick with the traditional scheduled payments cycle," adds Sehgal. "Do they want to segregate payroll, for example, on a batch basis and a three-day cycle but consider open banking or APIs for making client or supplier payments in a real-time way? This rethinking is very much part of the working capital strategy trend."

Technology and a treasurer's systems infrastructure also play a role in the strategy because consumers (and indeed many global companies) increasingly expect 24/7 service. There is pressure on treasurers to update their systems to support the business in handling that consumer expectation. At the same time, some benefits come from having the technology in place.

"Open banking account-to-account instant payments can also offer cost benefits for corporates because, in some cases, they might be cheaper than collecting payments through cards," Sehgal continues. "And, at the same time, offering a seamless way of connecting to their consumer or business partners. What's not to like?"

The slow reveal of open banking benefits

Another significant driver in the explosion of innovation in the payments ecosystem has been the impact of regulation, specifically through the advent of open banking. This has unleashed the power of the data associated with a payment.

Ritu Sehgal
Head of Transaction Services & Trade - Commercial and Institutional, NatWest

> *"In time, VRPs may not entirely replace direct debits but will sit alongside them when there's a scheduled recurring payments and card on the file for regular checkout payments."*

Simon Eacott, Head of Payments /Payments CoE, NatWest, comments: "It is the data that goes with the payment that is really driving where the innovation and the customer proposition is, especially with ISO 20022 coming online." This rich data can help to bring together the physical and financial supply chains or provide more information for automated, real-time reconciliation. "What's happening across the globe is a drive towards standardisation of payment messaging, and we've been on a long journey as an industry to provide that standardisation."

This evolution goes hand in hand with API usage and the shift towards automation – an existing open-banking-driven trend that the Covid-19 pandemic accelerated. Yet while open banking arrived to great fanfare with PSD2, it is fair to say that it did not immediately deliver a massive swathe of benefits for corporates.

Raffaele Brusco, Senior API Growth Manager, Bank of APIs, NatWest, compares the time to maturity for open banking with the development of contactless payments, which were around six years old before they went mainstream. Nevertheless, open banking, and API-driven payments are now on the rise.

"Within NatWest alone we are currently seeing month-to-month growth in open banking payments of between 4 to 6%, which is both steep and encouraging," Brusco reveals. "Looking at the volume of payments we have made since the launch of open banking, 60% of that comes from 2022 alone, so the trend towards usage is gaining rapid momentum."

Off the back of this increased usage, Brusco believes developments such as VRP [variable recurring payments – more on this later in the article] and the New Payments Architecture will drive even further usage, especially as account-to-account payments become a more mainstream strategic tool.

The next level

Added-value services are also starting to emerge from open banking and APIs, leveraging the enriched data that Eacott referenced earlier. After all, customer data – beyond the bank account name and sort code – can help drive smarter payments solutions and solve wider business issues.

For example, if a customer has bought alcohol online, the additional data sent with a payment, coupled with the appropriate API, can seamlessly let the retailer check the age group or the address of the customer before the order goes out for delivery. Indeed, NatWest recently launched a premium API, which Eacott describes as a material step towards a digital identification", in partnership with OneID.[1]

"Digital ID is one of the building blocks that we've bolted onto instant payment to improve the security around them," enthuses Eacott. "Moreover, this is a use case where a bank can leverage its data to facilitate ongoing customer authentication on behalf of the corporate, not just for a one-off payment."

"Should the customer change their details – perhaps they signed up today but in two years will change their email or house address – the relevant party on the corporate's side will automatically receive that notification," explains Brusco. "It keeps the merchant up to speed with the customer's life, and in control of data and security."

This example is just the tip of the iceberg when it comes to the opportunities around customer data on the back of ISO 20022, real-time payments, open banking, and APIs. "There are thousands of use cases, and that capability will continue to grow over time, so treasurers have a significant shot at reaping the benefits," adds Brusco.

VRP as a game-changer

Another open-banking related payments innovation that will only add further upside for treasury, is VRP. In essence, a VRP is a payment instruction that enables customers to allow authorised payment providers to connect to their bank account and make payments on their behalf in line with agreed limits. The idea behind VRPs is that they will deliver a more seamless and secure payments experience.

FIG 1 | RECURRING PAYMENTS COMPARISON

	Direct Debit	Continuous Payment Authority	VRP
Transparency	You have visibility of the mandate and the last amount taken	You can't see details only the transactions that appear on your statement	Mandate and payment parameters are visible in your banking app. The payment parameters limit the amount that can be taken and also allow an end date for the mandate to be set
Control	Have to contact payee or bank to cancel or amend. Generally needs at least one day's notice before payment is due to go out	Have to contact payee/ bank or credit card company to cancel or amend. Generally needs at least one day's notice before payment is due to go out	Can be cancelled or amended online right up to the point of irrevocable payment

Source: https://www.openbanking.org.uk/variable-recurring-payments-vrps/

"VRPs feed into account-to-account and instant payments, leveraging open banking," comments Brusco. "This could be the tool to finally deliver a one-click payment experience, a seamless journey, which means a great experience for customers as well as a higher conversion rate for merchants and the associated cash flow benefit for the treasurer."

For businesses, VRPs have the potential for being used in place of direct debits or card in file-like payments, and the level of control they bring could reduce error rates and failed payments. Sehgal, who speaks with corporates daily on such topics, notes: "In time, VRPs may not entirely replace direct debits but will sit alongside them when there's a scheduled recurring payment and card on the file for regular checkout payments. Costs comparison can play heavily into adoption rates. And while it is early days, and the benefits and use cases are still coming to light, we are already seeing traction on VRPs when we liaise with treasurers," she affirms. "They are very interested to see how VRPs could lead to improved cash and liquidity management and consumer experience, through greater transparency and control."

In terms of VRP development, in the UK, the Competition and Markets Authority has mandated nine banks, including NatWest Group, to implement a VRP open banking API to facilitate the easier sweeping of funds from one customer account to another. As alluded to by Sehgal, aside from sweeping, VRPs could also potentially unlock the future of direct debits when linked to another industry initiative.

Eacott explains: "If you link VRP with Request to Pay, there is a future where the long tail of direct debits, which have done their job for decades, start to look and feel different, particularly in the context of the New Payments Architecture. This would put more control in the hands of the payer but also give more certainty to the biller – so benefits all round, not least for treasurers."

Yet, while the framework for VRP is in place, and the benefits are becoming clearer, the market for it still needs to be built out. Brusco reflects: "While the banks are making headway around VRP and signing up PSPs [payment service providers] to help progress its proliferation, what we really need is for major corporates to get onboard. Once that happens, it should catalyse and accelerate all the necessary regulation and other corporates will follow suit."

Once critical mass starts to build, VRP will also start to mature and future VRP use cases will emerge. "Thinking longer term, we're looking at how we can further develop the VRP payment capability with our customer data," continues Brusco. "I can see an end-to-end proposition in which customers don't need to sign up for payment services via a laborious process, but banks leverage social data, or the customer leverages another data source to request approval. There is a lot that can be done by bringing together the data and the payment capability to deliver an almost frictionless experience to customers. And of course, all of this will make life easier for treasurers, too."

Simon Eacott
Head of Payments/
Payments CoE,
NatWest

Managing fraud in a real-time world

Despite all of these positive innovations happening in the payments space today, the threat of incorrect or fraudulent payments is magnified in an instant world where the transaction is irrevocable. Maintaining or even enhancing anti-fraud measures is therefore essential in this evolving payments landscape – but in a way that 'interrupts' the transaction flow as subtly as possible.

"'Appropriate friction' is the phrase I would use," posits Eacott. "Confirmation of Payee was a good step forward in the UK, and treasurers have been embedding that into their systems, and bank systems are leveraging it to do their checks. But what the market needs now is more cross-border versions of this."

That said, there are several initiatives around fraud detection for instant payments, and the industry as a whole has become much more astute at tracing where money has gone following a fraud event. The next stage, says Eacott, is to become more predictive in a way that prevents fraud while having the lightest possible impact on a payment.

"Following a proof of concept at an industry level, we are just embarking on a pilot using AI and machine learning around different payment attributes to identify and potentially stop fraudulent payments before they are released," reveals Eacott. "This will be launched as a pilot at an industry level in the next few months. As financial institutions, and even as corporates, we must work on the basis that fighting fraud is not a competitive sport. Staying a step ahead requires collaboration, within the bounds of regulation, both domestically and cross-border."

Thankfully, as innovation around fraud mitigation in the banking sector penetrates the corporate world, businesses are acquiring more tools to protect their end customers. For example, the strong customer authentication (SCA) required within VRP is a positive step in mitigating risk.

Raffaele Brusco
Senior API Growth Manager, Bank of APIs, NatWest

"Speaking with a very customer-focused merchant recently, their view is that customers don't expect a completely frictionless payment journey," notes Brusco. "If there is no 'good' friction, the customer could drop off from the payment because they think something bad might happen – it doesn't feel secure enough. It's very much a balancing act that requires individual, corporate, bank, and wider industry collaboration."

An opportunity for differentiation

Although largely emanating from the retail world, as outlined, the dramatic changes in customer behaviour around payments will have a knock-on effect for treasurers in every sector. Not least since treasurers are used to a seamless and real-time payments experience in their personal lives and are now demanding the same on the business side – for reasons ranging from convenience and reduced cost, to increased efficiency and improved cash and liquidity management.

"It's vital for treasurers to have a payment strategy that is completely aligned with their customers' payment desires – and that means being fully aware of the latest developments at all times," asserts Brusco.

To ensure all the potential benefits are leveraged, treasurers would also do well to ensure that the technology stack in their department can handle the new requirements, says Eacott. "With a proliferation of different ways in which people and businesses make payments, it is critical that treasury teams can easily integrate these various channels with their own internal systems. So fully considering treasury's API strategy and working with the wider business on the simplicity of the customer payment journey, are vital steps in maximising the benefits of payments innovation."

Seghal agrees, concluding that: "Focusing on changing customer behaviours, whether operating in a B2C or B2B environment, and tapping into those trends as early as possible is essential in terms of securing competitive advantage. It's also a great way for treasurers to differentiate themselves from their peers at a business level – and gain the visibility and recognition they deserve." Finally, she highlights the critical role of having enriched data on tap, since "data and payments go hand in hand to drive real efficiencies at a treasury level, because one is not complete without the other".

Notes

1 https://treasury-management.com/news/natwest-signs-deal-with-oneid-to-make-new-digital-id-service-available-to-businesses/

FX and International Payments

Solving the Conundrum

Lucy Grimstead
Head of UK Corporate and Private Funds FX Sales, NatWest

Amanda Lovewell
Head of Transaction Services Account Management, NatWest

Nick Pedersen
Global Head of Digital, NatWest

With more and more businesses operating internationally, FX risk management continues to be one of the most vital treasury tasks. After all, failure to correctly monitor and mitigate potential currency-related pitfalls may cause significant headaches for treasurers, senior management, and shareholders. Despite these challenges, there are proactive steps that treasurers could take today to get a better handle on their currency exposures – from automating FX workflows around cross-border payments to building a flexible hedging policy.

A sizeable percentage of companies' FX exposures arise from the fact that they're paying and receiving funds to or from overseas, a trend that is only set to grow. The Bank of England, for example, estimates that the value of cross-border payments will rise to $250tr. by 2027[1] – driven in no small part by the boom in e-commerce (see box 1). Under the surface of this growth, however, multinational corporates are contending with currency volatility that is drastically affecting the bottom line, with one report finding the global impact of recent FX fluctuations to be more than $64bn in Q3 2022[2].

Lucy Grimstead, Head of UK Corporate and Private Funds FX Sales, NatWest, comments: "Visible FX exposures – relating to the core underlying business – are often well understood and actively managed. However, less visible exposures, such as international payment-related flows and indirect FX, typically attract less focus while often amounting to potentially significant levels of unmanaged risk."

This issue of inattention to FX associated with cross-border payments can arise if companies don't look at their payments in domestic and international terms but rather see them purely as AR/AP and which of their customers and suppliers they need to be paying in more general terms. This kind of approach can be fairly common where legacy, highly manual processes are in place around FX payments.

Another scenario which may see FX left out of the workflow, says Amanda Lovewell, Head of Transaction Services Account Management, NatWest, comes when corporate treasurers are looking to automate payments and connect to their systems to achieve straight-through processing (STP). "In this instance, rather than coming to the bank first, corporates are making those payments from their in-house systems and getting those to come straight through to the banks via an API. Efficiency and reduced fees are potential upsides of doing this, but it could mean they're not always considering the FX elements of where those payments are debiting or where they're coming in from."

Managing hidden exposures

Yet tracking the FX element of a payment is crucial, particularly in today's market environment of increased volatility. One area this has particularly impacted treasurers has been forecasting.

"Recent years have challenged the predictability in underlying business performance and the reliability of supply chains to the limit, and so forecasting with confidence has become harder," reflects Grimstead. "As a result, we've seen that influence not only the interest in better transactional FX solutions but also hedging behaviours and treasury policy around FX risk management more broadly."

The importance of being nimble became evident last year, as did having a flexible policy that is able to adapt where necessary, says Grimstead. "This could be regarding hedge tenors or ratios, or even product selection, but treasurers need a policy that provides control discretion. A corporate might wait for those volatile moments to warrant reviewing and enhancing policy, but that's exactly the time they should invest their energy elsewhere. It's essential to invest that time early on in the process of building the policy."

The current market climate is also forcing corporates to shine a light on some of their less visible FX exposures as they strive to improve operating efficiency and reduce costs. "Technology and data advances have simplified our ability to assess and manage these more hidden exposures," adds Grimstead. "That is absolutely something treasurers should be embracing."

Treasury leading the dialogue

Naturally, these advances in technology and the expanding digital toolkit available to treasurers will play an increasing role in assessing and managing FX risk. Through the introduction of technology – including automation, APIs and AI-driven tools – corporates can interrogate and actively deal with unmanaged or under-managed exposures and could benefit from those streamlined processes and improved efficiencies elsewhere.

'By better managing exposures through technology, treasurers can create the capacity and confidence to focus on more strategic risk management, such as policy revisions, the inclusion of optionality, and the ability to monitor and manage currency risks and exposures continually," notes Grimstead. "I would encourage every treasurer to invest in understanding the advancements and applications to their business and be open to that evolution, whether it is products in the more classical sense or technology as a whole."

BOX 1 | E-COMMERCE CATALYSES THE FOCUS ON TRANSACTIONAL FX

One critical development as a result of the Covid-19 pandemic was the importance of firms being able to shift their business to utilise online as a sales channel. Companies that previously did not have the scale to be international or have a global supply chain now can, thanks to digitalisation. While this is fantastic for business, it brings an element of FX risk that may not have been considered before.

"E-commerce definitely impacts the likelihood of increased cross-border transactions and needing to pay out and receive monies in different currencies that a company has not dealt with before," highlights Amanda Lovewell, Head of Transaction Services Account Management, NatWest. "As a company grows its online channel, the transactional FX in the business will grow with it. Treasurers must understand what that is and how they're hedging or optimising it."

With even well-established, traditional non-e-commerce industries taking an aggressive approach towards the channel, either for consumers or as a platform for their B2B customers, the pressure is on treasurers to support new payment measures and currencies and understand the associated FX exposures.

"Corporates need to be able to quickly understand how they are going to accept different e-commerce payments and handle pricing in far more currencies than they are used to," comments Nick Pedersen, Global Head of Digital, NatWest. "For treasurers, being on top of that and leading that dialogue is really important."

Lovewell agrees that treasury can be a hub for the commercial discussions that happen in an organisation, particularly when exploiting a new sales channel such as e-commerce. "It's about how businesses are contracting for supply, how they are going to be selling the product, in which currencies and which currency pairs, what the cost is linked to, and whether there is any currency element to the costings that need to be factored into the contract," Lovewell notes. "Ensuring the treasury team is party to all those discussions is vital to knowing where operational FX is hidden in those contracts. That broader piece of the business is not necessarily in front of treasury on day one."

Of course, it is not just the treasury department generating FX exposures. These can come from across the organisation, including procurement and sales. So, to truly get to grips with all FX exposures, treasurers need to drive the agenda with all other relevant stakeholders in the business.

Nick Pedersen, Global Head of Digital, NatWest, explains: "When we implement one of our automated services with a corporate, it's rare that we operate only with treasury. More often than not, treasury is the introducer or the 'go to' for different parts of an organisation – product management, enterprise sales teams, accounts payable, logistics, supply chain – a diverse group of people. An effective treasury team educates and leads internal teams through the technology change but then operates as something of a go-between to all of the providers, ensuring everyone is onboard and singing from the same hymn sheet."

Increasing transparency

One area where technology is making a significant and positive difference is the transparency of FX flows. As already noted, the increased efficiency of embedding AR/AP processes into banking can sometimes obscure sources of transactional FX and the rates that treasurers might have to pay for. Determining how those rates are calculated and how they impact an organisation's inbound and outbound flows in terms of value is vital, but can be tough. This is where technology comes into its own.

"In its most basic form, treasurers have to understand all the FX flows relating to the business and, as a result, the currency accounts that may be needed," says Lovewell. "In theory, having accounts for each currency enables treasurers to receive and pay in the currencies they're trading in across their business directly and takes out that FX risk altogether. But in practice, this can create its own issues, notably in relation to increased complexity and a greater administrative burden. Treasurers often want as few bank accounts as possible, particularly physical accounts to have governance around."

Virtual accounts are an increasingly popular solution in this regard, providing cross-currency capabilities without needing a physical account. What's more, FX APIs – delivering rates direct from the bank straight into treasury systems and embedding them in workflows (see box 2) – can combine with virtual accounts to offer the ability to split a payment and its associated FX relatively simply. Treasurers considering this approach should be able to implement the process in a nimble and cost-efficient manner, as Grimstead explains.

Lucy Grimstead
Head of UK Corporate and Private Funds FX Sales, NatWest

"Working with a client last year, I found it fascinating that investment in technology used to mean a high cost of entry and time spent for both parties involved. This client was fully up and running on virtual accounts and bisecting their payments and FX risks within around 48 hours."

Elaborating on the trend for treasurers to embed the rate they can get on FX from their bank into the payment journey across all the relevant partners in the business, Pedersen notes: "This is where payments and FX collide." He continues: "It does vary depending on the payment type. For cross-border wires and bank transfers, it would be pretty rare for the provider not to be able to identify and split out the FX rate associated with that payment and offer it on volumetric or commercial terms that make sense for the customer. Card payments, or receipt of card payments, is a different scenario altogether, however."

The FX spreads charged on card payments traditionally are not particularly transparent, which is also sometimes

BOX 2 | UNLOCKING EFFICIENCIES WITH APIS

While FX APIs have been around for a number of years, the proliferation of other API services driven by open banking – such as payments as an API or bank accounts as an API – is enabling plugging FX into those services to be relatively simple.

"API integration needn't take months of development resources because the specifications of the APIs are now so standardised and, in many respects, already embedded into other processes," comments Pedersen. "It's a very light-touch implementation in many cases."

Moreover, treasury systems such as TMS and ERPs now actively consume services as APIs to embed FX into those places. "There's definitely a scenario where corporates could devise their dream treasury management set-up and buy it off the shelf with a couple of customised tweaks," Pedersen continues. "That was certainly not the case five to 10 years ago, where the corporate would have to produce a detailed plan of what they were after and the provider would go away and build it bespoke, charging quite a lot of money."

the case with alternative payment methods or non-card consumer-based payment accepted methods. But the technology exists to help treasurers gain better transparency.

"It's up to us as an industry and to treasurers to keep pressing for greater transparency," adds Pedersen. "SWIFT gpi as an industry implementation was a great tool to help that along because, if we cycle back five or 10 years, cross-border bank transfer payments didn't have the same associated transparency and competitiveness in FX as they do today. It's a journey. The newer or more niche the payment type, the more important it is to get under the hood and look at where the FX is actually happening. And I would encourage treasurers to be part of this dialogue with their banks and industry bodies."

A little curiosity goes a long way

Grimstead takes this message of participation one step further and encourages treasurers to be curious and invest time in understanding how all of the technologies could make a difference in their business. "Understand how tech innovations could help streamline processes, support cost reductions, and enable the wider treasury team to get their arms around even more of the FX risk. In doing so, corporates will free up more capacity to think strategically about how they can be tactical around FX risk management."

Lovewell echoes the advice to be curious, particularly regarding what different business areas are doing. It is important to understand from where the transactional FX scenarios are emerging as a result of a company's contracting with customers and suppliers.

"Are there other activities going on in the broader business that are not being brought to treasury but could create FX within their payment journeys?" she questions. "Also, when treasurers are thinking about automating and optimising how they manage payments and collections with their bank, they should consider the FX element of that automation and that channel connection they have with their providers – aiming to integrate all elements."

Finally, when considering the technologies that can support the management of FX in cross-border payments, it is essential to understand what is available in the market today and which are more theoretical or in development, says Pedersen.

"Use the 80/20 rule – 80% of the focus on technology should be on ones that are being used today," he concludes. "APIs are a great example of that, versus blockchain and CBDCs, which are much further out for treasury to use in real-life scenarios. Be aware of these developments, but spend 80% on the technologies that are actionable today. And FX, especially in relation to payments, is one area where these developments are extremely tangible."

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treasurycast

Amanda Lovewell
Head of Transaction Services Account Management, NatWest

Nick Pedersen
Global Head of Digital, NatWest

Notes

1 https://www.bankofengland.co.uk/payment-and-settlement/cross-border-payments

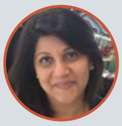
2 https://www.kyriba.com/news/kyribas-currency-impact-report-record-47-billion-in-fx-headwinds-for-multinationals/

PAYMENT REGULATIONS

Protect and Detect

Staying Ahead of Payments Regulations, Sanctions, and Fraud

David Malley
Product Development & Innovation, Payments Centre of Excellence, NatWest



Avani Patel
Head of Commercial Banking, Fraud Management, NatWest

Andy MacDonald
Head of Financial Crime Services, NatWest.

Regulators are busy laying the groundwork for wholesale payments to become faster, cheaper, and more transparent. With the roll-out of ISO 20022, PSD3 on the horizon, SEPA Instant Payments becoming mandatory, and the UK's New Payments Architecture replacing Faster Payments and eventually BACS, European treasury teams are facing significant change. Meanwhile, corporate sanctions management remains in one of its most complex phases from the past decade. And fraud prevention continues to be a critical concern, as fraudsters evolve at least as quickly as the safeguards developed to keep them out. Here, three specialists from NatWest examine the essential payments developments for treasury teams to prepare for.

Nothing is certain but death and taxes – or so the saying goes. But regulation could arguably be added to the list, especially in the world of payments. As innovation continues to hot up, with everything from variable recurring payments to CBDCs in the spotlight, regulators are working hard to ensure the framework around payments matches the pace and direction in which the industry is travelling. And always with an eye on balancing consumer and business protection against commercial needs, economic drivers, and competitive innovations.

But payments regulation isn't always a case of playing catch-up with tech and behavioural trends. In fact, PSD2 (and the corresponding UK Payment Services Regulations – PSRs) was the catalyst for arguably one of the most significant shifts in the payments arena in recent times – open banking. Today, discussions are happening around PSD3, and the latest developments will inevitably impact corporate treasury teams.

David Malley, Product Development & Innovation, Payments Centre of Excellence, NatWest, outlines: "In May 2022 the European Commission [EC] issued a public consultation to gather evidence for its review of PSD2. Then, in February 2023, the EC presented a study on the application and impact of PSD2. This outlines whether the objectives of the original directive have been met and explores what improvements should be made in the next iteration. And in the UK, HM Treasury has been asking similar questions through its 'Call for Evidence' on the PSRs."

> "*SCA has helped to reduce fraud losses and even eliminate certain forms of attack, but threats keep evolving.*"

Then, in late June, the European Commission published its legislative proposal for PSD3[1], which gives a clear indication of the direction of travel. According to Malley, the key areas of focus relevant to corporate treasury teams are:

1. Open banking and the transition to open finance
2. Strong customer authentication requirements – and striking the right balance
3. Combatting fraud more effectively

Open banking turns up a level

The open banking story is often cited as a slow burn, certainly in mainland Europe. After several years of usage, 2021 stats showed that less than 5%[2] of consumers in the EU were leveraging open banking. But the UK surpassed seven million[3] users for the first time in January 2023, indicating an ongoing growth trend (see box 1).

Malley believes that EU adoption could be increased much further, and more rapidly, with the simplification that PSD3 promises. He explains: "There is broad recognition that the PSD2 provisions on access to accounts were effective in opening up the market, doing what was always intended in terms of authorised third-party access to information or payment initiation."

BOX 1 | UK PROGRESS ON OPEN BANKING

In the UK, open banking is evolving and in April 2023, the Joint Regulatory Oversight Committee (JROC) published its recommendations for the next phase of open banking in the UK.

The JROC's recommendations contain a roadmap of priorities over the next two years, covering five key themes :

- Levelling up availability and performance
- Mitigating the risks of financial crime
- Ensuring effective consumer protection if something goes wrong
- Improving information flows to third-party providers (TPPs) and end users
- Promoting additional services, using non-sweeping VRPs as a pilot

While the UK's approach deviates somewhat from that of the EU, Malley believes that the two paths will converge and work in tandem to promote the future of open banking and open finance.

But, without doubt, open banking can be improved and expanded, he believes. "Some of the open banking requirements under PSD2 are contradictory, particularly where they interface with strong customer authentication [SCA]. There is some welcome clarification under PSD3 and we hope that any future changes to the UK PSRs will simplify the regimen."

Elsewhere, Malley also sees a need for the development of more standards around APIs, which are one of the core technologies underpinning open banking. In fact, APIs already enable users to easily trigger single payments and create mandates for variable recurring payments (VRPs). Open APIs have also already empowered A2A payments by removing the barriers of fragmented legacy rails and introducing pay-by-bank capabilities. And as open banking evolves into open finance, enabling a much broader range of data to be shared and creating opportunities for more tailored financial offerings[4], more APIs will enter the mix, hence the growing need for standardisation.

Although the final text, and indeed timeline of PSD3 is still to be determined, corporate treasurers should benefit from the clarification, evolution, and standardisation that is anticipated around open banking. Malley elaborates: "In terms of collecting payments, improvements to open banking will ensure that PISP [payment initiation service provider] payments are truly competitive. This should then give treasurers some leverage in their negotiations with card providers, for example. More innovative financial solutions should also be able to be plugged directly into bank and corporate systems, thanks to standardised APIs."

Improving strong customer authentication

The second pillar likely to be addressed under PSD3, SCA (see box 2 for a refresher), also faces some current challenges, despite its effectiveness.

Malley comments: "In both the UK and EU, many market participants would likely say that the SCA requirements, while well-intentioned, are probably over-prescriptive by insisting on two-factor authentication."

David Malley
Product Development & Innovation, Payments Centre of Excellence, NatWest

Indeed, Malley believes that "SCA can even be considered counterproductive in some situations, especially when we have new tools to predict and prevent fraud, with a focus on risk analysis. The hope is that future developments will place more of an emphasis on outcomes rather than prescriptive factors".

Avani Patel, Head of Commercial Banking, Fraud Management, NatWest, adds that: "SCA has helped to reduce fraud losses and even eliminate certain forms of attack, but threats keep evolving and the key challenge is to find an optimum balance between the security of the journey and the user experience as PSD3 progresses."

Fraud prevention

The third pillar Malley sees as being critical to PSD3 and the PSRs' review is fraud – with a focus on making electronic payments safer. He says: "There are various ways to achieve this, but in the UK, HM Treasury is certainly looking at slowing down certain high-risk consumer payments as a means to introduce 'good' friction and enable thorough checking. Of course, we support good friction, but it has to be sparingly used."

Fraud prevention is a particular focus for regulators given the rise of authorised push payment (APP) scams, linked to the rise of real-time payments – which are irrevocable – and evolving technology, says Patel. She comments: "APP scams happen when a person or business is tricked into sending money to a fraudster posing as a genuine payee. The criminal might pretend to be from the payer's bank, a government entity, a utility company, or housing conveyancer, for example. Often there is a time-sensitive element to the request, and the fraudster will say that money needs to be moved ASAP, putting pressure on the payer."

In the UK alone in 2022 there were 207,372 incidents of APP fraud with gross losses of £485.2m[5].

"Among the tools and services UK banks offer to help fight APP fraud and reduce misdirected payments are confirmation of payee [CoP] and request to pay," says Patel. "As David mentioned, it is also about introducing 'good' friction into the payment process in order to allow time to determine that a payment is 'right' – and we are likely to see more focus from regulators on this in the future."

Avani Patel
Head of Commercial Banking, Fraud Management, NatWest

All hail ISO 20022

Alongside PSD3 and the reviewed PSRs, one initiative that will help to reduce fraud through the standardisation of payments and the proliferation of rich data is ISO 20022 XML. Malley comments: "As all treasurers will know by now, SWIFT's ISO 20022 migration will drive better quality of outgoing messaging and ultimately improve cross-border payments and reporting."

Although the majority of ISO 20022 work and benefits will fall on financial institutions, corporates will ultimately benefit from enriched data, believes Malley. "With improved data, as well as tracking and tracing capabilities, corporates may find themselves able to more accurately project inbound and outbound flows, in turn helping to optimise working capital. Structured remittance data should also lead to improved reconciliation and enable further automation in workflows. These are just two examples, but more use cases will become evident as the ISO migration takes hold."

NPA and ISO

It is no surprise, then, that one of the tenets of the UK's New Payments Architecture (NPA) is to adopt ISO 20022 as soon

BOX 2 | WHAT ARE THE SCA REQUIREMENTS TODAY?

Introduced under PSD2, SCA looks to enhance the security of electronic payments and protect consumers from fraud. It requires the use of two or more independent authentication factors from the following categories:

1. Knowledge: Something only the user knows, such as a password, PIN, or the answer to a security question
2. Possession: Something only the user possesses, such as a mobile device, smart card, or hardware token
3. Inherence: Something inherent to the user, such as a fingerprint, iris scan, or facial recognition

Already, SCA has proven highly effective. The value of card-not-present fraud declined by 12% in 2021 in light of the market-wide implementation of SCA. In addition, card-present fraud in the form of using counterfeit cards at shops and ATMs declined by 37% in 2020 and by 42% in 2021, thanks to industry standards like SCA.

BOX 3 | FRAUD AND THE TREASURER: THREATS AND RISK MANAGEMENT

Under the umbrella of APP scams, Patel says that businesses continue to face significant threats from social engineering attacks, including CEO impersonation. "Invoice redirection scams also remain extremely common. These happen when a fraudster tricks the business into changing the bank details for payment on an invoice. Criminals target companies by posing as suppliers, or banks, government entities, police and more."

Moreover, invoice redirection can also result from customers' suppliers or advisers' email systems being compromised. "So, all of a sudden, our customer is paying to somebody else because their service provider or their lawyer, let's say, has been compromised. In other words, the fraud is not always committed directly. It could be attached to our customer, but it could originate from our customer's customer or service provider."

Proper payments controls, checks, and balances, are therefore vital – as is a culture of being able to question instructions from anyone inside or outside the company. Vetting third parties heavily before entering into business arrangements, and throughout the relationship, is also important.

Elsewhere, cyber-attacks continue to be a significant threat. Findings from the Cyber Security Breaches Survey 2022 showed that 39% of UK businesses had identified cyber breaches or attacks in the previous 12 months . "Ransomware attacks are among the most common threats from a corporate perspective. This is a type of malware that prevents the user from accessing their computer (or the data that is stored on it) and may spread to the wider business network. The data might then be stolen, deleted or encrypted – even if the demanded ransom is paid."

To help tackle the ransomware threat, Patel believes it is critical for corporates to have an insurance plan in place. And to check what that covers – right down to the fine print.

With more people working from home, another type of fraud that Patel's team has seen a resurgence in, is telephone and screen-sharing scams. "The customer receives a call from a fraudster claiming to be, again, from a trusted organisation like the bank or the police. And of course, the fraudster stresses the urgency of the situation, and then gains access to the customer's computer or email using screen sharing.

"We see this quite often in relation to large payments that are going out to suppliers on a regular basis and the fraudster catches on to the pattern. And from the bank's perspective, it can be hard to recognise as the money is going to a recipient that the customer already pays. So once again, proper controls on the corporate side are indispensable."

Given the cost-of-living crisis, Patel says it's also important to consider the rise in insider fraud "because individuals have increased financial pressures". And as the 2022 Cost of Insider Threats: Global Report reveals, insider-threat incidents have risen 44% over the past two years, with costs per incident up more than one-third to $15.38m .

With this level of internal threat, "it is really important for treasury and wider finance teams to assess what other controls they can put into systems, especially when employees are working remotely," suggests Patel. "It's also key to set security by design when implementing new or updated technology systems, with treasury working hand in hand with IT. What's more, security and fraud prevention measures need to be regularly reviewed since attack vectors are continually evolving."

Fraud fighting resources

Whether based in the UK or elsewhere, there are some good fraud resources available from UK institutions. Patel highlights the following as being of interest to treasury teams:

- A firm's guide to countering financial crime risks (FCG) from the UK FCA
- The National Cyber Security Centre, which has advice for both small and large businesses
- The National Institute of Security and Technology's Cybersecurity Framework

as possible – as a means of keeping the UK at the forefront of payments innovation. The NPA will replace the existing UK Faster Payments scheme and lays out the framework for a replacement to the BACS scheme, in time. And in April 2023, the NPA certification-testing window opened for all interested financial institutions.

Malley adds: "It's now expected that NPA will replace Faster Payments in 2026. And Pay.UK is targeting 2028 for the BACS replacement." In the meantime, there will be a consultation later this year on how BACS should move across to NPA. "This is something I urge corporate treasurers and their payables departments to look out for because it could be quite a significant change – certainly beneficial but it needs to happen in a measured way that corporates are prepared for."

At the same time, the UK has been looking to build more innovative elements into its real-time gross settlement (RTGS) engine. The UK RTGS Roadmap 2024, issued by the Bank of England (BoE) in February 2023, will see the service gradually extending its hours of operation, in a phased approach, perhaps ultimately moving to 24/7 says Malley – although this will present many challenges and is a long way off.

"The roadmap also outlines plans for a new channel to send and receive payments alongside the SWIFT network. This includes considerations about providing a common contingency messaging channel – a solution available to all participants, including a protocol and an infrastructure for data transfer."

In addition, the consultation also outlined a new approach to CBDCs and the wholesale market, which the BoE sees as being fulfilled through the RTGS, says Malley. "There is more focus on a retail CBDC at present in the UK. But the wholesale element is also important. And the key is how you can synchronise settlement so that the payment and asset exchange happen simultaneously."

Meanwhile, in Europe, the European Commission published proposals for the regulation of a digital euro in June. And there is more progress being made in the wholesale CBDC conversation in mainland Europe than the UK, with pilots happening in

BOX 4 | SPOTLIGHT ON SANCTIONS SCREENING

"Effective sanctions screening is vital for corporate treasurers at a time when geopolitical events and outdated systems in parts of the banking sector have increased the risks of operating internationally," says Andy MacDonald, Head of Financial Crime Services, NatWest.

"The events of the Russian invasion of Ukraine last year had a huge impact on the payment-filtering industry with the introduction of significant sanctions. What this means is that, as a treasurer, you can have a thorough understanding of what your business is doing strategically and how that will impact payment flows, but you can't always predict what's going to happen externally."

As a payments processor, NatWest, like its banking peers, noticed that the number of alerts for sanctions went up as Russian sanctions were imposed. "There are things we, as a bank, can do to assist here, like training staff across all types of alerts and ensuring they are nimble enough to move to where the support is needed.

"But on an industry-wide level, the utility concept is gaining traction. This is where the transaction filtering is not done by a bank necessarily. Instead, it is performed by a separate entity – a utility that sits outside of a traditional banking network." There are currently a few utilities in existence, says MacDonald, although it is a nascent industry. "The eventual idea is that multiple banks will send their transactions through those utilities, which will provide level screening for sanctions, thereby enabling greater standardisation."

There are additional advantages to the approach, he believes. "For example, it is likely to lower the cost for banks in terms of filtering transactions and this will filter through as financial benefits for consumers and corporates."

Nevertheless, the accountability to ensure that payments that breach sanctions are not made still sits with the banks. "As such, banks will need to ensure that they have appropriate oversight and that there is a backstop if something doesn't go as planned." This is especially important given that the same sanctions lists might be implemented under different regulations in different countries. "So, for example, a number of different sanctioning bodies (including the EU and individual countries) align to the UN sanctions list, but the dates at which the regulatory lists are updated may vary. This can lead to unexpected exposures, which need to be carefully managed."

In terms of oversight, MacDonald also believes it is incumbent upon every party to a financial transaction to ensure they understand the specifics of the sanctions regulations because they can vary significantly as to whether the transaction is to be blocked or rejected. "And resolving any issues can happen much more quickly if everyone, including the treasurer, is up to speed on the regulations," he notes.

France and Switzerland, for example. Malley believes this could have potential impacts for treasurers in terms of the future of payments (see section 6 of this report/this associated article for more detail on CBDCs and how treasurers can prepare).

SEPA Instant becomes mandatory

Just as the UK is revisiting its instant payment mechanisms and engines, Europe is also revising its real-time payments landscape. "The European Commission has mandated that instant payments in euro must be available to all citizens and businesses holding a bank account in the EU and in EEA countries," says Malley.

Andy MacDonald
Head of Financial Crime Services, NatWest.

> *Effective sanctions screening is vital for corporate treasurers at a time when geopolitical events and outdated systems in parts of the banking sector have increased the risks of operating internationally.*

The proposal, which amends and modernises the 2012 regulation on the Single Euro Payments Area (SEPA), aims to ensure that instant payments in euro are affordable, secure, and processed without hindrance across the EU. This will rely on increasing trust in instant euro payments, with an obligation on providers to verify the match between the bank account number (IBAN) and the name of the beneficiary provided by the payer in order to alert the payer of a possible mistake or fraud before the payment is made[6].

In addition, the proposal requires the removal of friction in the processing of instant euro payments, while preserving the effectiveness of screening of persons that are subject to EU sanctions (see box for the latest insight on sanctions screening), through a procedure whereby payment service providers (PSPs) will verify their clients against EU sanctions lists at least daily, instead of screening all transactions one by one[7].

According to Malley, it is likely to be the end of 2024 before sending and receiving instant euro payments is mandatory for EU PSPs in the Eurozone (who offer their customers the sending and receiving of euro credit transfers) and the end of 2026 before they also become mandatory for EU PSPs outside the Eurozone. "While there is significant work to be done to implement the changes, we believe the shift from next-day transfers to transactions being completed 'within ten seconds' will be broadly beneficial for all involved, including treasury teams," he observes.

Embracing the change

Summarising the shifts in the regulatory, fraud, and sanctions landscapes, Malley comments: "Change is the way of the world. Treasurers can no longer afford to live in the past or only look at what's happening in the present. The future is being shaped today, and there are significant cash and risk management benefits to be had by being part of those conversations early on and seizing the opportunities on offer."

Notes

1 Please note: the June proposals actually include several elements. Much of what was in PSD2 is proposed to be in a new Payments Services Regulation, while the Payment Services Directive itself focuses on authorisation of firms including for electronic money. In this article we refer to PSD3 for convenience. The legislative process still has a way to go.
2 https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_23_1819
3 https://www.openbanking.org.uk/news/uk-reaches-7-million-open-banking-users-milestone/
4 https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_23_1819
5 https://www.ukfinance.org.uk/news-and-insight/press-release/over-ps12-billion-stolen-through-fraud-in-2022-nearly-80-cent-app
6 https://ireland.representation.ec.europa.eu/news-and-events/news/european-commission-proposes-accelerate-rollout-instant-payments-euro-2022-10-26_en
7 https://ireland.representation.ec.europa.eu/news-and-events/news/european-commission-proposes-accelerate-rollout-instant-payments-euro-2022-10-26_en

Need to Know

Regulators, central banks, and industry bodies across the UK and EU are laying the groundwork for wholesale payments to become faster, cheaper, and more transparent. But what market changes do treasurers need to be aware of?

01

In June 2023, the European Commission published the draft proposal of a Payment Services package, including **the third Payment Services Directive (PSD3).** Areas updated in PSD3 will include:

- Open banking and the transition to open finance
- Strong customer authentication requirements – and striking the right balance
- Combatting fraud more effectively

02

SWIFT's ISO 20022 migration will drive better quality messaging and improve cross-border payments. Until November 2025 there will be a co-existence window where both MT and ISO 20022 (MX) message standards will run in parallel.

03

SEPA Instant payments are becoming mandatory. The European Commission has published a proposal that aims to ensure that instant payments in euro are affordable, secure, and processed without hindrance across the EU. It is likely to be the end of 2024 before sending and receiving instant euro payments is mandatory for EU PSPs in the Eurozone (who offer their customers the sending and receiving of euro credit transfers).

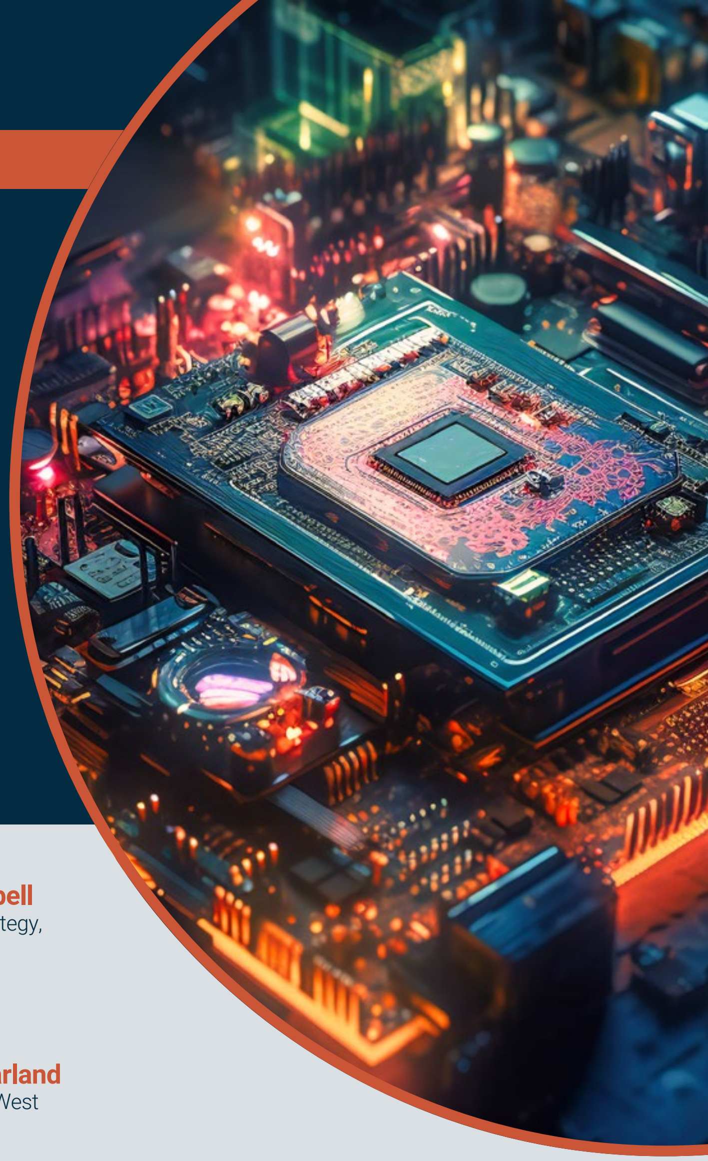
04

The New Payments Architecture (NPA) in the UK will replace Faster Payments in 2026. And BACS will likely shift to NPA by 2028.

05

The UK's RTGS Roadmap 2024 will see the service gradually extending its hours of operation, in a phased approach, perhaps ultimately to 24/7. It also outlines plans for a new channel to send and receive payments alongside the SWIFT network – and a new approach to CBDCs and the wholesale market.

EMBEDDED FINANCE



Embedded Finance

Convenient, Efficient, and Streamlined


Katie Ayaz
Customer Goal Lead,
NatWest


Alastair Campbell
Head of Group Strategy,
NatWest


George Toumbev
Chief Commercial Officer,
NatWest Boxed


Matthew McParland
Strategy Lead, NatWest

Whether or not they realise it yet, embedded finance is starting to revolutionise the way that corporates interact with their customers and banking partners. Treasurers have an opportunity to enhance the sale of their organisations' goods or services while simultaneously adding value to customers through bespoke financial services.

As its name suggests, embedded finance is the process of incorporating financial products, from lending and payments to accounts, cards, insurance, and investments, into a company's existing (and new) commercial offerings.

> *"Treasurers must bring to bear risk management capabilities around pricing, liquidity, securitisation, and managing the asset book."*

It is a value chain from the end customer – be that a business or a consumer – to a platform through which the product is embedded via a software capability, all of which is backed up by a regulated entity.

Katie Ayaz, Customer Goal Lead, NatWest, comments: "Embedded finance is about being where customers or businesses are, rather than expecting them to come to us. That's the fundamental shift in consumer behaviour. They no longer want or expect to have to come to a bank to obtain financial services. They want those financial services to be part of the experiences or platforms that they are on. It's all about the convenience."

Solving pain points

Historically, for corporate treasurers, the financing of companies and the manner in which they settle with customers and suppliers tended to be viewed as separate from the products and services they offered. Now, with embedded finance, this is changing.

Alastair Campbell, Head of Group Strategy, NatWest, reveals: "We're increasingly observing those two elements being combined in a range of industries. It means firms can enable customers to experience their services piecemeal when needed. That includes payments, lending services, protection services, and even account-related services. Corporates need a bank to work with if they want to offer embedded finance."

Interestingly, treasurers can interact with embedded finance from both sides of the equation – they may be offering it to their customers or could be using it to support the purchasing department. Either way, there are essential considerations for best managing this new way of transacting.

George Toumbev, Chief Commercial Officer, NatWest Boxed, outlines the possibilities: "Companies that offer embedded finance could find it to be a multiplier for the balance sheet, for example, so treasurers must bring to bear risk management capabilities around pricing, liquidity, securitisation, and managing the asset book. On the flip side, being a user of embedded finance is slightly different because it enables treasurers to solve various pain points, such as freeing up capital or restructuring, for example."

A treasurer may historically have viewed the working capital on their balance sheet as a feature of the company's commerce profile. It was something for the treasurer to manage. What embedded finance offers is the possibility to innovate how treasurers work with suppliers and how companies charge for what they do.

"Companies in the gig economy can start thinking about why they pay workers at the end of the month versus paying them piecemeal for every individual delivery they make," comments Campbell. "Corporates in the car industry can start selling the car by the hour rather than selling cars once as a fixed asset to their customers. That's an innovation of the service being offered by the company, which would be looking to the corporate treasury function to be service innovators, not just as suppliers of liquidity."

Identifying the use cases

While – like most innovations in payments – the retail and end-consumer markets seem like prime candidates to benefit from embedded finance, there are also several B2B use cases for treasurers to consider. These include embedded SCF, merchant cash advance solutions for SME suppliers, and B2B point of sale credit.

Matthew McParland, Strategy Lead, NatWest, adds: "We think a lot about our climate transitions and how we could support customers with their climate transitions – we are not going to be able to seamlessly facilitate those ecosystem participants without embedding solutions, as that activity is happening on platforms. It's about being where the activities are happening between clients to manage better, more streamlined processes, better access to new instruments, or visibility on liquidity positions."

One vital area of the climate transition can be found in the property retrofit ecosystem. Refitting housing stock to be more efficient and using sustainable green energy sources could lower mortgage and energy costs for owners and tenants. And while there's money to be made for everybody in that supply chain, there's a set of hurdles to overcome to kick-start the process. Embedded finance can play a crucial role in supporting this, as Campbell explains.

"There are experiments that are being looked at where a housing association can put a solar panel on the roof of a block of flats, but it takes an embedded transaction system to share out that solar panel cost. Having paid the capital project to put up the solar panel, they will then all benefit from cheaper mortgages, but to get there, there's a piece of technology in the middle there that's running the allocation of that cost and benefits across everybody. That's an example of taking this technology and embedding it to create an ecosystem that wouldn't otherwise exist."

Embedded finance offers access to financial infrastructure or technology stacks that would normally be out of reach for some businesses, companies or treasurers. It's an entirely new potential revenue stream and channel that can be operated relatively simply.

Katie Ayaz
Customer Goal Lead, NatWest

> *Embedded finance is about being where customers or businesses are, rather than expecting them to come to us.*

"The industry is nascent, it's clearly going to be huge to the point of changing consumer behaviour," notes Toumbev. "If you're the treasurer, there's potentially a lot of value but it's probably a bit hazy right now. It is about better managing your business' financials through embedding various tools and capabilities. When it comes to tasks such as managing risk or hedging, treasurers can use embedded financial services for all these things."

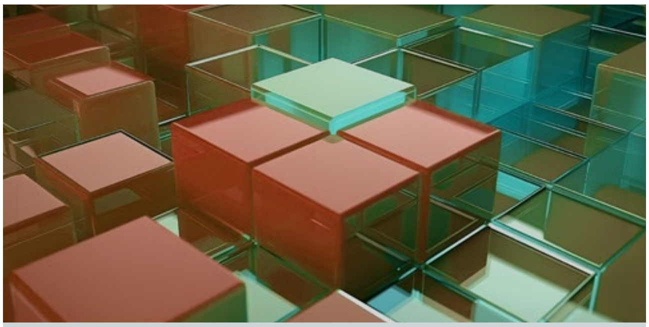
The advent of embedded finance offers treasurers the opportunity to review the customer journey taken by the businesses and consumers paying the firm. This exercise enables the corporate to highlight any pain points and explore how embedded solutions could be used to help improve the customer experience.

"Treasurers should think about what they are looking to offer their customers or their consumers," advises Ayaz. "Is there a way to use embedded finance to remove those pain points or barriers to entry? That's the first step. Go out and explore what's available. What can banks and other third parties offer to enable them to facilitate that without having to build it themselves?"

Toumbev agrees and believes it's a good idea to start small when experimenting with embedded finance. "I'd suggest that corporates do a limited pilot or a sandbox test." he notes. "There are different models out there, so once the treasurer understands the pain point they want to address, they can look at the various models to do a control test."

Alastair Campbell
Head of Group Strategy, NatWest

> *When we put digital money together with a digital service, we can create something more valuable than either of them individually.*



The investment – NatWest Boxed

George Toumbev, Chief Commercial Officer, NatWest Boxed, explains the thinking behind the bank's investment in the embedded finance model. "We're investing in a tech platform that will enable the bank to embed its products – across the spectrum, from lending to current accounts – into corporates. The technology and capability we're building could, for example, enable a large retailer to offer a card or white-label card to their customers."

From a bank's perspective, it is increasingly a B2B2C world, and financial institutions must differentiate themselves to both the 'B' and the 'C'. Alastair Campbell, Head of Group Strategy, NatWest, reflects: "We have to be able to provide something distinctive for the companies that want to embed financial services in their products and services so that we can support them effectively. But we're obviously also in the business of deepening our relationships with our end customers that may now be by buying services and using our embedded finance capabilities from third parties."

Banks are also looking to help their customers better manage their financial lives in general, not just when they come to the bank, and to be a trusted custodian of their data, finances and identity in that space. Campbell notes: "A lot of what is happening in embedded finance is the corollary benefit of everything becoming digitised. The upside is that firms can trade with anyone, but one of the downsides of that is that companies spend a lot more time trading with people they have never met before and do not have the same standard mechanisms of trust available."

Part of embedded finance is about enabling a reconstitution of what trust means and how you can protect yourself in a digital world where you are engaging with strangers, Campbell adds. "But equally, like with other areas that involve digitisation, it enables the creation of new things. When we put digital money together with a digital service, we can create something more valuable than either of them individually."

Understanding what banks already offer in the realm of embedded services can help bring to life some of the potential. McParland highlights one of NatWest's existing capabilities, FXmicropay, as an example that can help unlock embedded finance use cases for corporates.

"For treasurers thinking about the FX rates they pay on every transaction when doing business abroad, FXmicropay takes a spot rate at the point of transaction," he explains. "This is a plug-in into the payment rails that exist today."

Be on the front foot

In summary, today's digital world is seeing consumers (and businesses) becoming more impatient and demanding than ever. Embedded finance enables treasurers to support their business by enabling a seamless customer journey.

"If there's a way to think about embedded finance now to address a key pain point or a challenge, its definitely something that treasurers should be considering," Ayaz comments. "They should educate themselves now, and understand where it could help, today or in the future. It will only become more prominent, so understanding it will ultimately help treasurers and their businesses."

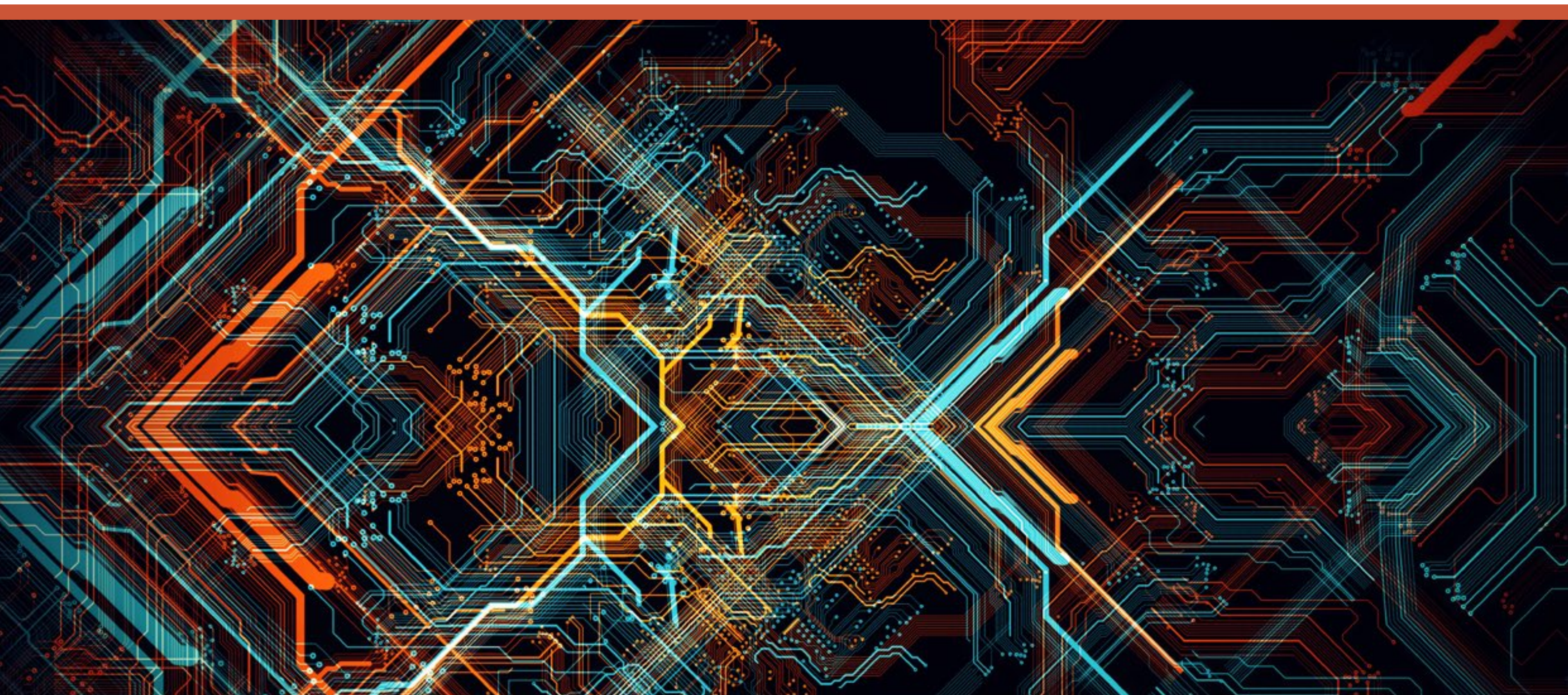
McParland adds that there is an urgency to understanding embedded finance that treasurers should embrace. "If you're not thinking about embedded finance, you need to challenge your role as a treasurer because this is effectively the movement of money, cash flows and how treasurers manage their liquidity positions," he stresses. "It's going to impact you even if you're not thinking about it, so you might as well be on the front foot about it."

As well as the crucial point about how corporates provide services to their customers, embedded finance also challenges treasurers as to how suppliers are managed.

"Areas such as contract labour or subscription services from tech companies or property firms are all potentially embedded finance solutions," concludes Campbell. "To pay for use, to pay instantly, to pay with security – they are effective credit lines between customer and supplier, whether they're overt credit lines or simply credit lines because they don't pay until the end of the month. Thinking deeply about how to manage the accounts payable as much as the accounts receivable may also be important to corporate treasurers in this evolving era of embedded finance."

George Toumbev
Chief Commercial Officer, NatWest Boxed

Matthew McParland
Strategy Lead, NatWest



THE NEW ERA

Bringing Treasury into the New Era of Payments and Collections

Mike Elliff
CEO, Payit and Tyl by NatWest

Ritu Sehgal
Head of Transaction Services & Trade - Commercial and Institutional, NatWest

The trend for digitalisation across financial services has impacted treasurers and banks alike and, as such, has affected what is possible in corporate payments and collections. Embracing tools such as open banking and embedded finance means treasurers can offer new ways to pay, and even financial services, to customers while enhancing transparency over cash flow and delivering process efficiencies through automation.

Treasurers have to keep the ways in which their businesses are being paid top of mind. With the plethora of digital payment types and innovations that have emerged in the past decade, treasurers should strive to understand how to ensure as many of their likely 'end customers' as possible will settle their invoices. The pressure is on to keep acceptance rates high while delivering a smooth user experience (UX) and frictionless customer journeys.

> *Open banking is potentially transformational. It's a key new technology that allows direct account-to-account connectivity.*

The good news is that, while this all requires work, the benefits of delivering a seamless digital payments experience for customers also provides several benefits for treasurers and their organisations.

Open to innovation

Much of the innovation in the payments space can be traced back to the jolt provided by the regulatory sphere in the form of open banking, alongside PSD 2. While the advent of open banking may not have delivered the big bang that some were hoping for, it has enabled a new payments channel to emerge.

Mike Elliff, CEO, Payit and Tyl by NatWest, enthuses: "Open banking is potentially transformational. It's a key new technology that allows direct account-to-account connectivity. It's a compelling alternative to the card schemes, while providing strong security and transparency for consumers and at potentially lower costs for retailers and merchants. It also makes embedded payments easier because APIs can be used to build in those capabilities."

Open banking means that corporates can initiate payments without card or background information in either direction. Instead, they just need contact information to initiate the payment.

"We've seen some brilliant use cases," adds Elliff. "One of the best known is the 'delay repay' scheme that UK train companies use. As the name suggests, travellers whose journeys have been delayed by a set amount of time, such as 15 minutes, can submit a claim for repayments. Once a claim is assessed and is deemed eligible, the train company can send out the repayment over an open banking link and the claimant can receive the money immediately. That drives customer satisfaction – it really can change a frustrated customer into a brand advocate."

Setting out a digital stall

Being a brand advocate is something new for treasurers to consider, as e-commerce and digital marketplaces mean companies now have a more direct link to their customer base. Indeed, treasurers are now in the spotlight because customer engagement and experience, through ease of payment on the marketplace, is critical.

"We've seen an explosion in e-commerce over the past few years," notes Elliff. "For treasury teams, this means they have to be more focused on payments now than they ever used to be."

While marketplaces are more prevalent in the B2C arena and have a significant influence on B2C payments, B2B payments will follow the same trajectory over a period of time, in a similar way that real-time payments adoption in B2B followed the B2C template.

Ritu Sehgal, Head of Transaction Services & Trade - Commercial and Institutional, NatWest, outlines what this means for corporates: "Digital marketplaces can showcase a wide array of products and different sets of sellers on the

Mike Elliff
CEO, Payit and Tyl by NatWest

> *"Digital marketplaces can showcase a wide array of products and different sets of sellers on the same platform."*

same platform. That means a great customer experience and excellent customer engagement is imperative, regardless of whether the flows are B2B or B2C. It's all about understanding what your end customers, suppliers or other business customers want and how you drive that through a marketplace."

Integration is a vital consideration in this respect. How many clicks on the website does the customer have to make on their payments journey, for example? Are they connecting to multiple payment methods? What is the conversion rate? How secure are the payments?

"Corporates should consider how they manage fraud while keeping the sales velocity," adds Sehgal. "FX also plays a role, especially in B2B – how do they integrate payments in different currencies? Do they have providers that can access multiple geographies? How do they manage currency volatility? These are all crucial considerations."

Weighing up the options

Understandably, which types of payment channels to offer customers upon checkout is another area of consideration for corporates with an e-commerce presence.

"The variety of different payment options is something to be embraced," believes Elliff. "In an ideal world, companies would give customers a choice and offer as many different ways to pay as possible. In reality, it's a trade-off because now there are online checkout carts with five or six different choices. There might be a card option, a wallet option, a pay later solution, and pay by bank, all making the checkout screen quite busy. Companies must try to figure out how they get the balance right."

Working with the right partners, whether it's tech platforms, banks or other third-party providers, could solve this issue.

Another hurdle for businesses to navigate is how they integrate all the various options into a single platform.

"Having a digitally advanced TMS and integrating internal systems are important steps to reap the benefits of changing payment options," explains Sehgal. "Investing in platforms where clients can interact with the business can be vital. Integrating various payments options while retaining an easy to use interface could be key. But there is no 'one size fits all' as priorities may differ from industry to industry. For example, a retailer might be spending all their energy on the user interface and focusing on 'cart velocity' to ensure there are fewer basket abandonments, but for some other industries, delivering a seamless refund or compensation experience could be the priority."

Against this complex backdrop, corporates must be prepared to weigh up how ready their systems are to handle various payment options. Can they offer buy now, pay later (BNPL), for example? If they want to promote an open banking-based pay-by-bank-account option over a card payment, are they set up for the workflows attached to real-time payments and associated information that comes with it? Being able to adapt to the new reality is essential.

"A further consideration for corporates is how they drive adoption rates once they have chosen and implemented different payment options," states Sehgal. "The idea of leveraging payment methods to potentially increase customer retention and market share hinges on how they drive adoption rates. Is it through reward programmes or through incentivising in a different way? Is it through the visibility on the user interface? These are the calculations that corporates need to make."

With the array of payment options available on the market, corporates should ideally assess those which best tie in with their strategy. Understanding that when they are making their selection, a range of payment options can benefit them, rather than be a disadvantage.

"From a treasury perspective, the key element is getting the balance right between choice of instruments and streamlining workflows," notes Elliff. "There's no doubt that the primary objective everybody has is maximising acceptance because an increase in acceptance has an impact on profitability relative to transaction costs. But then a secondary concern is those transaction costs and how you bring down some of the friction and costs involved. That's where we'll see open banking become an exciting alternative."

Finding the best channel

Astute treasurers will work with their providers to develop the best possible payment channel for their customers and ensure that these channels have the correct checks in place for the payment to go to the right counterparty. And when it comes to sending payments as opposed to collecting them, the business's priorities are primary, even for one-off payments.

"If it is a cross-border payment, FX will likely play a key role as well," comments Sehgal. "Just thinking about how currencies

Having a digitally advanced TMS and integrating internal systems are important steps to reap the benefits of changing payment options.

are managed, the collection and payment destination, and whether the payment provider can service these geographies with absolute cost and time transparency is vital."

Bearing that in mind, there are several additional considerations for treasurers when it comes to finding the best payment channel.

"There are multiple ways of sending payments for corporates to consider," adds Sehgal. "It could be bulk batched payments or file-based single payments in real-time. How is the corporate connecting to its banks to make those payments? Is it SWIFT, machine to machine, or through a portal interface? These all play a role, depending on the scale and business priorities."

Unleashing automation in payments

Regarding technologies supporting innovation in payments, it's hard to ignore AI's potential in the space, particularly regarding one of the topics most likely to keep treasurers awake at night: payment fraud.

"Among the biggest challenges facing digital payments is fraud – which is evolving to become more and more sophisticated. AI is going to be a potent weapon in that battle," predicts Elliff. "The abilities of AI could be a key element of risk management, both for payments businesses, but also potentially for large retailers and merchants going forward. AI could detect outlier payments, pick up sanctions-related issues, automate as much of that as possible and have it move in real-time for instant payment verification. As such, AI could also be a valuable tool for treasurers."

Ritu Sehgal
Head of Transaction Services & Trade - Commercial and Institutional, NatWest

> *Among the biggest challenges facing digital payments is fraud – which is evolving to become more and more sophisticated.*

Indeed, AI's ability to automate treasury processes points to the broader trend of digitalisation in the function. Many payments innovations are helping to support this approach.

"My focus in this new era of payments is automation, rather than the specific technology underpinning it," reflects Sehgal. "APIs enable automation. Some host-to-host systems, even if they're file-based, are leveraging automation. AI and ML could help with invoice management, credit decisioning, data insights and automated reconciliation. Anything that's automating manual processes is important."

Automation is a win-win in the world of e-commerce and marketplaces – it can help to improve the customer experience while delivering cost efficiencies and minimising errors for treasurers. This is particularly important if a customer requires a payment back from the company for some reason.

"Claims management is one example where automation could drive value," highlights Sehgal. "When a claim is received, the credit decision-making process can be facilitated through ML and AI. Before making a payment, treasurers can use Confirmation of Payee [CoP] to check that the payment will go to the right person, another point in the process where open banking technology adds value and prevents fraud. Finally, if the decision-making process results in a payment, this can be made via API for a real-time settlement."

Tomorrow begins today

With all the innovation occurring in the payments space, customer expectations have never been higher. For treasurers, finding ways to offer a great UX, the simplicity and safety of payments, and payment instruments that meet and anticipate customer needs, is essential.

"Corporates have to be future proof – it's not only meeting customer needs today but anticipating where the payments world is heading," Sehgal advises. "Payments without the underlying reconciliation data do not help achieve the overall potential. There will continue to be a lot of focus on instant payments, while open banking and open finance are here to stay. These are all important tools for any treasurer seeking to retain or enhance their market position."

Elliff concludes: "Looking at all the innovations in the payments space, my advice to treasurers is to embrace them. Go and spend time with your banks, understand what payment innovations are coming, and explore how they could help your business – there's nothing to lose. But being behind the curve could prove costly."

DIGITAL CURRENCY

Both Sides of the Digital Coin

Opportunities and Challenges for Treasurers


Lee McNabb
Head of Payment Strategy and Research, NatWest


David Silver
Digital Asset Programme Manager, NatWest


Oliver Butcher
Head of Liquidity Portfolio Investment Management, NatWest

The digital currency universe has expanded dramatically over the last decade and the underlying digital ledger technology (DLT) is being leveraged for a range of payment initiatives, not least the development of central bank digital currencies (CBDCs). Here, specialists from NatWest explain why these innovations are potentially game-changing for institutions and treasurers alike, highlighting the profound impact CBDCs could have on their operations.

> “*Use cases must be at the heart of everything we do with CBDCs. That is because while CBDCs have enormous potential, they will demand significant investment by industry.*”

It was just 13 years ago in 2010 that Bitcoin notched up its first material transaction: two pizzas bought by a Florida-based programmer Laszlo Hanyecz for 10,000 Bitcoin, the equivalent of £25 at the time.

Such early, real-world transactions helped fuel hopes among ardent digital currency enthusiasts that Bitcoin would rapidly evolve into a decentralised peer-to-peer (P2P) means of transferring value and compete against Visa and Mastercard and, more generally, give the banks a run for their money.

While that ambition remains largely unfulfilled, Lee McNabb, Head of Payment Strategy and Research, NatWest, says that Bitcoin has been phenomenally successful in spawning thousands of imitators that now comprise the cryptocurrency space. At the same time, he observes, it has also become a highly volatile speculative store of value.

By 2015 for example, Hanyecz’s two pizzas would have been valued at $2.4m. In 2021, when the Bitcoin price reached a high of $63,000, they would have been worth an astonishing $630m. Towards the end of June one Bitcoin was worth around $30,393, valuing the two pizzas at $303.9m – arguably enough to buy an entire pizza restaurant chain. While many have made considerable sums speculating on Bitcoin, its high volatility means many have also had their fingers badly burnt.

Meanwhile, the technology underlying Bitcoin – DLT – has had an altogether more positive reception. It has been leveraged to create new types of digital currencies such as stablecoins, for example. These aim to provide an alternative to the high volatility of cryptocurrencies like Bitcoin by having their value pegged to that of another currency, commodity, or financial instrument. At the same time, central banks are also focusing on leveraging DLT with many globally developing CBDCs off the back of it.

Making sense of digital currencies

With so much happening, it can be tough for busy treasurers to keep up with every digital currency development. But viewing the various incarnations as being on a spectrum ranging from private to public can be a useful way to make sense as to how they all relate to one another. McNabb explains: "Imagine Bitcoin and its immediate cousins as being at the private, highly volatile end of the spectrum. In the middle, we have stablecoins, which feature a certain amount of mediation via pegging to add stability to their value.

"CBDCs, meanwhile, are at the public end of the spectrum. They are digital currencies that will be issued by central banks and their value will be equivalent to the country's fiat currency. So, we can have the digital pound, the digital US dollar and so on. Most central banks are working on developing a CBDC and they are at varying stages with their efforts."

According to US think tank Atlantic Council's CBDC tracker, 130 countries, representing 98% of global GDP, are exploring a CBDC. That compares with just 35 countries in May 2020 – an accurate reflection of the powerful momentum behind their development. A new high of 64 countries are now in an advanced phase of CBDC exploration (development, pilot, or launch).

When watching these innovations, McNabb says a further consideration to have in mind is the two kinds of CBDC under development: retail and wholesale. The overwhelming focus of central banks currently is on the development of retail CBDCs – but wholesale use cases are growing and will be critical to ultimate adoption.

"Our view, and that of many other institutions, is that use cases must be at the heart of everything we do with CBDCs. That is because while CBDCs have enormous potential, they will demand significant investment by industry.

"Corporates, their treasury teams, and financial services providers all need to be comfortable with the 'why' and the 'how' informing their development and roll-out, and equally importantly be convinced by the use cases to justify the investment needed. This is an ongoing conversation between industry, central banks, and governments – and NatWest is fully engaged in it."

Inauspicious beginnings

Despite the positive momentum, Oliver Butcher, Head of Liquidity Portfolio Investment Management, NatWest, says there is already some mixed evidence of how CBDCs fare in the

> *"Imagine Bitcoin and its immediate cousins as being at the private, highly volatile end of the spectrum."*

DIGITAL POUND PROPOSALS

Earlier this year the BoE and HM Treasury jointly carried out a consultation on the digital pound initiative. The consultation paper proposes a public-private partnership, where the BoE would issue the digital pound and manage the central public infrastructure through a 'core ledger' built and operated by the BoE. It also envisages that regulated private sector firms, referred to as payment interface providers (PIPs), would enable users to access and manage their digital pounds through 'pass-through' wallets, so called as the user would interact with these wallets rather than directly with the BoE.

For McNabb, some of the most fascinating aspects of the digital pound proposals revolve around their implementation in the real world: "What actually will the infrastructure needed look like? How will it get built? How do we go about explaining to customers, whether individuals or corporates, how to use it and how it is different from other payment channels? In addressing such issues, the wallet concept is going to be very important as it will help ground the users' experience and make it understandable."

www.bankofengland.co.uk/-/media/boe/files/paper/2023/the-digital-pound-consultation-working-paper.pdf real world. This includes results from live projects, one of which is in China where a CBDC pilot was launched over a year ago. Another is the Bahamian CBDC, called the Sand Dollar, which the island nation launched in 2020 and was a world first.

Butcher says the take-up of these pioneering CBDCs so far is "microscopic", pointing to a study by the London School of Economics (LSE) that shows that Sand Dollar balances increased by less than $300,000 between January 2021 and June 2022. In contrast, the value of physical notes increased by $42m over the same period, meaning, says the LSE, "that the Sand Dollar barely registers as a form of currency."

In China meanwhile, the People's Bank of China (PBoC) has been pushing the digital yuan hard for many years now. Yet in January the PBoC reported that so far, with its pilot, only $2bn worth of digital yuan was in circulation, accounting for just 0.13% of the total volume of yuan in circulation. The PBoC has also seen very low levels of adoption of the digital yuan to date in Hong Kong.

Butcher points out: "It is, of course, early days but clearly there is a mountain to climb when it comes to the actual adoption of CBDCs in the real world. As it stands, we remain sceptical of the actual end demand. Having said that, it is precisely at such moments that reality hits home, the real challenges come to the fore and the real questions start to be asked. That can only be for the good. To stress again, it's the use cases that will be the ultimate driver for both retail and wholesale CBDCs."

While the live projects such as the digital yuan and Sand Dollar are – so far – offering little encouragement, McNabb believes Europe could fare better when its CBDC comes along. "I think the ECB, and others working closely with it on the digital euro, are quite progressive with their thinking from both innovation and competition perspectives.

Lack of scaffolding

When it comes to the development of CBDCs, there are many questions still unanswered about the infrastructure and processes that will be needed to support them.

"It is, of course, early days but clearly there is a mountain to climb when it comes to the actual adoption of CBDCs in the real world."

One of the thorniest issues, says McNabb, revolves around standardisation.

He explains: "What we're at risk of doing here is creating a fragmented world of payments. For context think of SWIFT, which was set up 50-odd years ago to combat payment fragmentation, and improve cross-border messaging. So SWIFT, quite rightly, is probably thinking and looking ahead to a very similar challenge, but in a digital world. With CBDCs, we are not all going to be singing from the same hymn sheet. That is never going to happen.

"We're going to have some countries with CBDC, some not. Some with retail CBDC only, some with wholesale, some with just traditional RTGS [real-time gross settlement]. Interoperating payments across all of them just becomes very difficult and that is what the standardisation issue is all about. There are important discussions to be had and decisions to be made."

Challenges for treasurers

When considering the impact CBDCs could have on treasurers, Butcher for one is clear that the challenges they represent will be felt by corporate as well as financial institution treasurers. For institutional treasurers, one potential concern could be that this new form of money will not sit on their balance sheet but rather end up on that of the BoE instead.

Lee McNabb
Head of Payment Strategy and Research, NatWest

Oliver Butcher
Head of Liquidity Portfolio Investment Management, NatWest

Butcher says the potential scale of such a transfer, especially in the UK, is sizeable and, as a consultation paper from HM Treasury and BoE points out, could well be a risk factor to address when assessing the financial stability of the CBDC regime.

He continues: "In the UK, the BoE and HM Treasury are talking about a range of between £5,000 and £20,000 for digital pound wallet sizes for individuals, which could amount up to 50% of all retail deposits. We have no sense yet of how businesses might fare with such limitations but financial institutions need to be aware that, as it stands, there is a significant risk on that front."

For corporate treasurers, meanwhile, Butcher says the key element to be aware of is that, in all likelihood, a new form of money is coming soon: "Treasurers' organisations will be accepting payments and managing those payments. They will be placing that type of money with a new payment interface provider (PIP), and NatWest will be among them. CBDCs are looking increasingly certain so it is important to be aware that this is very much on horizon."

David Silver, Digital Asset Programme Manager, NatWest, says all countries face a delicate task in configuring their CBDC regimes so that they balance the need between financial stability and the digital currency's functionality. "It's a tricky balancing act because the lower the holding limit for the CBDC wallet, the less functional it becomes, which in turn means less adoption by consumers and businesses. But the higher it is, the bigger the impact on banks' funding which in turn impacts their lending capacity and prices and thus having a real-world impact on people and businesses."

Informed and educated

With so much activity across the digital currency space, McNabb believes the key challenge for corporates and their treasurers is to stay abreast of and educated about developments, particularly CBDCs.

He advises: "Digital fiat currencies, whether retail or wholesale, look highly likely to materialise over the next few years, so it's vital treasurers learn about them and their potential impact on their operations, their pros and cons.

"Of course, it's easy for us in banking to say that because part of our role is to be actively engaged with CBDCs and the digital currency space generally. But it is incumbent upon everyone to understand how the future is being shaped now, where we might be in the matter of just a few years, and the potentially profound long-term consequences."

For UK treasurers and those doing business with the country, McNabb suggests taking the time to have a thorough read of the BoE's digital pound consultation paper, and understand what it means. "It's all about education and engagement. Actively participate as much as you can, as this can only be of help when CBDCs finally arrive. At the same it is important for all of us in banks and within corporates to recognise that the CBDC space is evolving quickly so any assumptions we make now may not continue to hold as developments continue and we get closer and closer to launches. "

Silver echoes this, adding: "Treasurers need to be open to new ideas and approaches, of course, but it's also vital for them to have in mind that just because something is new it doesn't mean it is necessarily better or will work for their business. So, take a slightly sceptical approach when looking at all the various forms of money and payment regimes that are inevitably going to come down the line in the future."

David Silver
Digital Asset Programme Manager, NatWest

> *Treasurers need to have in mind that just because something is new it doesn't mean it is necessarily better or will work for their business.*

To find out more about how treasury can prepare for the advent of digital assets, visit:

www.natwest.com/corporates/insights/technology/the-digital-horizon/is-your-treasury-ready-for-digital-assets.html

Preparing Treasury for the Payments Innovation Pipeline

INNOVATIONS AND DEVELOPMENTS TO EMBRACE

1 **Real-time payments.** Whether for internal benefits such as holding on to liquidity for longer or external benefits such as enhancing customer service through instant refunds, there are many reasons for corporate treasurers to embrace real-time payments. These will increase as adoption of instant payments continues to grow and value limits are raised.

2 **Real-time collections.** On the receivables side, offering instant payment options to buyers can make the customer journey smoother for them and also provide benefits for the supplier including irrevocable funds and enhanced data – leading to cash flow forecasting advantages.

3 **API-driven payments.** Leveraging APIs to initiate payments can streamline treasury workflows significantly. Added-value services are also starting to emerge from open banking and APIs, leveraging enriched data to drive smarter payments solutions and solve wider business issues, such as digital identity challenges. Meanwhile, in the international payments space, FX APIs – delivering rates direct from the bank straight into treasury systems – can combine with virtual accounts to split a payment and its associated FX component, leading to improved risk management.

4 **Variable recurring payments (VRPs).** VRPs feed into account-to-account and instant payments, leveraging open banking. In the future, they may deliver a one-click payment experience, leading to a higher conversion rate and therefore cash flow benefits. VRPs also have the potential to lower transaction costs for businesses and may even replace direct debits in time. And for treasury teams, VRPs could lead to improved cash and liquidity management through greater transparency and control.

5 **Embedded finance.** Treasurers have an opportunity to enhance the sale of their organisations' goods or services while simultaneously adding value to customers through bespoke financial services thanks to embedded finance. Banks are also offering embedded solutions that can help companies reduce FX risks, for example. In short, embedded finance is poised to change the movement of money, cash flows, and how treasurers manage their liquidity positions.

6 **ISO 20022.** With the shift to ISO 20022 by SWIFT and many global payments and clearing systems, many payments will be accompanied by richer, more structured data. This can help bring together the physical and financial supply chains and provide treasurers with more information for automated, real-time reconciliation.

CONSIDERATIONS TO WATCH

1 **CBDCs and digital assets.** Digital fiat currencies, whether retail or wholesale, look likely to materialise over the coming years. This new era for money means it is essential for treasurers to learn about digital currencies and their potential impact on payment flows – looking at both opportunities and challenges.

2 **Hidden FX exposures.** International payment-related flows can give rise to FX exposures, which are not typically managed as closely as other types of currency risk. Technology and data advances – including automation, APIs and AI-driven tools – can help corporates identify and tackle these under-managed exposures.

3 **Growing fraud threats.** Fraudulent transactions are on the rise, with the increased in digital and real-time payments, as well as sophisticated technology being deployed by bad actors. Increasingly, treasurers should be on the lookout for, and training teams how to recognise, fraud, especially authorised push payment scams. Insider fraud is also increasing, making the need for proper payment controls even greater.

4 **Sanctions violations.** At a time when geopolitical events have increased the risks of operating internationally, effective sanctions screening is vital for corporate treasurers in order to ensure payments are processed as expected. Understanding the specifics of sanctions regulations – which can vary significantly across countries – can make the difference as to whether the transaction is blocked or rejected.

NEXT STEPS

1 **Keep abreast of innovations.**
Now more than ever, treasury teams must have a payment strategy that is fully in tune with their customers' payment desires – this means being fully aware of the latest developments at all times. Listen to NatWest experts discussing these trends on TMI's TreasuryCast by scanning the QR codes on the left.

2 **Stay up to date with regulatory initiatives.**
Across the UK and Europe, payments regulation is rapidly evolving with examples including PSD3, SEPA Instant payments becoming mandatory, and the New Payments Architecture in the UK replacing Faster Payments in 2026. Treasurers would do well to keep an eye on regulatory and related structural changes in the payment arena, ensuring they are ready to take advantage of new opportunities.

3 **Ensure treasury's tech stack is up to speed.**
Understand how tech innovations could help streamline processes, support cost reductions, and enable the wider treasury team to improve payment flows, while also managing FX risk more actively. Carefully considering treasury's API strategy and working with the wider business on the simplicity of the customer payment journey are also vital steps in maximising the benefits of payments innovation.

4 **Manage change across the organisation.**
Whether introducing fresh technology, embracing new payment and collection methods, or looking to gain a better grasp on hidden FX exposures, an effective treasury team will educate and lead internal teams through the change management process. Treasury is also well positioned to operate as an intermediary between any tech and bank providers, ensuring everyone is working to the same timescale and end goal.

5 **Engage with your banking partner(s).**
Banks have often gone through their own payments transformation journeys ahead of corporates – and are at the leading edge of innovation, as well as industry discussion on areas such as regulation and fraud. Banking partners can, therefore, be a valuable source of information and experience as treasury teams embrace the latest innovations in payments and embedded finance.

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