

ECB CONFERENCE

on E-payments in Europe

19 November 2002, Frankfurt

Nordea

Faster and cheaper payment processes - key enablers



European Central Bank
Frankfurt am Main
Bo Harald
17. October 2002



Nordea is the leading financial institution in the Nordic region

- 9.500.000 Private Customers
- 950.000 Corporate Customers
- 3.200.000 Internet Customers - global nr 1 in transactions since 1982
- 37.000 employees
- 1.260 branches

> *High tech AND high touch*



Agenda

1. Fundamental changes in the environment - *bubbles burst but change is relentless*
2. New technology is an opportunity for Europe
3. Payments are not what they used to be - *now an integrated part of a total e-business process*
4. How to make the needed transition fast and economical - *banks have ready tools and above all customer trust and habit*
5. Technology trends
6. How not to do it - *technology for technology's sake instead of building on existing habit with ready tools*





1. Fundamental changes in the environment

- Global networks connect “everyone” and soon “everything” - fundamental change in business processes call for changes in banking services - integrated approach needed
- Borderless world and euro-zone increase competition in all areas > re-focus on economy of scale and scope (also further consolidation)
- Technology allows “anything” - fragmentation risk > need for standardisation
- Information overflow leads to protective reactions > one-stop shopping with integration, aggregation, personalisation and customisation of services
- Volatility and risks are increasing - banks needed as trusted partners

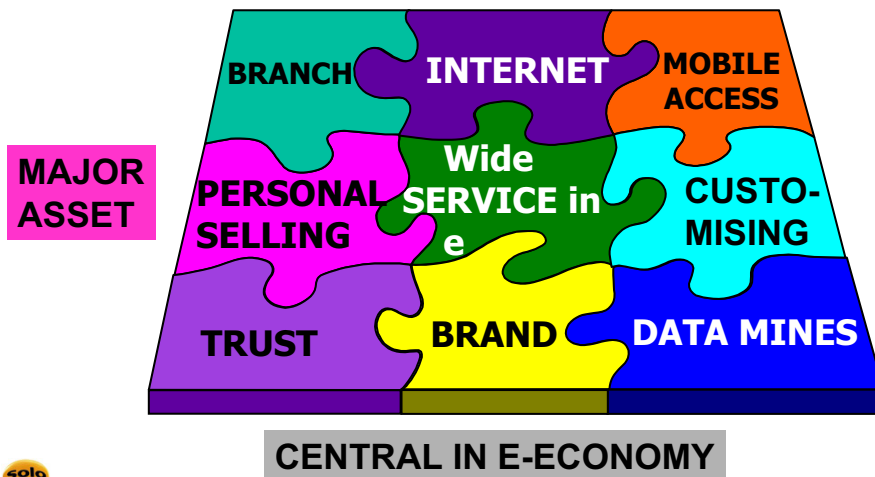


2. New technology is an opportunity for Europe

- For Europe to achieve integration of business processes, increase competition and open markets
- For Europe to employ strong banking traditions (trusted partners) and high mobile/internet/e-banking/advanced card etc penetration rates
- For European business to increase reach, lower risks and lower costs
- For banks to produce new dimensions of customer value
- For banks to cut costs by eliminating low-value routine work
- For customers to save time and money and get much better service (this does not mean that branch-service would disappear - personal local relations and sales are getting more important competitive advantages)



WHAT BANKS CAN BRING



3. Payments are not what they used to be

- Migrating fast to Internet (bill payments, card payments, e-commerce-payments, low value and micro-payments)



Log-ons

	Jan - Sep 00	Jan - Sep 01	Jan - Sep 02	Growth	Change
Denmark	7 882 418	11 817 499	15 249 215	29 %	3 431 716
Finland	22 538 156	26 581 397	31 765 007	20 %	5 183 610
Norway	2 225 000	4 706 011	5 885 439	25 %	1 179 428
Sweden	6 222 000	15 334 981	22 195 683	45 %	6 860 702
Nordea	38 867 574	58 439 888	75 095 344	29 %	16 655 456

* incl. Postairrot 2001 - 2002

Global leader in nbr of transactions = HABIT and TRUST - "natural resource" for all e-business

	Jan - Sep 00	Jan - Sep 01	Jan - Sep 02	Growth	Change
Denmark	3 812 192	6 841 301	9 396 155	37 %	2 554 854
Finland	26 954 745	33 681 973	39 547 557	17 %	5 865 584
Norway	2 925 000	5 355 680	6 848 646	28 %	1 492 966
Sweden	10 406 926	24 227 310	32 572 832	34 %	8 345 522
Nordea	44 098 863	70 106 264	88 365 190	26 %	18 258 926

* incl. Postgirot 2001 - 2002



3. Payments are not what they used to be

- Migrating fast to Internet
- Integrated part of e-business process (e-id first, then payment, e-invoice or e-signature)
- direct payments eliminate very costly payables and receivables and billing processes
- e-billing and e-invoicing eliminate manual processes and paper





Soon "all" business will be e-business


- **Relentless** change process toward e-interaction under way in companies, public sector, charities, citizens' daily life....
- Competition is borderless and business is conducted with new partners - often less known
- Quest for better business - wider reach and lower costs
- **Innovative** financial services needed to make transition happen fast and at low cost
- **Innovative** = simpler, faster, cost-saving, ready first steps NOW
- **Global Standardisation** and **Interoperability** are traditional features in banking - *must be delivered in e-business as well*



What is needed

- Identification of trade partners - *trusted partner role*
- Fast and efficient payments and settlements - *much still to do*
- Cost-saving invoicing (ERP-to-ERP) - order management, billing, invoicing, payment initiation, cash management - *with open standards supported by vendors (Nordea co-operation with IBM, Microsoft,..)*
- Volatility is increasing - solutions lowering risk levels are gaining importance > Trade risk elimination > *instant or irrevocable payments + bank guaranteed commitments*
- Re-usable components for: business, consumer, public sector, domestic & international > *same experience as private AND business user*




Nordea  Step 1: Enabling e-business

The New Dimension of e-business

Direct E-pay
E-billing

950 000 Corporate Customers




950 000 Corporate Customers

E-Identification

“Electrolux – 20% of sales to dealers via net – one bill costs today SEK 500 to handle.”


All save costs - each time AND adds convenience - 2.100 signed up - most will over time.

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“Anyone who thinks the New Economy is over is either dead or delusional. The world will be in a transition phase - and underestimate in the longer term.”

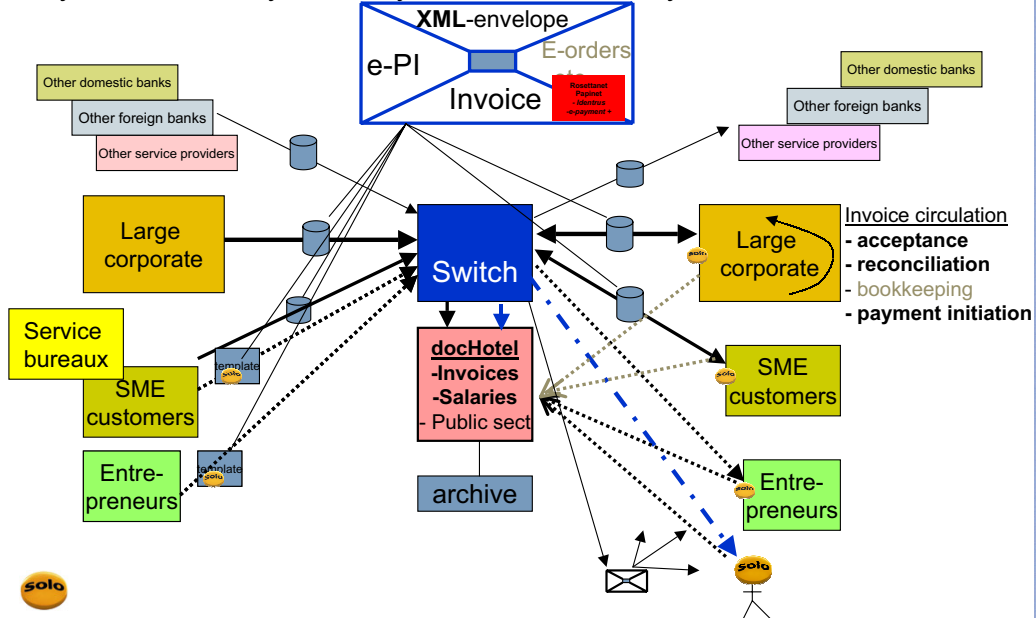
plants snut down in the 1850s”

Alvin Toffler



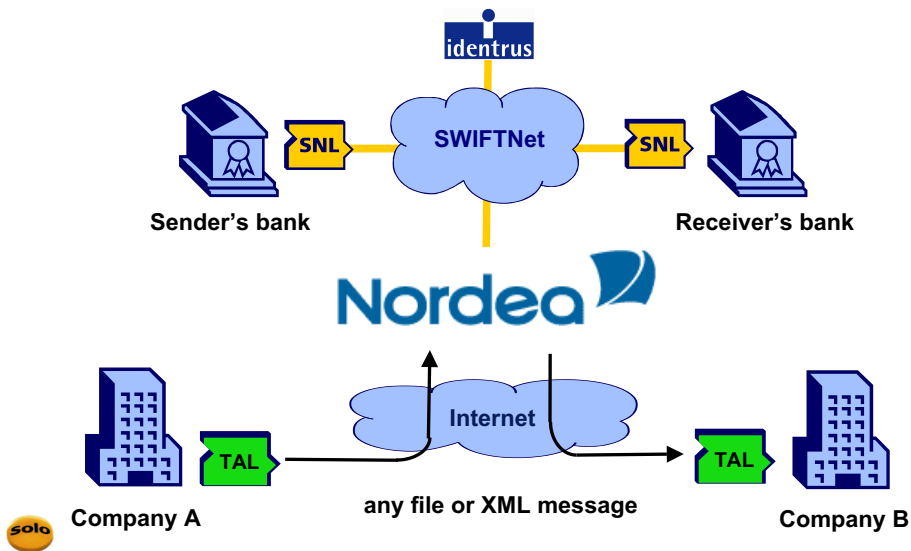
Nordea Step 2: From e-billing to e-invoicing

Many elements ready - industry initiatives necessary



Nordea Step 3: Going global

The building blocks of a global trusted infrastructure





End-to-end integration will cover all E-business flows - more value than traditional cash management - global interoperability

Order Management

Trade risk Elimination

Payment / settle



Corporate and banks needs a common partner and a global infrastructure for trust and payments: SWIFT



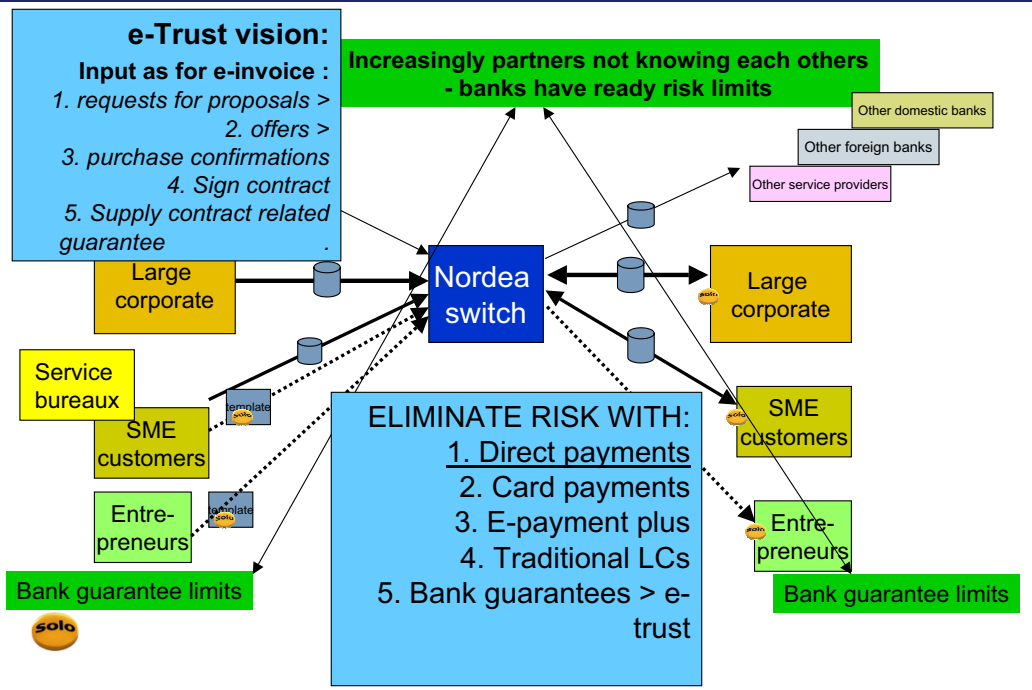
Industry B2B initiatives use jointly agreed standards for messaging



- **Banks can add more value to new business possibilities and to an integrated channel of delivery**
 - Benefits: Risk reduction, internet payments, increase in capital turnover...



Nordea Step 4: trade risk elimination



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4. How to make the needed transition fast and economical

- Build on existing habit - and banks' extensive selling capacity
- Re-use existing payments for e-payments, bank ID for e-id and e-signature, chipcards for certificates, e-billing for e-invoicing - *start now*
- Same basic tools for private, corporate and public sector
- Supportive and permissive non-delaying legislative attitude
- Standardisation as important as ever - price regulation as dangerous as ever (risk factor in business cases)
- European benchmarking on e-transactions in relation to non-e - *what is not measured is not done*



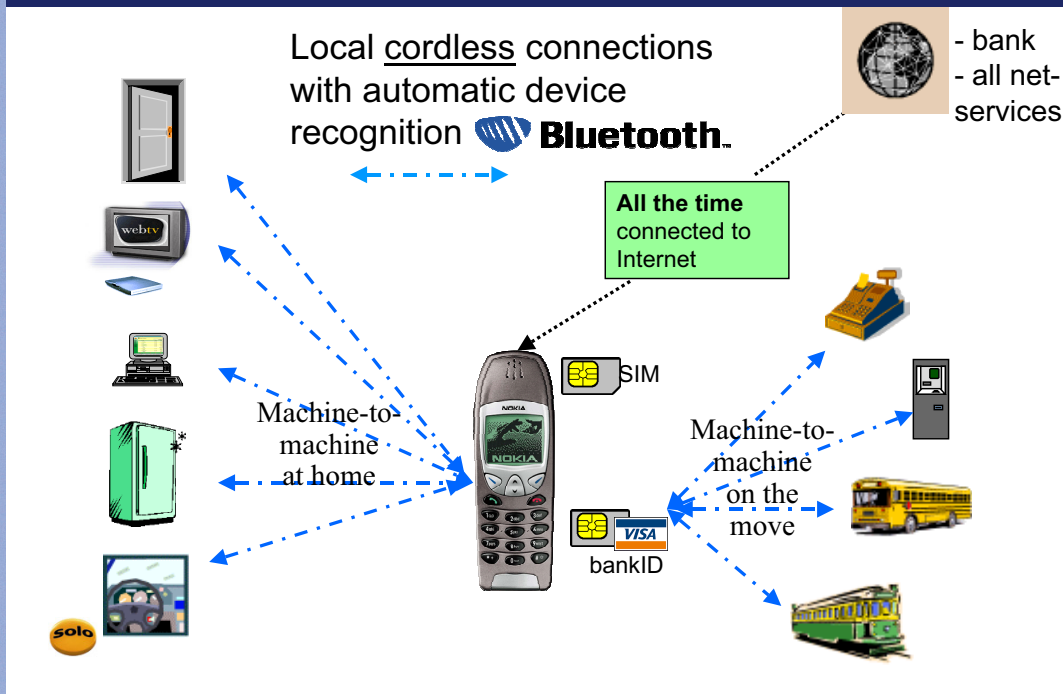


5. Technology trends

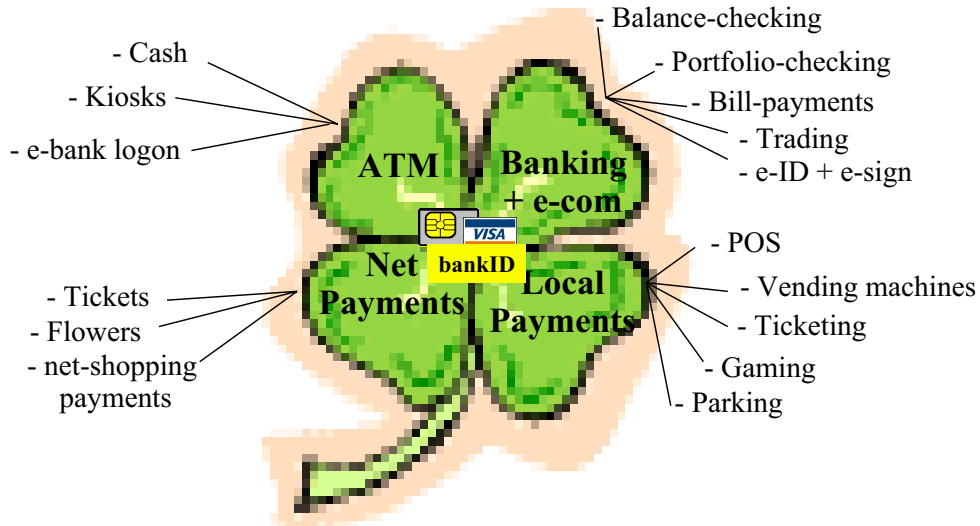
Understand what technology can do AND how much customers can take in. In a couple of years:

- "All" have fast net-enabled widescreen mobile phones
- Fixed Broadband widespread - always on - allows IPTV
- All cards processor-based EMV - multiapplication/open platform also for certificates
- Bluetooth, Irda, RF etc connects processors - mobile terminal focal point
- IPv6 allows IP-address to anything - starting from omnipresent processors
- VPN omnipresent
- XML helps connecting corporate legacies
- Superswitches improve routing

From interactive organisation to organisation and person to machine-to-machine and thing-to-thing



Building the critical mass in the bank-sector



Mobey Forum's contribution

1. **Open standards for all to join freely in their natural roles:** banks as trusted partners, operators transporting data, handset industry providing user interface, other content providers
2. **Concept where any customer has freedom to choose any bank, any operator and any handset and change one or two without affect on the remaining**
3. **Aggregation of solutions for many needs into one concept**



Technology is only developed when used

Example:

The early automobiles:

- They looked like horse carriages
 - They didn't go faster
 - They had often break downs
 - They were a good deal noisier
 - and a man with a red flag had to go in front
-
- *There where absolutely no rational reason to use them*



- but they were the start of a revolution!

6. How not to do it

- Technology for technology's sake
- Not using existing habit and tools (e-id, e-signature, e-payments)
- Begin late by waiting for PKI before starting
- Further fragmentation (e-money..)
- Unreliable customer identification allowed - financial industry part of defence against money laundering - oversight needed
- Overemphasising security aspects (making it too costly and complicated)
- Not furthering natural partnerships - networking between different roles
- Taking a short view without staying power/begin with end in mind



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The future is not planned
nor prognosed.

It is created.

Thank You!

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