TOWARDS FINANCIAL SUSTAINABILITY



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Recovery from the economic impact of COVID-19 will depend on financial stability. In modern society, financial stability provides vital protections for citizens, governments and businesses.

A new generation of financial technologies is emerging which can help all parts of society manage their payments better and make smarter financial decisions. Harnessing the full power of AI, digitalisation and data analytics, and with a renewed focus on fighting cybercrime, a stronger and more secure financial future is now in reach for us all.

SMARTER FINANCIAL DECISIONS

Whatever their job or their personal circumstances, many people have experienced a reduction in their incomes or seen the value of their assets fall because of the COVID-19 pandemic.

For those who were just about managing on their incomes to meet immediate needs such as groceries, rent and utility bills, this latest blow risks pushing them over the edge and into a spiral of overdrafts, penalty fees and rising interest payments. Indeed, at all levels of society, from the financially vulnerable who may have no bank account at all to the homeowner with multiple bills to manage and pay, one small misstep in financial management could spell disaster.

Personal Finance Management (PFM) and more globally data enrichment and analysis solutions could play a key role in helping to address these types of issues. Money management solutions are not new. Until recently, they have been used mainly for simple aggregation, tax and accounting purposes. Understanding the meaning of the numbers produced and finding ways to improve them – that was the job of the human being, not yet of the first generation of PFM solutions.

What is new today is the combination of this tried-and-tested software with the revolutionary capabilities of AI, data analytics and open banking. By aggregating and analysing data from multiple sources, the latest generation of PFM has the potential to transform the way we handle our finances.

Gone will be the long evenings spent poring over bank statements, standing orders and credit card bills. The software can automatically pull disparate data from all your accounts, present you with suggestions and make recommendations for savings, loans, preventing overdrafts and getting better deals.

Once the Open Banking approach spreads to other industries and a true data market emerges, the potential looks endless. Pooling data from apps for financial services, healthcare, fitness, personal improvement and others, the power of AI could soon be making a real difference to people's finances as well as their entire personal wellbeing.

Introducing your new financial coach

Take one PFM program as your base, add a dollop of AI and sprinkle in some chatbot technology and what do you have? An automated financial coach that understands your financial situation inside-out and can provide insights and practical advice on what you could do to get into better financial shape.

As any gym user knows, it can be hard to stick to a routine and fight inertia without the encouragement and expertise of a personal trainer. The same goes for our finances. How many of us have the energy or skills to track down insurance savings and find better loan deals?

With all the data across our accounts and in the market at their disposal, financial coaches can help us avoid overdrafts, find the best loans and insurance, cancel unnecessary subscriptions and even improve our spending and investments. A little nudging from the coach is all it takes to put us on the road to financial fitness and more.

FEEL YOUR FUNDS

As contactless payments increasingly become the norm, it's useful to keep track of how much we spend and what's left in our bank accounts. Sometimes solutions can be physical. Take for example the innovative new wallet in development that monitors all your online and digital payments so that it physically deflates when you spend money and inflates when payments go into your account. So you regain a sense of the physical feel of these transactions, just like in the old times!

FASTER PAYMENT CYCLES FOR ALL

From giant car manufacturers to your favourite coffee shop on the corner, there is not a company in the world right now that is not feeling the financial effects of COVID-19.

Whatever the size of the business, liquidity management has become a critical priority. Yet many companies are still burdened with antiquated systems for B2B payments and invoicing. Every day, treasurers of some of the world's largest companies spend precious hours entering numbers into Excel spreadsheets.

In the US
about 50%
OF B2B PAYMENTS
are still made using cheques[ss]

1 https://www.mastercard.us/content/dam/mccom/en-us/business-payments/documents/business-payments-2022-whitepaper.pdf

Whether a business is an SME (small and medium-sized enterprise) or a multinational, there are immediate benefits to reap from dragging liquidity management systems out of the past and into the world of electronic invoicing.

In current conditions, a so-called Treasury 4.0 approach could be the way forward for larger companies. As well as giving executives a real-time view of their assets and enabling them to predict cashflows, digitalised payment systems can reduce risks, cut costs and improve financial stability. These easy wins are all critical in today's conditions.

But it is not only large businesses that need to embrace digital. At the SMEs that make up the backbone of modern economies, digitalisation has already transformed access to banking services such as foreign exchange. The rewards of digitalised cash management could be just as great. Open Banking will "democratise" modern financial services, previously only available to large corporates.

It is time for business to move to the next stage in the digital revolution – electronic invoicing or eInvoicing.

In Europe,
BILLIONS
OF PAPER INVOICES
are still sent every year[ss]

Replacing these documents with electronic invoices reduces errors due to manual processing of paper, digitalises and speeds up the payment cycle, provides new sources of reliable data to corporates and banks which can enable new business models, reduces the volume of overdue payments, slashes administrative costs and reduces the risk of liquidity problems for suppliers.

Electronic invoicing supports much needed stability across the economy. A cash-rich multinational could enable a small supplier to pay an invoice later, at a discount. Both sides benefit. With e-invoicing, a supplier can be informed immediately that an invoice has been rejected, compared with one month or more using a non-digitalised system. For those suppliers with multiple invoices, payments can be bundled into one, reducing fees and administrative costs.

2 https://www.billentis.com/The_einvoicing_journey_2019-2025.pdf

TOWARDS AN OPEN FUTURE

There was a time, not too long ago, when the main viruses that people feared were the ones they were exposed to when opening an email. In many year-end lists of risks to financial stability, cybercrime and hacking would always feature highly, with healthcare crises hardly mentioned.

" But one of the many lessons we have learned from the COVID-19 pandemic is that we should never take our eye off the ball when assessing future risks. "

Today, it would be a terrible mistake to ignore the risks posed to global financial stability by cybercrime just because of the more immediate health crisis.

Cybercrime is rampant. Although banks and the financial services industry have protected customers better than any other industry, attacks on consumer and business accounts, bank infrastructure and payment backbones have increased at an alarming rate. The sources of attack are increasingly diverse and have caused heavy financial losses across the financial sector. Fortunately, Worldline and its clients have been protected by our unique assets, experience and know-how.

Today's financial sector is so interconnected that cyber-attacks pose an acute threat to the stability of the overall financial system. It is critical for the financial services industry to work together to prevent attacks. Just as the airline industry shares information after a crash to make flying safer for all, banks need to become more transparent when it comes to reporting incidents.

The European Central Bank is taking the global lead in leading the fight back against cybercrime. Worldline has helped it roll out a cyber incident reporting framework which requires financial institutions to report significant cyber incidents as soon as they detect them[ss]. At the same time, Worldline is pioneering new technologies for authenticating identities online [see Beyond passwords].

As e-commerce and online banking accelerate, new mindsets and security innovations will make sure that the financial system benefits everyone and will be resilient to withstand future shocks.

3 https://www.ecb.europa.eu/paym/cyber-resilience/html/index.en.html

BEYOND PASSWORDS

They may first have been used for accessing computers as long ago as the 1970s, but simple usernames and passwords unfortunately still form the foundations of the world of e-commerce and online banking today. It is scarcely credible that we still use this method for authenticating digital identity when much of our time (not just for banking) is increasingly online.

Thankfully, many solutions are now available which will consign this antiquated system to history. In Europe, biometric multi-factor authentication is becoming the norm. It will not be enough for online customers just to know their password to complete a payment. To prove that they really are who they say are, online shoppers will have to use a recognised personal device (watch, phone, bank card etc.) or rely on fingerprints and facial recognition. The level of authentication required will be dependent on the risk: if you a buy a coffee every morning at the same coffee shop, you will have a totally frictionless experience, but if you buy a house you will need to pass many checks to ensure that this once-in-a-lifetime high value transaction is really what you wanted.

Gone will be the days of struggling to remember multiple usernames and passwords. With secure, authenticated access to digital banking and financial services, the world of online commerce will finally become secure, expand and grow in new directions.