



PAYMENTS

Transforming a Society

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Payments: Introduction

Technology, mobile adaptation, and loosening government regulations are opening opportunities in payments.

Core banking businesses are being challenged by fintech firms.

Bankers need comprehensive strategies to address their core businesses, the industry, and their technology infrastructure; its time for change!

Driving Factors

Driving forces of change.



Banking
Networks
legacy



Culture

Adaptation



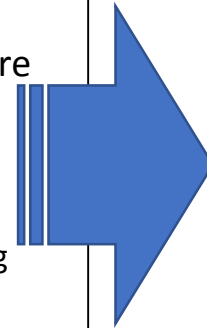
Banking industry open to attack for products, processes, and technology platforms.

- ❑ Profits still plentiful in the payments, wire transfer, and card processing industries.
- ❑ Access to millions / billions of people with single platform.
- ❑ Timing is now in overhauling an opaque and costly payments industry with:
 - Simplicity via mobile one-touch execution.
 - Access 24/7/365 with speed.
 - Instant settlement depending on countries.
- ❑ Scalable solutions to meet growth, demand, and new way of doing thing.
- ❑ New business models are not tied to profits.

Payments: New Business Models

New business models are challenging existing processes.

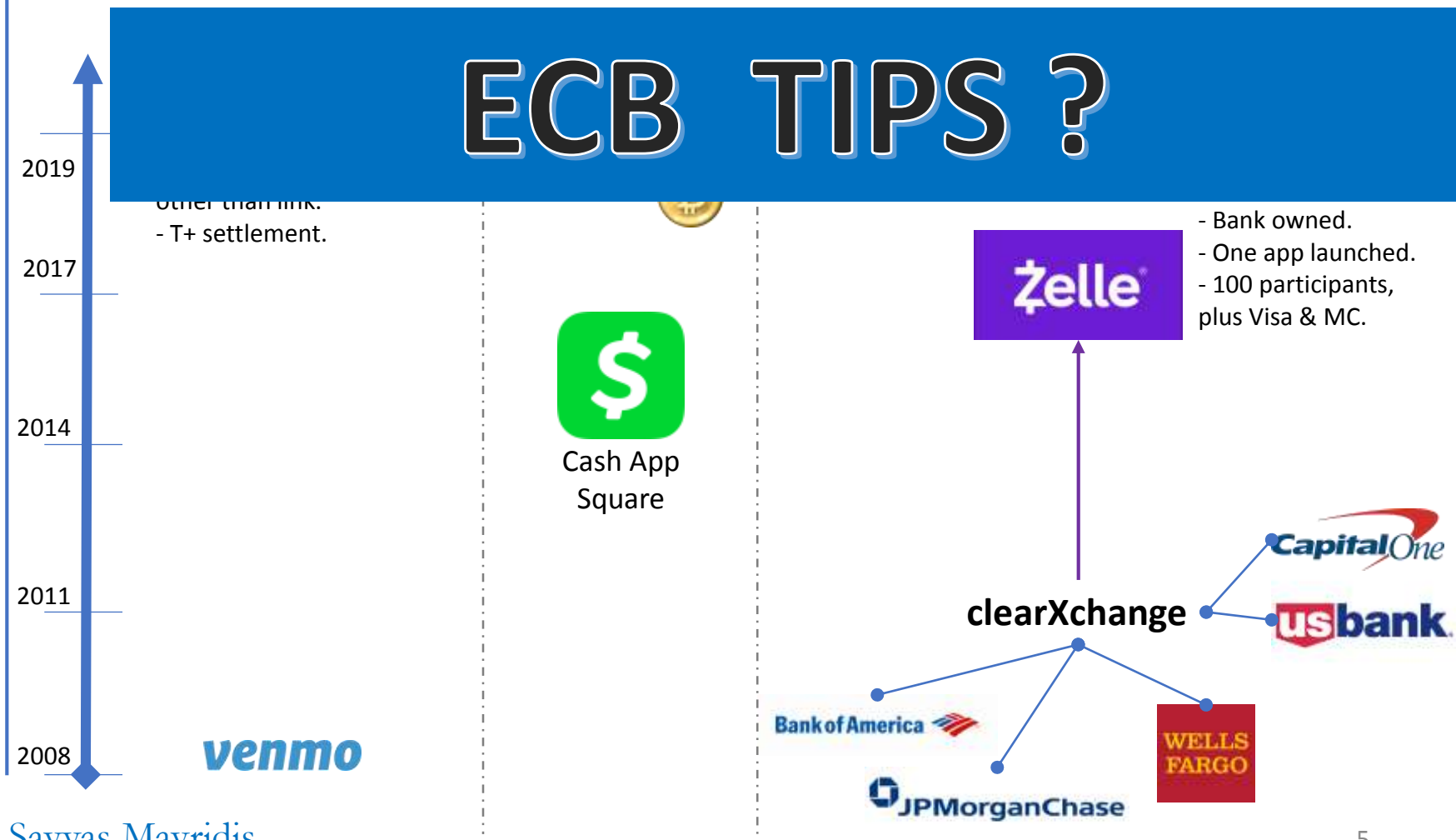
- ❑ P2P transfer: Private entity vs. Banking consortium.
 - Moving money out of the banking system and into a private network with no benefits other than money transfers.
 - Banking consortium brings greater controls with authentication.
- ❑ Settlement on payment transfers
 - Regulatory guarantee and involvement in the network.
- ❑ Repositioning of mobile payment and merchant card software firms.
 - China, India, largest markets with incredible potential for standardization (i.e. WeChat, AliPay, PayTM).
 - Expansion into financial services (US. Lending products).
 - Fee structure of existing networks not supported in developing countries, i.e. 3% fee not sustainable in India and China.
- ❑ Unit of payment:
 - FIAT currency, currency units (i.e. MPESA), crypto.
- ❑ Invoice factoring exchanges.
- ❑ Blockchain platform for money movement (i.e. Ripple, Stellar, Bitcoin, Trade finance consortiums).



PLATFORM
ADAPTATION
SIZE

P2P Payments US

ECB TIPS ?



Payments: Settlement

Settlement.

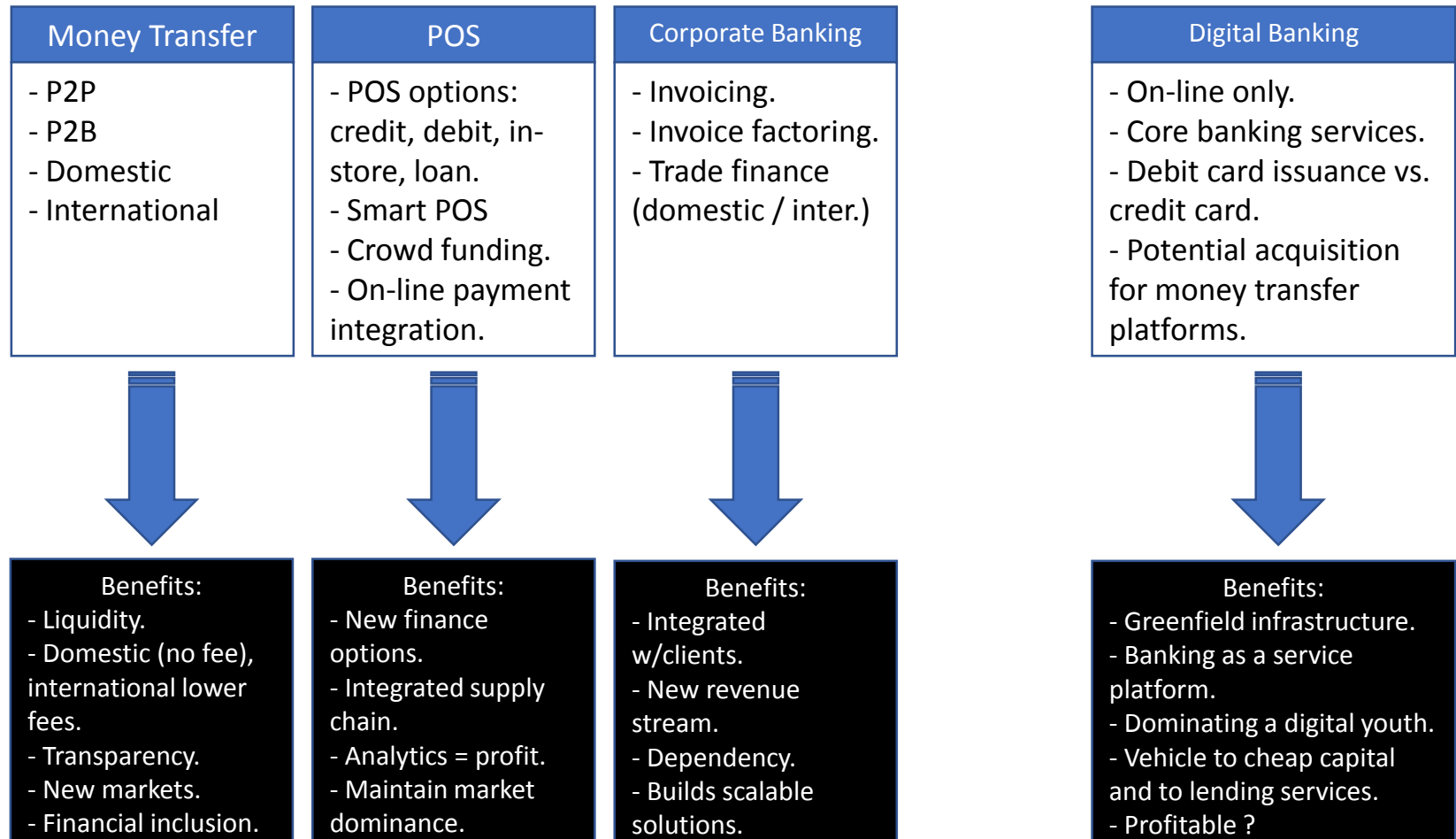
- ❑ Trusted entity, central bank / clearing house.
- ❑ Availability of funds.
 - Instant vs. T+
- ❑ Private vs. public networks.
- ❑ Reallocation of capital.



**ECONOMIC
EXPANSION**



Payment Landscape



Payment Landscape Impact

Data

- ❑ Vast amounts of transaction data being collected and analyzed.

Regulatory

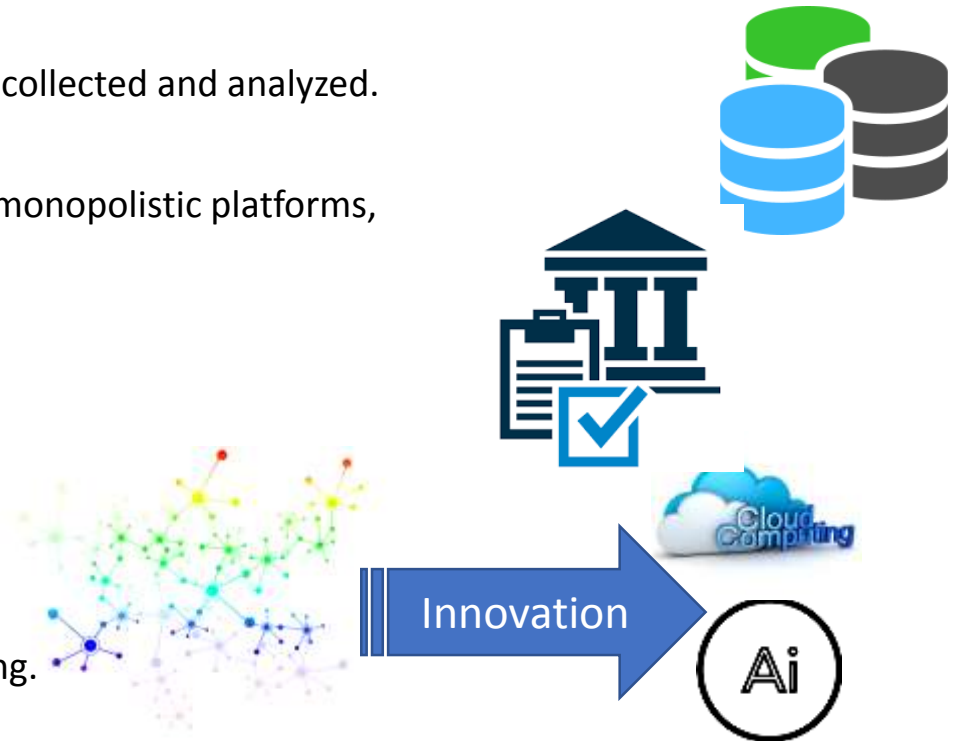
- ❑ Impact on KYC/AML, privacy, licensing, monopolistic platforms, crypto.
- ❑ Security & privacy.
 - Biometric confirmation.
 - Storage of such data.
 - Non-standards on global basis.

New Technologies

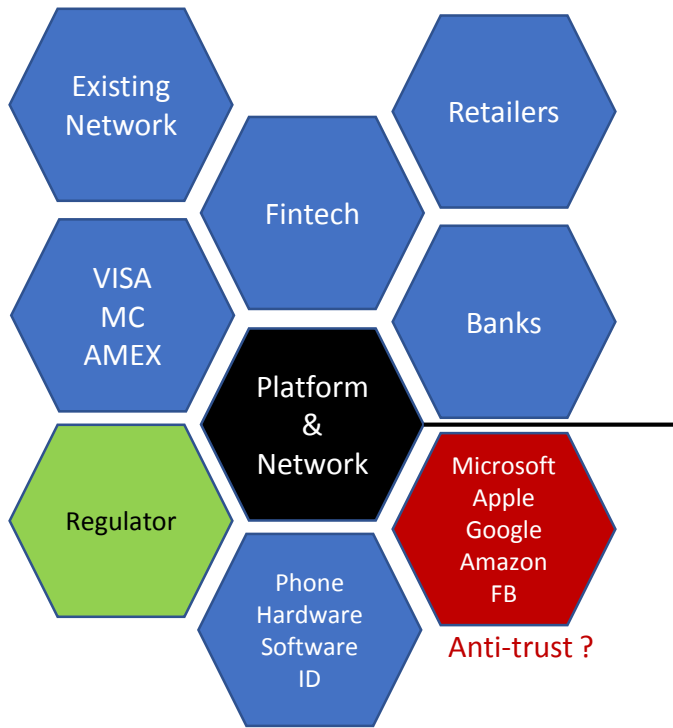
- ❑ Banking as a Service.
- ❑ Distributed ledger technology (DLT).
- ❑ Artificial Intelligence & Machine Learning.
- ❑ Integrated operating systems.

Lending

- ❑ New Channels of lending opportunities.

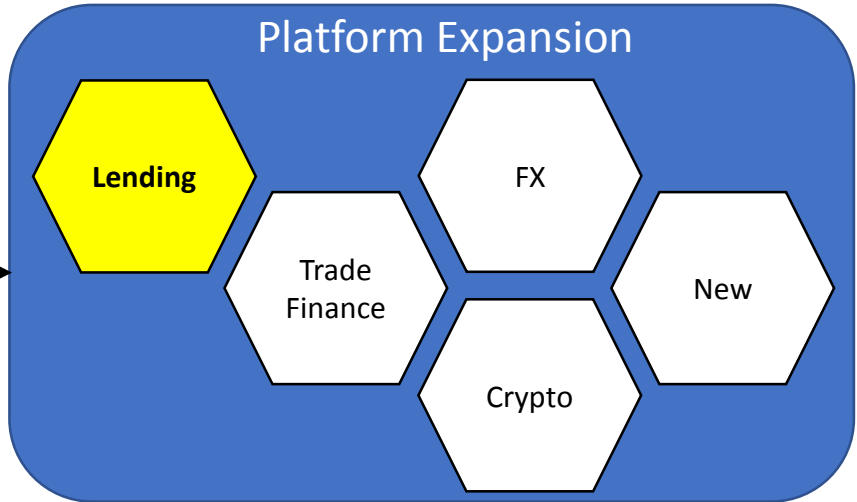


Money Transfer Actors & Expansion

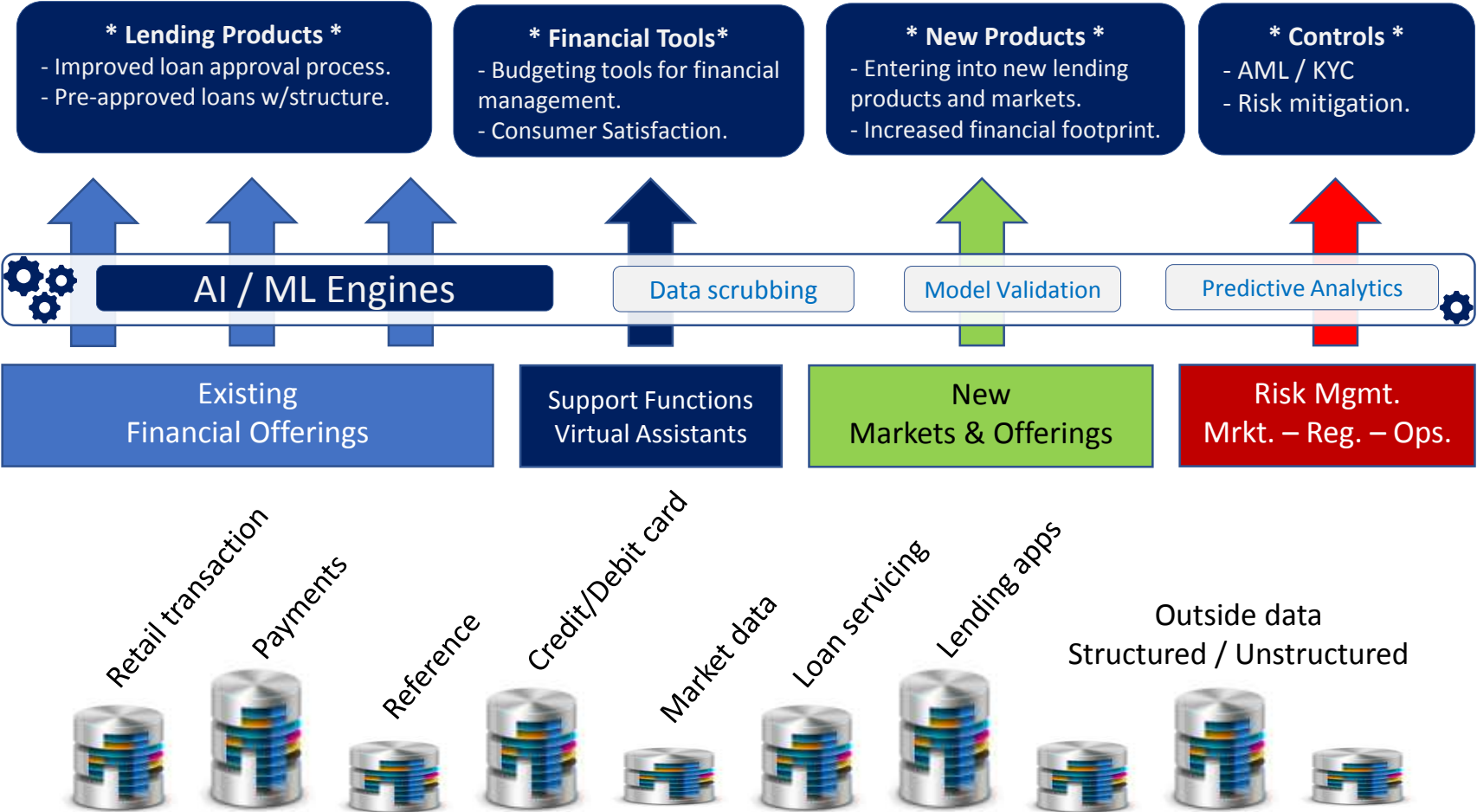


Goal: Adaption

- Next generation.**
- New fee structure.
 - Establishment of a marketplace for products and services.
 - Integration to other domestic and international platforms.
 - Especially on regulatory involvement.



Artificial Intelligence – Machine Learning



Payments: Digital Banks

Digital Bank of Today

- ❑ Value to consumer? Rates, financial tools, simplicity.
- ❑ Cost to consumer? Fees
- ❑ Hype or not?

Debit card issuance vs. credit

- ❑ Digital banks offer debit cards.
- ❑ Credit is a separate product and not suitable to majority of account holders.
- ❑ Fees are dominating revenue stream vs. lending services.
 - How to sell financial products to individuals with no savings in their accounts.

Strategic Insights

Current Banking Landscape.

- ❑ Banking services, and assets have been commodified, which yield lower profits.
- ❑ Legacy infrastructure and support is a drag on new business development.
- ❑ Regulatory requirements continue to negatively impact new business development.
- ❑ Physical vs. digital plagues traditional norms of a bank's operating model.
- ❑ Billions being poured into start-ups.
- ❑ Technology vs. financial services firm?
- ❑ Risk tolerance on new business services and technologies.

GAME PLAN - OFFENSE

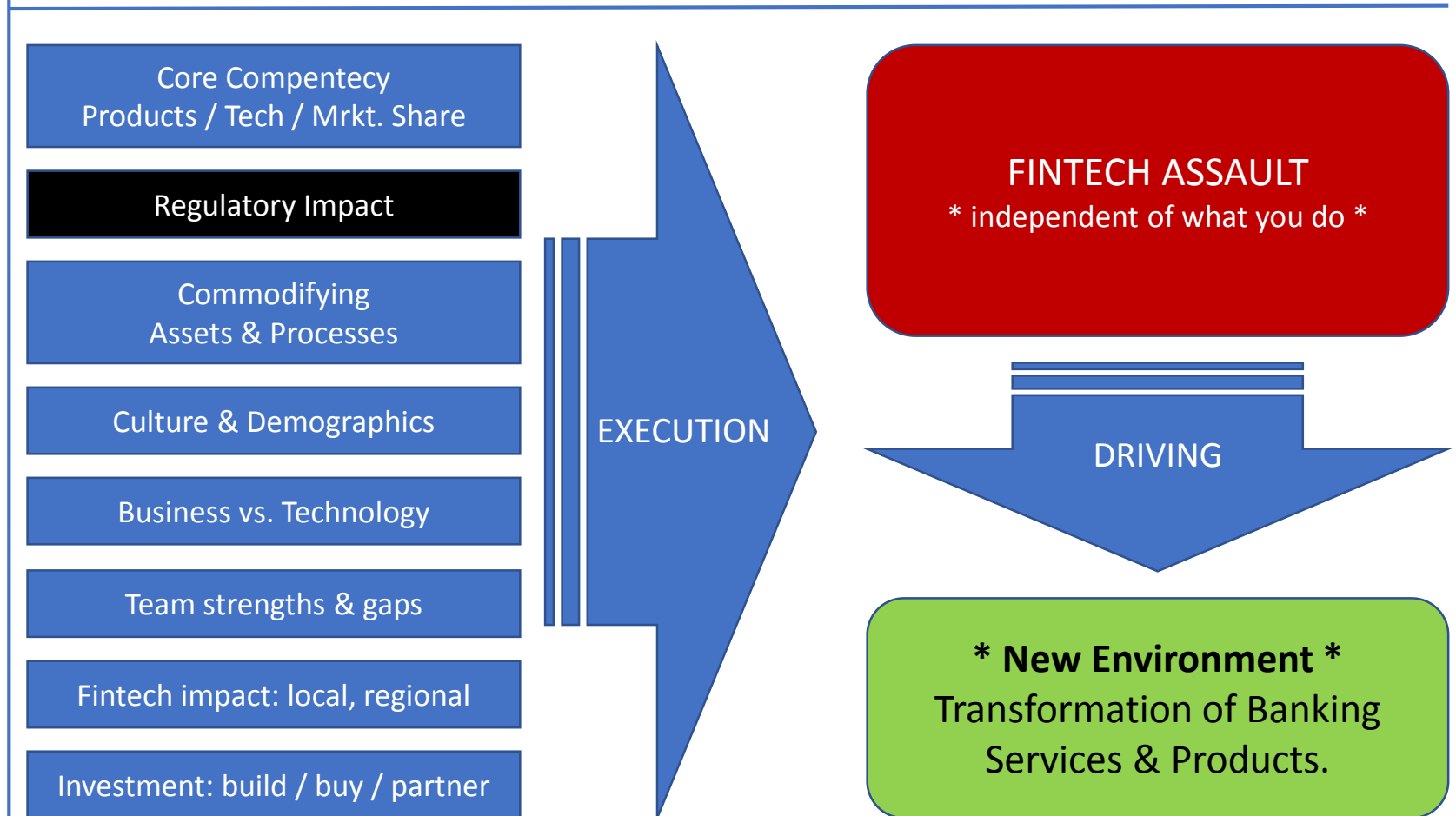
- ❑ Develop, partner, buy, invest.
- ❑ Consortium model.
- ❑ Global alliances.
- ❑ Mindset: it's not about maintaining market position, but about expansion.
- ❑ Business drives technology.
- ❑ Speed to market.
- ❑ 3,5,7 year plans.
- ❑ Agile vs. stagnant.
- ❑ Correlations to others across markets, population, and cultural.
- ❑ Risk tolerance.

Defining a Bank's Strategy

Factors in formulating a strategy.

- ❑ Defining core competency.
- ❑ Ranking on market offerings (domestic & international).
- ❑ Existing legacy infrastructure.
- ❑ Fintech impact domestic & international.
- ❑ Cultural, age, mobile adaptational impact.
- ❑ Regulatory framework, especially in an ECB world.
- ❑ 3, 5, 7 year plan.
 - New business build-out and penetration.
 - Transforming your bank's image, standing, product offerings.
- ❑ Time and urgency.
- ❑ Playing catch-up, defense, or going on offense.

Banking Strategy & Execution





Payments: Next Generation

- ❑ Leadership
- ❑ Consortium
- ❑ Strategy
- ❑ Execution
- ❑ Expansion

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Appendix A: 360 View

- ❑ Segregation of banking products most susceptible.
 - Hint: inefficient processes drives re-engineering.
- ❑ Fintech assault, target area, markets.
- ❑ Integration into capital markets (i.e. securitization).
- ❑ Defining transformation.
 - Redefining target market, consumer base, margins.
 - Understanding RoI vs. mandatory investment.
- ❑ Build / Buy / Partner / Consortium.
- ❑ Blockchain technologies.
 - Finding the use case unicorn.
 - Permissioned, intermediary crypto-currencies.
- ❑ Crypto-currencies and their future in payments, asset, traded security.
- ❑ Correlation of industries dominated by technology firms.
- ❑ Leapfrogging technology vs. modernization.
 - Nations can leapfrog, institutions need to transform.

Appendix B: Tech & Industry Impact

- ❑ Retail: Amazon
- ❑ News: Facebook
- ❑ Advertising: Google
- ❑ Financial Services (US centric):
 - Equity trading: Fee reduction, greater volumes
 - Robo-Advisory: Fee reduction, i.e. Wealthfront, Betterment.
 - POS mobility: US fees now under 3%, i.e. Square.
 - Digital banking: commodity.
 - **Payments:** Venmo, Zelle

Appendix C: Money Transfer

Money Transfer

Digital wallet impact.

- ❑ Single platform convergence.*
- ❑ Customer migration following social media trends.
- ❑ Bypassing existing payment networks.
- ❑ Financial inclusion expansion.
- ❑ Removing physical money supply.
- ❑ Data collection & privacy.
- ❑ Regulatory impact, reporting, licensing.
- ❑ Crypto.
- ❑ International remittances:
 - By-pass correspondent banking channels.
 - Lowering fees across the transfer chain.



Business opportunities:

- ❑ Debit card issuance linked to digital wallets.
- ❑ Core banking services (i.e. checking, savings, direct deposit).
- ❑ Lending services.
- ❑ Remittances.
- ❑ Financial services: Asset management, retirement accts.
- ❑ Building next generation banking network.

Cyber Security * Biometric * AML / KYC

* Greatest loss potential for banks.

Appendix D: POS

POS

Technology Impact

- ❑ Mobile POS
 - Simplified onboarding.
 - Reduced fees.
- ❑ QR codes: impact & adaptation.
- ❑ Digital wallets
 - Bypassing existing networks as consumers retain balances.
- ❑ Smart POS devices itemizing products.
- ❑ Analytics & reporting.
- ❑ Biometric verification.

Regulatory impact

- ❑ Anti-trust concerns.
- ❑ Private vs. public platforms.

New Business Opportunities

- ❑ Redefine fee structure with new platforms.
 - US 2.70 % credit card.
 - China 0.7% on AliPay/WeChat (non-bank)
- ❑ Integrated services from supply order management, to check-out with analytics driving.
- ❑ QR codes driving services across payments, money transfer, social.
- ❑ Lending services at POS.
 - i.e. high-ticket items one gets instant loan approval with terms.

Appendix E: Corporate Banking Services

Corporate Banking Services

Current environment

- ❑ Investment lagging.
- ❑ Lack of integrated services between corporate & core banking systems.
- ❑ Rising regulatory costs.
- ❑ Cross border payments staggering domestic.
- ❑ Fintech's focus on consumer landscape can be an opportunity for bankers.

New Business Opportunities

- ❑ Integrated corporate services on SaaS platforms.
- ❑ e-Invoicing, automated collections, factoring.
- ❑ Cash management solutions.
- ❑ Digital checks.
- ❑ Mobile solutions, including approval of wires.
- ❑ Blockchain technologies for domestic and international trade functions. (i.e letters of credit).