Smart industry report:

The future of transaction banking.

Towards 2030: How technology is driving rapid transformation in transaction banking.

How transaction banking can fast-track business success.

I'm pleased to bring you the latest of Westpac's Smart Industry 2030 reports, a series that explores future trends and informs businesses on emerging opportunities and upcoming challenges in a dynamic market.

One area that must be on all business leaders' radars is the rapid transformation underway in transaction banking.

Once considered a basic in the suite of banking products and services available for customers, transaction banking now has the potential to become a powerful strategic tool for businesses.

More than ever before, businesses are examining where they spend their time – and money – and demanding greater operational efficiencies in banking and insights on opportunities from their bankers.

They are also expecting banking solutions to significantly enhance both their customer and their employee experience; ideally enabled by an omnichannel strategy.

In this report, I've identified eight key technological trends specific to transaction banking that I believe will have the most impact on our customers in the decade to come.

Whether it's the rise of invisible payments, the power of owning personal data, or the ability of regulation to keep up with the pace of technological change, I've highlighted just some of the significant factors that will influence business performance in the years ahead.

With the proliferation of fintechs and neobanks entering the financial services sector and 'banking as a service' effectively facilitating 'non-banks' distribution of licensed banks' products, the landscape is changing rapidly. The 2020s will see a further blurring of the lines as new modes of operating cater to the inexorable trend to shift to 'digital everything'.

As Australia's oldest bank, Westpac draws on its historical strengths, while bringing on the new by investing in and collaborating with smart start-ups to complement its service offering and help its business customers succeed.

The rapid transformation in transaction banking must be on all business leaders' radars.

I hope you enjoy this report and its messages around growth opportunities, digital agility and managing disruptive trends, and I look forward to your feedback.

Sasha Rudik
National Head of Transaction Banking, Westpac Commercial

Transaction banking in 2020 and beyond.

Emerging technologies and unprecedented innovation are powering the next wave of transaction banking trends.

From autonomous checkout stores, to the growth of fintechs and the ever-present threat of cybercriminals, the world of finance has never been more complex, or exciting.

However, the fundamentals of facilitating transactions are just the start, as the focus shifts to consumer experience and helping businesses to understand an ever-mounting volume of data and options for connectivity.

As 2020 rolls in, Westpac Commercial predicts eight key trends in transaction banking that should be top of mind as game-changers for business as we move into the next decade.

Transaction banking:
A timeline.

KEY
- Australian milestones
- Westpac milestones
- Australian transaction technology milestones

The evolution of transaction banking.

Transaction banking has become an important tool for fast-tracking business success. To understand the transformative potential of transaction banking, it is valuable to consider just how far – and fast – it has developed.

1 Early 1990s

- Businesses manage cash via bank branches, typically offering a **cheque account** for payables and receivables, and a savings account for **cash.**
- US bankers introduce the **transactional business model** to Australia.
- Australia's major banks establish transaction banking as **Working Capital Services.**
- International trade transactions become more efficient.
- **Rudimentary tools** for liquidity and cashflow management.

2 Late 1990s–2000s

- Innovations such as mobile **EFTPOS** terminals and **eCommerce.**
- **Card schemes** increase, bringing numerous merchant solutions online.
- Launch of **Amazon** and **eBay**, as the **online shopping boom** takes shape.
- **Cross-border payments** become more efficient, but remain slow compared to domestic payments. Track- and traceability is limited.

3 2010–2015

- Fully **online business banking.**
- **Online shopping** gains traction.
- Business banks connect to more powerful payment exchange mechanisms online, including **digital wallets.**

2015

ECOMMERCE SHARE OF AUSTRALIAN RETAIL SALES[1]:

5.9%

4 2016–2020

- New **fintech** entrants come to the fore. Major banks start to take advantage of advances in digital technology and introduce more user-friendly banking products.
- **New Payments Platform** (NPP) launches, making real-time payments a reality.
- **Virtual accounts** modernise and improve client service, liquidity management and automated reconciliation.

2019

ECOMMERCE SHARE OF AUSTRALIAN RETAIL SALES[1]:

9.0%

1998
Westpac launches online banking.

2008
Westpac merges with St George Bank.

2014
Westpac launches Westpac Live, an award-winning online banking platform.

Pre 1995
Transactions mainly by cash, cheque or credit card.

1993
Dial-up EFTPOS.

1997
BPay becomes world's first single bill payment service.

1998
Mobile EFTPOS growing.

1999
eBay launches in Australia.

2000s
The rise of Amazon and eCommerce.

2006
Contactless payments, PayPass, PayWave.

2010s
eCommerce and online shopping gain traction.

2016
Digital wallets, cardless payments.

2018
NPP launches with BPay's Osko 'overlay' service for real-time payments.

1. Statista

1

Invisible payments to dominate.

Customers are now just as likely to have payment card details in the cloud as they are in their hand. While plastic cards still occupy wallets, their use is dwindling.

Nothing highlights the shift towards invisible payments better than Amazon Go stores, where shoppers are tracked via smartphones and, without the need for checkout lines or cashiers, they simply take their items, walk out and an app automatically handles payments.

Supermarket giant Coles, among others, has also foreshadowed the possibility of a **checkout-free experience**[2] for shoppers within 10 years. Such autonomous checkout stores are reportedly not without their challenges, however, with the technology being harder to deploy in very large shops or in retrofitted spaces.

Our ride-share, our take-away food and our bill payments can already happen with a few taps in an app, and increasingly they're instant and invisible.

In the next decade, we'll see more internet-connected wearables, including clothing, and further innovations in biometrics as the thirst for identification and instant approval progresses.

As the rise of virtual cards and tokenisation simplifies the way businesses make and take payments, the challenge is ensuring every channel is operating in real time.

How Australians like to pay.

Australians are embracing digital payment options:

7 out of 10
SMARTPHONE OWNERS MAKE PAYMENTS ON THEIR PHONE[3]

2 in 3
AUSTRALIANS ARE EXPECTED TO USE REAL-TIME PAYMENTS SOLUTIONS BY 2023[4]

2. News.com.au
3. *PayPal mCommerce Index 2019*, Paypal
4. *Visa Insights 2019, Australia's Fast Future*, Visa

2

Consumer Data Right empowers all.

The introduction of a government-backed **Consumer Data Right**[5] (CDR) will give Australians greater control over their own data and how it is used.

The Consumer Data Right initially applies to the banking sector in 2020, with Open Banking allowing customers to switch banks, or use the services of fintechs to securely and easily share their data with others.

The CDR allows "both individuals and businesses to share their data, fuelling competition in financial services" states Federal Treasury.

Its rollout sector by sector will follow, with energy and telecommunications the next industries in line. Sectoral assessments will be conducted by the **Australian Competition and Consumer Commission** (ACCC).

The CDR allows "both individuals and businesses to share their data, fuelling competition in financial services" states Federal Treasury.

The power shift and the subsequent personalisation of new products will be a major driver of economic growth.

5. Consumer Data Right

3

Engaging through expanded ecosystems and networks.

Expect complementary alliances and strategic partnerships to intensify as business models continue to transform and move into new spaces. This will accelerate in the next decade due to:

- The lightning speed of tech change making it challenging (and costly) to remain at the forefront.
- Digital experiences' ongoing shaping of customer expectations. Personalised (or predictive) experiences and AI-driven insights will become the norm.
- Digital expertise will be even more specialised as organisations transform and tech innovations converge. The retail sector provides just one example, as it builds merged reality shopping experiences, leveraging 5G networks and blockchain.

Chinese insurance group Ping An provides a blueprint for value-added services through its ecosystem business called **Good Doctor**[6], which is revolutionising medical treatments.

From a basic booking system, Good Doctor has evolved to include digital health profiling, transportation to appointments and medicine collection – features that transform the health care of an ageing population.

Connecting the customer through a simple interface or user experience will be key.

Business banking is no longer solely the domain of corporate treasury and finance departments. At Westpac, we are working more with our customers' IT, branding, HR, marketing and customer experience departments. Via venture capital partner **Reinventure**, we can enhance and automate HR processes through **Flare HR**, take the pain out of merchant integration through **Assembly Payments**, or enhance mobile ordering and fulfilment through **Hey You.**

6. Ping An Good Doctor

4

Staying ahead of cybercrime - and regulatory obligations.

With growth for many businesses being heavily reliant on digital channels, the challenge to stay one step ahead of cybercriminals is constant.

The average annualised cost of cybercrime for financial services firms globally is US$18.5 million, according to **Accenture**[7] research. That's the highest of all industries in the study.

Combatting cybercrime.

Financial Services companies will continue to be targets for cybercrime:

ANNUAL GLOBAL COST OF CYBERCRIME FOR FINANCIAL SERVICES COMPANIES[7]:

$18.5 million USD

NUMBER OF FIRMS DEPLOYING AUTOMATION, AI AND MACHINE LEARNING TO HELP COMBAT CYBER THREATS[7]:

34%

Regulators continue to set guard rails around the industry to balance and manage risk. While essential, complying with these standards is as complex as it is costly.

The need for regtech solutions that manage risks related to payments and cash management just keeps growing, but it also means businesses don't have to rely on people to tackle compliance issues.

For financial services businesses and others, the ongoing challenge will be to invest sufficiently in cybersecurity and regulatory diligence measures to ensure compliance, to protect their customers and themselves.

7. *Unlocking the Value of Improved Cybersecurity Protection,* Accenture 2019

5

Prepare for (and beware of) 'digital everything'.

Going digital is the universal agenda for businesses as they seek to transform manual processes, whether customer-facing or behind the scenes.

Digitisation has had a massive impact on consumer expectations. For businesses, the imperative to be 'always on', offer the fastest delivery, amazing service and promote loyalty through rewards programs, means bench-marking against the best in market – not the best direct competitor.

The biggest decision in the transformation process is when to build digital tools for yourself, versus buying external digital solutions.

Some leading brands have already taken the step of abandoning traditional bricks-and-mortar retail to adopt a digital-only presence and experience.

A recent **Comcast Business**[8] survey notes that most businesses are undergoing digital transformation, with 43% of respondents saying that one of the top three drivers is to improve the customer experience. Typically, the biggest decision in the transformation process is when to build digital tools for yourself, versus buying external digital solutions.

Businesses should also be mindful of the 'digital at any cost' approach – unintended consequences may emanate from new technologies – so the priority should be to ensure that any approach to new tech is focused on solving real problems.

8. *Empathy at Scale: How Data and Technology Will Fuel More Human Customer Experiences*, Comcast Business

6

Fintech vs full service.

Big banks and traditional finance players are often tagged as the slow-moving old kids on the block, whereas fintechs and neobanks are pitched as the exciting new face of financial services.

About 650 fintechs are operating in Australia, according to the **Australian Payments Network**[9]**.** That's a five-fold rise since 2014.

Clearly fintechs can offer niche solutions for industries, or for different stages of cash and working capital management. They may provide relevant data to assist transaction reconciliation or customer analysis. Lesser known is that transaction banking divisions of big banks run with fintech capabilities – and they offer full service across industries, with solutions at every stage of the cashflow cycle.

Sometimes banks compete with fintechs; sometimes they collaborate. Westpac has access to fintechs of all types and life stages, including **Zip** (a buy-now-pay-later digital service), **Uno** (a digital mortgage broker) and **Assembly Payments** (a business payments service).

Smart banking today delivers with the paired capabilities of a big bank and a network of fintech collaborators.

Rise of Australian fintechs.

The number of fintechs operating in Australia is rising:

FINTECHS OPERATING IN AUSTRALIA IN 2019[10]:

629

Y-O-Y INCREASE[10]:

+8%

AUSTRALIA IN THE GLOBAL FINTECH RANKINGS[11]:

8th

9. *2018 Annual Review,* Australian Payments Network
10. *The Pulse of Fintech 2019,* KPMG
11. *The Global Fintech Index 2020,* Findexable

7

Cryptocurrencies to become mainstream?

The jury is out on the likely impact of cryptocurrencies.

To become part of the mainstream financial system, a cryptocurrency will need to meet the highest standards in privacy and regulatory requirements.

Furthermore, the broader impact on the monetary sovereignty of nations, including but not limited to anti-money laundering (AML) and strong consumer protections, is not yet clear.

China has been cracking down on cryptocurrency activity in a bid to contain financial market risk and clean up digital currency trading, while in many countries the debate has been over how to treat virtual currencies through taxation systems.

Just as the launch of Facebook's **Libra**[12] project gained the attention of policymakers and bankers around the world, there is sure to be increased policy and regulatory attention for cryptocurrencies in 2020 and beyond.

To become part of the mainstream financial system, a cryptocurrency will need to meet the highest standards in regulatory requirements.

Watch this space.

12. Libra

8

Curious people will continue to solve problems.

Many see the interplay between technology and humans as a dichotomy. Human versus robot. In truth, they should complement each other.

Despite the modern obsession with technology and algorithms, asking the right question is the key to unlocking the value of big data.

Technology may augment innate human skills, but people are the true problem-solvers.

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There's no doubt that during the next decade artificial intelligence, machine learning and quantum computing will lead to unprecedented advances in the automation of tasks and individual experiences. However, people will continue to be at the heart of great businesses and banks.

Predictions are always risky.

The world of business is changing so rapidly, courtesy of developments from traditional players and tech startups, that are at once inspiring, exciting and daunting. One thing is certain – the business landscape will be completely reshaped by 2030 and banks will be central to that change.

This report provides insights on just some of the tangible trends in transaction banking that are currently in view, and how they can help businesses on the perpetual quest for transformation.

If the key trends in this report have sparked ideas, raised questions or inspired an urge to further explore banking solutions, please contact **Sasha Rudik**.

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