



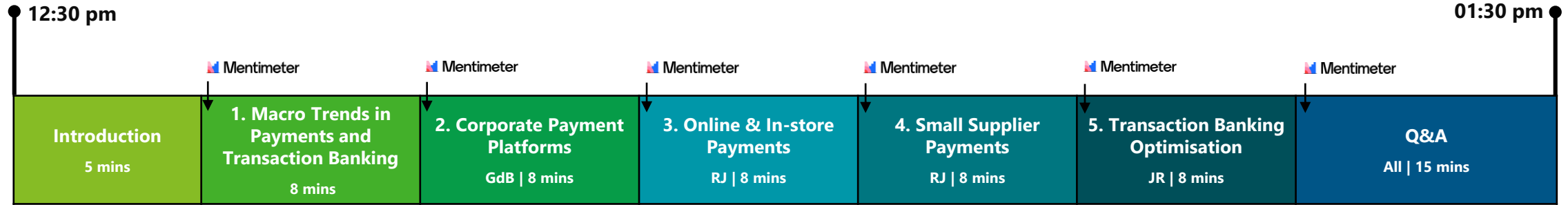
# Payments & Transaction Banking Insights

27 May 2020

# What will we cover today?



CONTENTS



BIOS



**Jeff Reynolds**

Partner, Treasury & Capital Markets

Jeff specialises in corporate and government advisory and assurance services in treasury and investment with a specific focus on risk management and performance improvement that results in measurable benefits.

Jeff's work includes 18 years across transaction banking, international cash management and liquidity risk. Jeff has worked extensively across ASX100 corporate clients, State and Federal Government clients and international clients in the UK, USA and the Middle East.



**Rajat Jain**

Director, Payments Advisory

Rajat specialises in payments strategy, operations and regulatory consulting with specific focus on cards and emerging payments in Australia and Asia Pacific.

Rajat's work includes 16 years across strategy development, business transformation and complex program management in consumer and corporate payments. With Deloitte, Rajat brings this wealth of experience to corporate and government clients to help them improve the efficiency and experience of their payments operations.



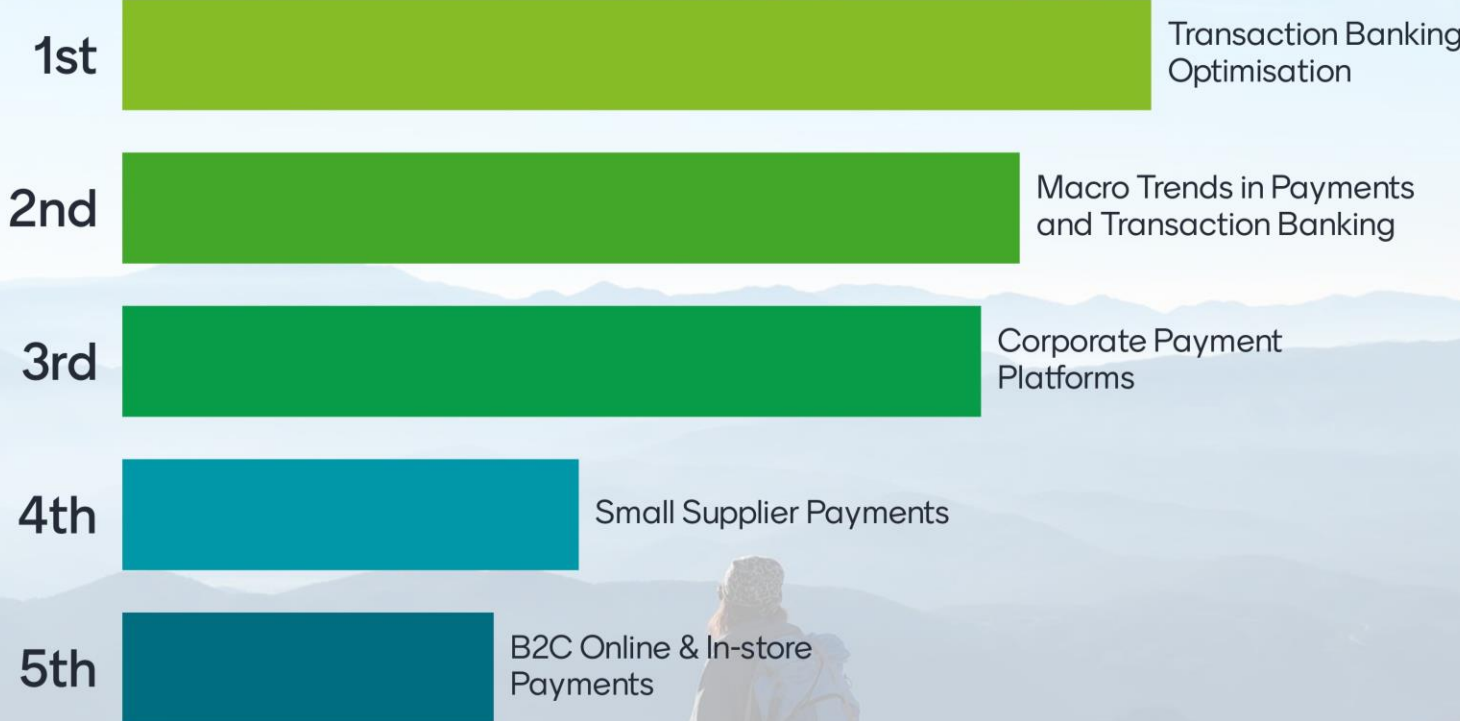
**Geert de Bie**

Manager, Payments Advisory

Geert focuses on assisting corporates, banks and payment providers with designing and implementing payments and financial technology solutions.

Geert has over 11 years' experience in the financial services industry across digital solution design, platform implementation and business transformation programs. Geert worked on various solutions such as corporate payment platform, SEPA payments, instant payments, online payments, digital identity and ERP replacement.

# Q1. Please rank all 5 topics in order of your interest?



# 1. Macro Trends in Payments

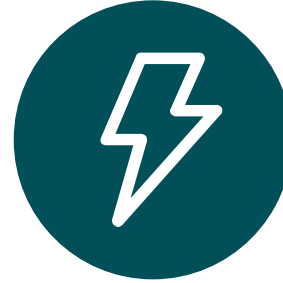


**Consumers and businesses want a frictionless experience**

 **Cashless, digital, invisible**

 **Straight-through processing**

**Data and insights 'engine'**



**New players and technologies are changing the rules**

 **Real-time payments**

**Digital currencies**

**Fintech revolution**



**The industry is increasingly regulated and scrutinised**

**Payments systems regulation**

**Heightened AML/CTF scrutiny**

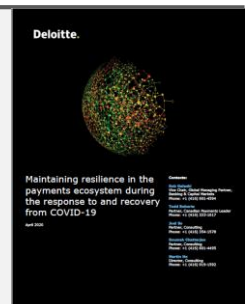
 **Small supplier payments**



## **Maintaining resilience in the payments ecosystem during the response to and recovery from COVID-19**

*April 2020*

- In this moment of crisis, national payment systems remain resilient and secure
- Payment volumes, methods and channels are being impacted in varying ways
- The crisis is exposing gaps in benefits disbursement, digital servicing and full digitisation of payments processes



# 1. Macro Trends in Transaction Banking



## Corporate view

*'Fit for purpose but far from optimised'*

Acquisition related fragmentation of banking

Market competitive pricing and medium term contracts

Business case and roadmap to results needed

 Priority focus on debt relationships



## Bank view

*'Challenging time for banks right now'*

 Banks have plenty of cash

 Priority focus on lending

 Interest rates at historic lows compressing margins

Banks rewarding clients for scale and automation



## Notable market activity

*'Significant results are being achieved by a select few'*

Structured projects to optimise

Consolidate relationships, migrate accounts

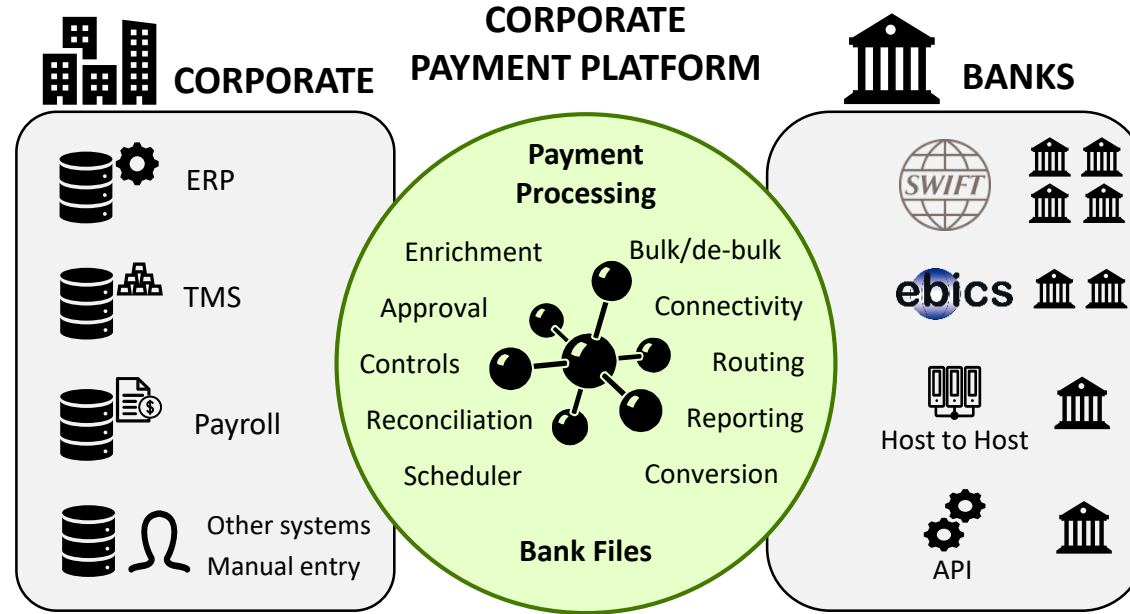
 Bank portability

 Corporate Payment Platforms

# Q2. Please rank the likely drivers that warrant a closer look at your organisation's approach to managing payments?



## 2. Corporate Payment Platforms



### What is a corporate payment platform?

- **One single platform** solution (on-prem or cloud based) for centralising all your corporate payments processes and interfaces
- **Straight-through processing** of payments
- **Multi bank connectivity** across the world
- **Integrated** with all your source systems across multiple entities and regions

### Who provide these solutions?

- Many successful implementations in EU and US, so far only a handful in AU



### What's the value for you?

- ✓ Reduce fraud and errors
- ✓ Labour savings through automation
- ✓ Cost savings through a single and simplified solution
- ✓ Save on bank and payment fees
- ✓ Consolidated view of cash across multiple banks and regions

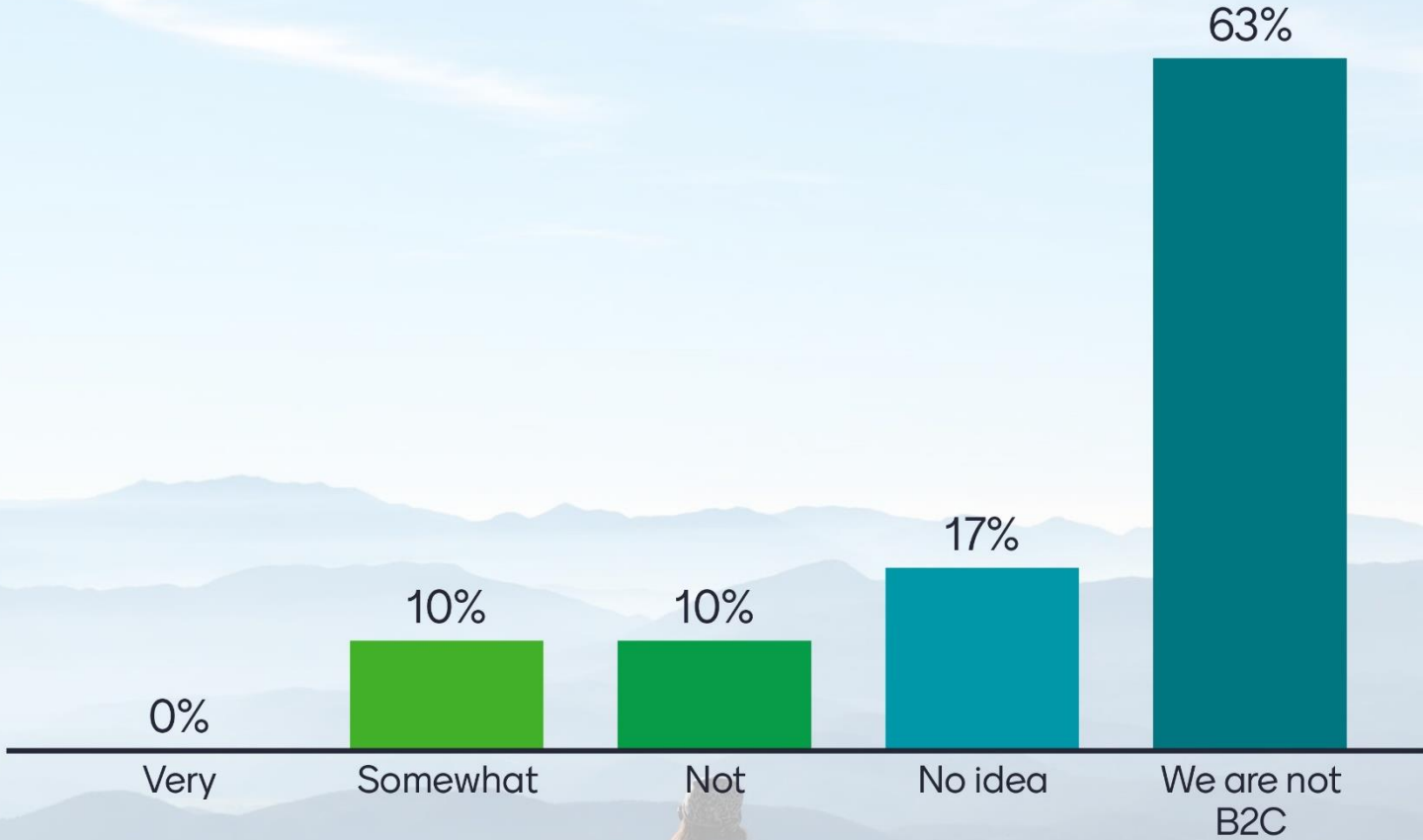
### What are early adopters doing?

- Define **current state**
- Design **target state** and roadmap (maturity model)
- Consider the whole **operating model** and **banking relationships**
- Develop payments optimisation **business case** for the organisation



Corporate payments optimisation might be considered “non essential”, even though business case development and ongoing platform implementation can be supported remotely

# Q3. If you are a B2C business, how confident are you that your online and in-store payments ecosystem is optimised?





# 3. B2C Online & In-store Payments

 **\$1.2T**

value of online and in-store payments (including bills) by consumers in Australia<sup>1</sup>

**\$6B ↓**

estimated direct costs to merchants for accepting electronic payment methods<sup>2</sup>

 **20% ↑**

of transactions are completed online or on mobile (60% of value)<sup>1</sup>

**\$8B+ ↑**

value of Buy Now Pay Later (BNPL) transactions processed in Australia<sup>2</sup>

**60% ↑**

of BNPL users are aged between 18-34<sup>3</sup>

## Customers

- 1. Proliferation of payment choices:** Burst of new payment methods and channels
- 2. Consumer aversion to credit:** Increasing preference for debit and BNPL over credit, especially among younger generations
- 3. Experiential value:** Payment experience now influences preferences and loyalty



## Merchants

-  **Technology:** Might not be taking advantage of new payment methods, latest POS solutions, least cost routing, integrated platforms
-  **Insights:** Likely not harnessing trends and insights from payments data
-  **Costs:** Typically lacking overall visibility due to fragmented value chain and unclear ownership

## Service providers

- 1. Banks:** Corporates typically procure payment services from the major banks through transaction banking relationships
- 2. Payments service providers:** Corporates also have separate relationships with online payment gateways, aggregators, BNPL providers, closed loop operators

### 3. B2C Online & In-store Payments

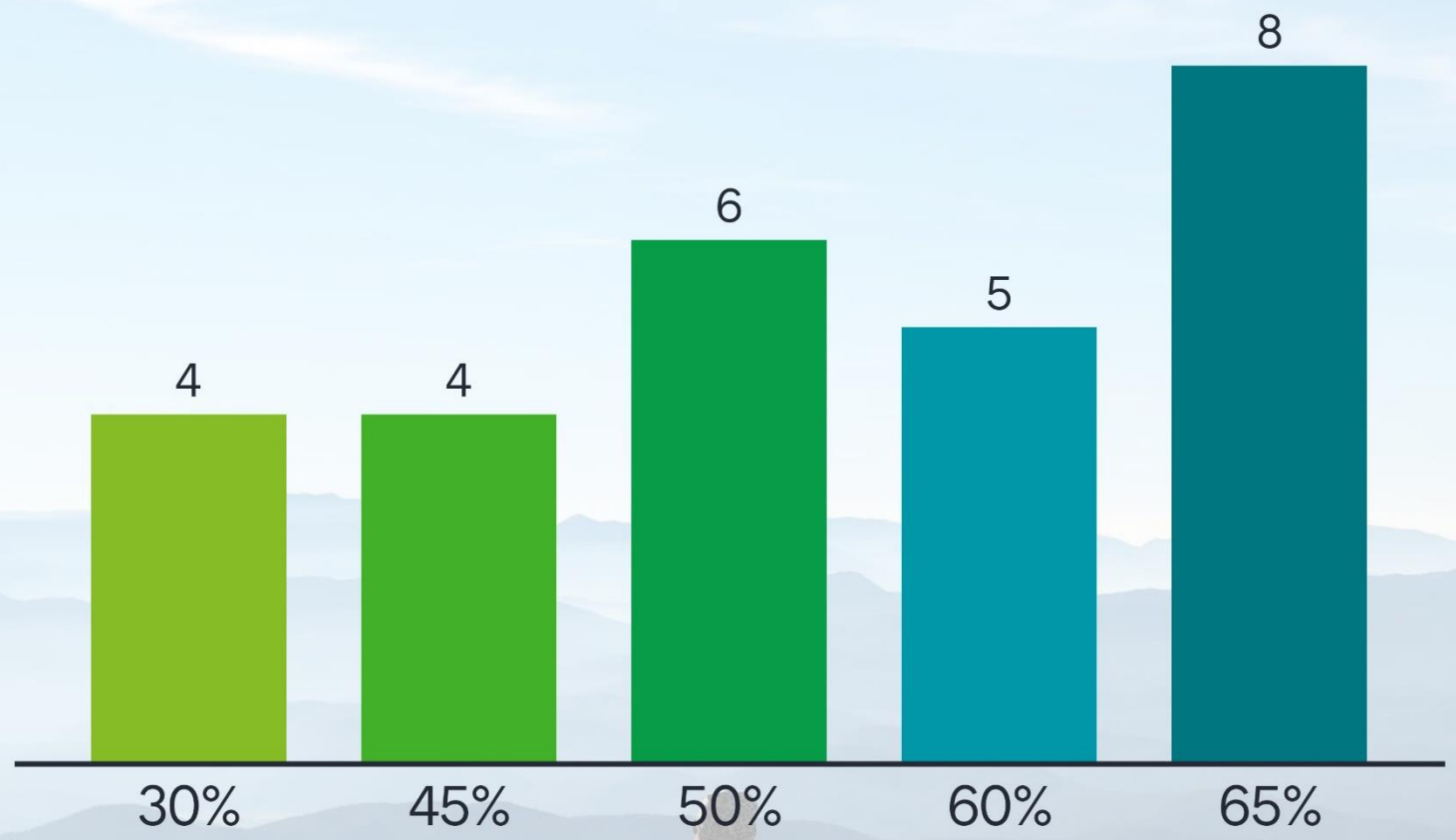
#### What are the leaders doing?

1. **Understand** customers' payment preferences and payments industry developments
2. **Develop** a holistic picture of payments mix, service providers, and processes
3. **Establish** clear ownership of the B2C payments roadmap and business case within the organisation
4. **Size and realise** the opportunity to optimise experience and costs (direct and indirect)
5. **Unlock** the power of payments data to grow their business

#### What's the value for you?

- ✓ **Superior customer experience**
- ✓ **Cost efficiency from optimising service providers, processes and access to new technologies**
- ✓ **Improved staff experience**

# Q4. What percentage of small business invoices are paid late by large businesses?



## 4. Small Supplier Payments

### 50%

of invoices issued by small businesses to large businesses are paid late, totalling \$115B annually, equivalent of \$7B in working capital impact<sup>1</sup>

### 40%

of small businesses report significant cash flow pressures due to late payments<sup>1</sup>

### 10 days ↓

Average number of days invoices are paid late in Australia in 2019, down from 16 days in 2017<sup>2</sup>

### 66 days

Average number of waiting days for small businesses to get paid<sup>3</sup>

Ombudsman welcomes Payment Times Reporting Bill 2020  
**12 May 2020**

☀️ *"Much of the Australian small business community has been devastated by the COVID-19 health and economic crisis and prompt payment times are critical to their survival."*

**Kate Carnell, Small Business Ombudsman**

Self-Employed Australia's executive director Ken Phillips says BCA supplier payment code should be tougher  
**AFR, 3 December 2019**

46% of small businesses failing in the first 5 years due to cash flow problems  
**AFR, 24 June 2019**

Both the ACCC and ASIC have indicated that they are reviewing the use of and reporting on SCF by large entities respectively.  
**ASBFEO Supply Chain Finance Review Final Report, April 2020**

Supply chain finance scheme under review, says CIMIC  
**AFR, 11 May 2020**

☀️ COVID-19: BHP to reduce payment terms to support small business  
**Mining Technology, 20 March 2020**

Cormann orders Government to speed up supplier payments  
**Print21, 15 May 2020**

### What do you need to know?

- **Definition of small business** = any business with less than \$10M turnover per annum (3.4M businesses in Australia)
- ☀️ **Payment Times Reporting** will be required by over 3,000 Australian businesses with turnover of more than \$100M
- ☀️ **Challenging to identify small business suppliers** – Government to develop a Small Business Identification Tool
- **Payment Times Reports Register** will be maintained and made available for public inspection
- **Standard payment terms** of 30 days or less expected but not regulated
- **Supply chain finance is a legitimate option** for small suppliers to get paid earlier than expected terms of 30 days

### What should you do?

1. **Conduct a diagnostic assessment of your current state**
2. **Identify and take steps to improve performance**
3. **Size and address impacts to working capital**

### What's the value for you?

- ✓ **Brand and reputation**
- ✓ **Accounts payable optimisation**
- ✓ **Regulatory compliance**

## 4. Small Supplier Payments

### Key payment times reporting requirements<sup>1</sup>

- Shortest and longest standard payment periods at start of reporting period and any changes made during the reporting period
- 🔥 Proportion (number and value) of small business invoices paid during the reporting period:
  - less than 21 days after the invoice was issued
  - between 21 and 30 days
  - between 31 and 60 days
  - more than 60 days
- 🔥 Use of supply chain financing arrangements
- 🔥 Method for calculating payment times
- Types of expenditure covered by the scheme
- Proportion of procurement from small businesses

### Challenges with identifying small businesses<sup>2</sup>

- 🔥 ABN numbers captured incompletely or incorrectly, or not captured at all
- 🔥 ABN number look-up does not solve for:
  - Group or related entities
  - Subsidiaries of large local / multinational corporations
  - Government and Education sector entities
- The status of SMALL, MEDIUM or LARGE is a point in time which can change over time
- 🔥 No single source of truth - reliant on accuracy of third party data sets but Government looking to develop Payment Times Small Business Identification Tool

# Q5. How confident are you that your organisation's approach to transaction banking is optimised?

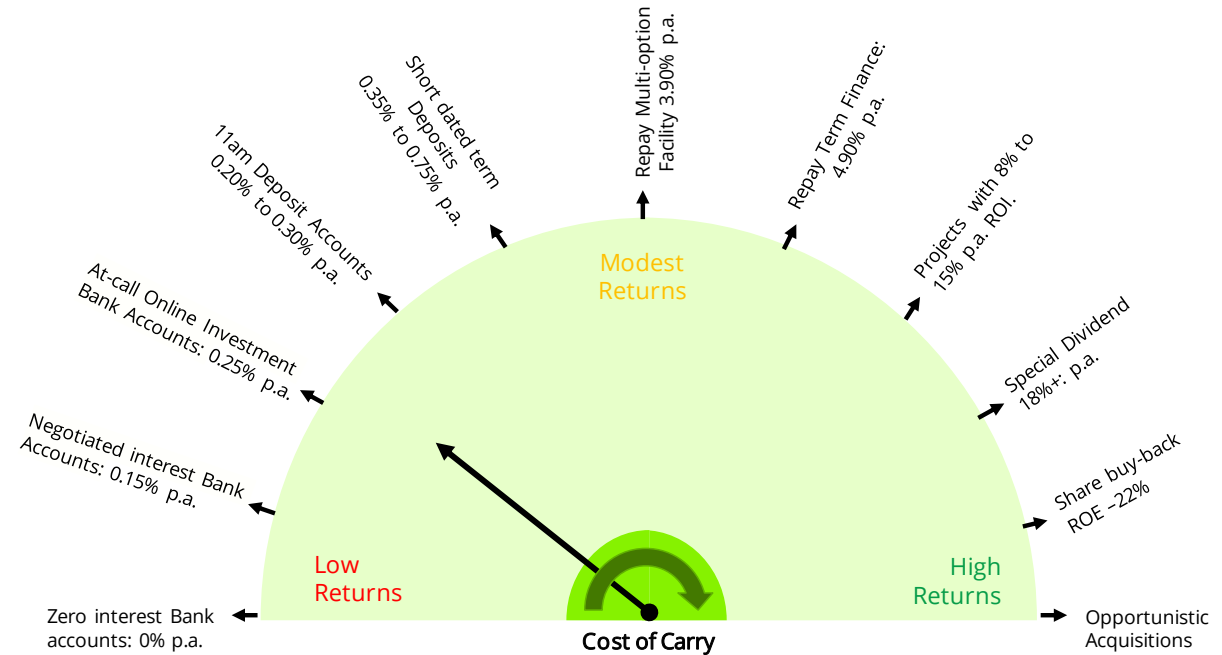


# 5. Transaction Banking Optimisation

## Where are the opportunities for some Corporates?

From	To	Value on offer as a result of the change
<p><b>! Current bank relationship strategy:</b></p> <ul style="list-style-type: none"> <li>Informal and relatively static</li> <li>Diversification by accident typically driven by inherited cash management arrangements from acquisitions that have not been a priority to move</li> </ul>	<p><b>✓ Future bank relationship strategy:</b></p> <ul style="list-style-type: none"> <li>Formalised, strategically aligned, supported by ongoing data analysis and sometimes a CRM</li> <li>Priority diversification to key strategic partners that bring the <u>best</u> capability for the region and services needed</li> </ul>	<p><i>"Smaller number of higher performing banks who enjoy a larger volume of business and work in partnership with you to deliver win-win outcomes."</i></p>
<p><b>! Existing cash management landscape:</b></p> <ul style="list-style-type: none"> <li>Often hundreds of accounts with material (in aggregate) balances fragmented across multiple banks in various currencies</li> <li>Resulting in lots of cash buffers by bank and by currency that are hard to manage and sometimes trapped</li> </ul>	<p><b>✓ Future cash management landscape:</b></p> <ul style="list-style-type: none"> <li>Consolidate banks, close accounts, migrate remaining accounts to a small number of the best providers</li> <li>Utilise pooling, sweeping, payment portals, automatic reconciliations etc to drive out inefficiencies</li> </ul>	<p><i>"Create a deeper pool of liquidity by currency with ideally 2-3 banks. Mobilise liquidity to higher interest returns, debt repayment or medium term investment / capital management initiatives."</i></p>
<p><b>! Existing enterprise interactions / interfaces:</b></p> <ul style="list-style-type: none"> <li>Plethora of inefficient processes (with multiple banks)</li> <li>Burdens Treasury and Finance with multiple online bank portals, manual data files (AP, AR, Payroll, Treasury, Recs)</li> </ul>	<p><b>✓ Future enterprise interactions / interfaces:</b></p> <ul style="list-style-type: none"> <li>Eliminate inefficient processes, rationalise exchange of data to contemporary tools (via banking partners or through payment portal technologies)</li> </ul>	<p><i>"Identify and eliminate a significant and often hidden cost to the enterprise."</i></p>

Transition challenge



Cash returns fallen by 0.5% in the last 50 days to lowest on record.

\*Figures are illustrative only

# 5. Transaction Banking Optimisation

## What is the value for you?

### ✓ Risk Management

- **Confidence in knowing your global cash position** in near real-time
- **Reduces the stress** of lots of transfers to maintain positions within limits
- **Easier management of credit risk** through:
  - Utilising less lower credit quality banks
  - Enabling liquidity surpluses to be easily extracted and diversified
- **Potentially reduces operational risk** by eliminating lots of online banking users, interfaces, manual processes and control weaknesses

### ✓ Time saving through

- **Funds automatically flowing** in and out of deeper centralised pools of liquidity. **Reduced reliance on granular cash flow forecasting**
- **Negotiated rates** with your primary banker means you don't need to move money every day
- **Bank relationship management is easier:**
  - You are more valuable to your bank (scale and commitment)
  - The contract including KPIs and service levels takes care of typical points of friction. **Less queries from business units**
- **Less CFO / Board reporting, breaches etc.**

### ✓ Value driven Treasury

- **Measurable improvement that delivers recurring benefits**
- **Enduring Positive impact on business units** (customer experience etc) after the transition
- **Cost-out opportunity for Finance** (AP, AR, Recs etc)
- **Projects are always self funding** and are compelling when framed in a business case



# Q6. Based on what we covered today what questions do you have?

Jeff mentioned rationalising some of the various providers by using 'aggregators' - can you provide examples of who these are?

Do you see BNPL fees being regulated like interchange?

In the diagram on Transaction Banking Optimisation, I am missing a self-funded Supply Chain Finance option. This would also support SME supplies. How common is this in Australia?

For the large companies operating in Australia that are not multinationals, how can they benefit for on platforms like SWIFT SCORE?



# Thank you!

We will be sharing the pack and Mentimeter results with you.

For any questions or support, please reach out to the Deloitte team.



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