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)
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)
**Faster and cheaper payment process – key enablers**

### Log-ons

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

* incl. Postgirot 2001 - 2002

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

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

* incl. Postgirot 2001 - 2002

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### 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**
"Anyone who thinks the New Economy is over because of the dotcom crash is either defining it too narrowly or being naive. That's like saying the Industrial Revolution was over because some London textile plants shut down in the 1830s."

We tend to overestimate the speed of change in the short term - and underestimate in the longer.

Alvin Toffler
**Step 2: From e-billing to e-invoicing**

Many elements ready - industry initiatives necessary

- **XML envelope**
- **E-orders**
- **Invoice**

**Switch**

- **Large corporate**
- **SME customers**
- **Entrepreneurs**

**Other domestic banks**
**Other foreign banks**
**Other service providers**

**DocHotel**
- Invoices
- Salaries
- Public sect

**Invoice circulation**
- Acceptance
- Reconciliation
- Bookkeeping
- Payment initiation

**Other service providers**

**Step 3: Going global**

The building blocks of a global trusted infrastructure

- **identrus**
- **SWIFTNet**
- **Nordea**

**Sender's bank**
- **SNL**

**Receiver's bank**
- **SNL**

**Company A**
- TAL
- Internet
- any file or XML message

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

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...
Step 4: trade risk elimination

Nordea

e-Trust vision:
Input as for e-invoice:
1. requests for proposals
2. offers
3. purchase confirmations
4. Sign contract
5. Supply contract related guarantee

Increasingly partners not knowing each others - banks have ready risk limits

ELIMINATE RISK WITH:
1. Direct payments
2. Card payments
3. E-payment plus
4. Traditional LCs
5. Bank guarantees > e-trust

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 - multi application/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
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 where 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
The future is not planned nor prognosed.

It is created.

Thank You!

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