Vizant INSIGHT
from the Payments Industry Expert

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Managing the True Cost of Accounts Receivable

Managing accounts receivable and collections is no doubt the most important financial task for any organization. You work hard to sell your product or service, only to see your customers string out the payment, elongate your stated payment terms and use your working capital at their discretion.

Measuring and managing your DSO (Days Sales Outstanding) is a never ending job, no matter how thoroughly you analyze your customers at the beginning of the sales cycle. While organizational resources are critical in managing accounts receivable, companies often fail to measure the “true cost” of managing this most critical short term asset.

Taking a simplistic approach to accounts receivable optimization by utilizing the “cost of funds” or “carrying cost” methodology is flawed at its core. Why? Because carrying costs represent only a portion of the true cost of every dollar in accounts receivable. There are other factors that ultimately increase the cost of accounts receivable. They are as follows: 1) opportunity costs, 2) administrative costs, and 3) bad debt expense.

While carrying costs can be measured as simply as interest rates on lines of credit, cost of capital or working capital cost, these other 3 costs can greatly exceed the cost of funds for outstanding accounts receivable. Opportunity cost represents interest that otherwise would have been earned on other cash investments or return on capital on alternate investments. As receivables age past 30 days, opportunity costs exceed 1.00% and at 120 days, they soar to over 9.00%.

Administrative costs represent the cost to administer, manage and collect accounts receivable. For receivables under 30 days, the cost is minimal. As receivables near 90 days, the cost increases above 1.00%. Bad debt expense represents the actual write-offs of receivables. These costs increase to 2.00% at 120 days. Collectively, all of these costs greatly increase the cost to carry every dollar of accounts receivable.

At 30 days, the true cost of accounts receivable is approximately 1.63%. That is an acceptable cost level. At 60 days, the true cost increases to 4.14%. At 90 days, this cost is well above 9.00%. At 120 days, the true cost is over 15.00% and basically you have a lost receivable. What does all of this mean? People often think that the price of accepting payment cards (commercial and consumer cards) is an expensive way to collect receivables. However, accelerating the collection of accounts receivable via preauthorized and dated payment card charges is minor when compared to the cost at 60 to 90 days for every dollar in

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accounts receivable.

For example, a $10,000.00 balance on a customer account actually costs nearly $1,000.00 once the receivable hits 90 days. At 120 days, it can cost over $1,500.00. Understanding and measuring the true cost of accounts receivable is critical in maximizing working capital and efficient asset management.

Vizant is an expert in optimizing all of the direct and indirect costs associated with managing your accounts receivable and all of your financial payment collections. Contact a Payments Expert today to learn more at inquiries@vizant.com or 800-498-7505.

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Businesses Increasingly Accepting B2B E-Commerce Transactions

Business-to-business (B2B) and business-to-consumer (B2C) e-commerce transactions may be consistent in terms of their shopping and check-out experience, but they diverge in terms of their basic workings. The different types of cards buyers use lie at the heart of the B2B vs. B2C debate, with consumers issued consumer debit, credit, and reward cards, while businesses give employees commercial card products such as small business, corporate, and purchasing cards (P-Cards) to keep business expenses independent from personal ones. The importance of commercial credit cards to the way many businesses procure the goods they need is growing, with e-commerce itself being a driving factor in P-Card standardization. P-Cards can carry significant impact on the bottom line for procurers, and among the other associated benefits are dramatically reduced funding time, substantial contraction of collections spending, and less expenditure to finance trade credit until receipt of payments. However, when accepting commercial card payments, P-Card transactions demand more details about what is being sold than a consumer card purchase in order to get the lowest possible interchange rates as set by MasterCard and Visa.

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About Vizant

Vizant is a thought leader, intellectual resource and innovator in the financial payments industry. As the nation's only independent specialty consultancy and advisory firm focused solely on serving those that accept financial payments, we provide our clients with an unprecedented level of advocacy, guidance, and leadership. Most importantly, we back it all up by implementing solutions that deliver financial rewards to our clients, all with a results based pricing model.

Our reputation as a payment card expert is well established, but our holistic approach to "all things payments" ensures that we assess all payment channels, payment types and payment methods. We perform a comprehensive and unbiased review of your organization's existing payment acceptance environment and provide specific and actionable solutions that will collectively result in the reduction of your costs to accept all kinds of financial payments.

We serve clients across all market and industry sectors, ranging in size from $5.0

Interchange rates and fees comprise the biggest element of the card payment processing cost, and each purchase can exact a different interchange toll, depending on how that transaction is submitted for funding. Vantage Card Services' Ty Hardison says these varying rates mean that managing interchange can carry substantial return on investment, and the lowest possible rate requires specific features that a B2C payment gateway cannot accommodate. A proper payment gateway allows businesses to collect and transmit more transaction-related data, such as address verification, an invoice number, and tax amounts, as well as line-item detail fields—all of which must be submitted with the standard sales information to be eligible for Level 3 interchange. Moreover, specific Level 3 interchange compliance requirements must be satisfied, including having matching authorization and clearing amounts, and timely submission.

Hardison says Level 3 interchange qualification can translate into major processing cost savings, as well as greater competitiveness in winning new contracts. Many B2B purchases differ from B2C purchases in their regularity and higher frequency, and a B2B payment gateway must account for and know how to handle such orders. Businesses' e-commerce strategies also should account for differences in order size between B2B and B2C platforms, and they should demand tokenization to reinforce data security as well as augment the e-commerce system's functionality by providing for the safe and secure storage of payment data. Businesses seeking a B2B-specific payment gateway should understand the payment types their customers are using and manage their procedures and policies to securely accept and process payments at the lowest costs.

From "Where B2B, E-Commerce and Payments Intersect"
Manufacturing.net (03/10/14) Hans, Joel

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Federal Reserve Study Examines Payment Choices

An analysis by the Federal Reserve Bank of Richmond of three years' worth of transaction-level data from a large discount chain along with zip-code-level explanatory factors has yielded insights about consumer payment choices across the size of transaction, location, and time. The goal of the study was to fill a void in knowledge about the development and behavior of cash transactions over time. Key economic and demographic impacts were identified, as well as weekly, monthly, and seasonal cycles in payments, and time trends and significant state-level variation that the explanatory factors did not account for. The estimated model was applied to a projection of the consumer payment options' expected evolution and a prediction of future demand for currency. The data set the Richmond Fed researchers worked with encompassed approximately 2 billion transactions, which necessitated aggregating it up to the fractions of transactions for each payment type on each day in each zip code. The fact that the data overstates the proportion of cash use in U.S. retail transactions means it provides insights into the nature of cash use, which can subsequently be used to predict the payment option's future.

The study determined that a large presence of bank branches and a population that is heavily black, Hispanic, or Native American are associated with a high fraction of cash payments and a low fraction of debit and check transactions. These effects are usually greater for larger payment sizes. Meanwhile, zip codes with higher median income, more banks per capita, a higher robbery rate, and a relatively educated population are associated with a lower fraction of cash

million to $20.0 billion in payment transaction volume. The international client list we have built over the years includes B2B and B2C companies, professional sports teams, leading universities and distinguished not-for-profit institutions.

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payments, and the effects are similarly amplified by transaction size. Also observed was the fact that states with the lowest fractions of cash payments tend to have the highest fraction of debit payments, while states with the lowest debit card use tend to be the leading states for credit card use.

Moreover, cash and debit use are nearly identical over the course of the week, with cash use peaking on Monday and Saturday. However, the intra-week pattern differs across transaction size, with cash use for the largest transactions peaking on Friday. Credit comes closer to mirroring cash use on the day-of-month model, although the dummy variables for credit and debit closely correlate. The month-of-sample dummies demonstrate that the fraction of transactions made with cash declined at a rate of between 1.3 and 3.3 percentage points annually, depending on transaction size. These variables support a benchmark prediction that the cash portion of retail sales will contract by 2.54 percentage points annually over the next several years.

From "Payment Choice and the Future of Currency: Insights From Two Billion Retail Transactions"
Richmondfed.org (04/01/14) Wang, Zu; Wolman, Alexander L.

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Tokenization Could Help Define Next Generation of Card Payments

Modern tokenization services, in combination with point-to-point encryption, could potentially address the problem of mag-stripe weaknesses, and also make the EMV standard a viable security instrument for U.S. retailers and banks. However, there is uncertainty over who will be shaping the rules and covering the costs for the new payment system once the frenzy to declare a new standard has died down. The ineffectiveness of PCI prompted merchants to start implementing tokenization on their own initiative more than five years ago. Tokenization's slightly higher costs than mag-stripe are more than outweighed by the removal of the anxiety of waiting for an inevitable data breach. The first move in the tokenization race was made last July by The Clearing House consortium, with its debut of bank support for tokens via a pilot that substituted quick response codes and tokens for secure elements in mobile devices. In response, Visa, MasterCard, and American Express entered the tokenization fray with their October 2013 announcement that they would develop industry standards.

The following month, Google's announcement that its host card emulation (HCE) technology could circumvent the secure element in mobile handsets shocked the payments sector, which speculated this could end NFC's viability. Meanwhile, concerns over the costs of EMV spurred the U.S. Federal Reserve to confer about whether the standard had to be updated and improved by switching to a chip standard run by a broader organization than EMVCo. Shortly after, Visa disclosed at an EMV Migration Forum meeting that its new tokenization program would probably carry new merchant/issuer services and fees, and admitted the program did not meet the challenge of preventing the acquisition of fraudulent tokens when stolen account credentials were used for enrollment. MasterCard told the Smart Card Alliance Payments Summit that its tokenization effort would feature tools for issuers to authenticate account enrollments, using mobile and other digital information to validate the funding account enrollment.

Further developments that intensified the tokenization scramble included EMVCo's fast-tracking of a global standard for tokenizing the personal account number in transit, followed by Visa and MasterCard's announcement that they would adopt HCE. After additional jockeying, Visa and MasterCard disclosed their plan to form an industry ecosystem group to build the best path to secure payments. The group' stated goals included advancing the U.S.'s EMV migration, promoting additional security solutions such as tokenization and point-to-point encryption, and crafting an actionable roadmap for securing the future across all payments industry segments. Skepticism abounds, however, about the card brands' promises because of their past role in encouraging mag-stripe usage and their promotion of inferior EMV and NFC card-emulation solutions on the market.

From "The Furious Battle to Control Tokenization"
Digital Transactions (04/01/14) Vol. 11, No. 4, P. 38 Mott, Steve

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Most Companies Boosting Security Measures to Prevent Payment Fraud

Most Association for Financial Professionals member companies reported they are either increasing or considering increasing payment fraud prevention security measures, according to an AFP survey of more than 5,000 organizations. Sixty-three percent of respondents said they have either added or are planning to add new safeguards, including secure signature stamps, electronic stamps, and storing payment data with third-party vendors. The poll also found that companies are preparing for the shift in credit/debit card liability from issuers to retailers. Twenty-two percent of respondents that accept credit/debit card transactions expect the impact from investing in card acceptance fraud to be significant while 50 percent anticipate some impact.

"With potential liability increasing for merchants, companies are taking a hard look at where their own vulnerabilities lie," says AFP CEO Jim Kaitz. "This is especially important for big companies with complex systems, which are frequent targets for fraud." The National Retail Federation recently urged better payment card technology to provide additional security measures after the Target holiday data breach last year. Although the parties ultimately responsible for new security upgrades remain undecided, ETA says the payment processing sector is already focusing on the problem. One solution in development is EMV cards, which would help thwart the creation of bogus cards using stolen account numbers. Some 92 percent of AFP survey respondents expect EMV will dramatically or somewhat reduce card fraud.

AFP's Magnus Carlsson says last year's card-fraud results were surprising and may signal that crooks are moving quickly to exploit the U.S.'s mag-stripe-based card system before the adoption of EMV chips. "We kind of lack the security measures that are common overseas [like EMV]," he acknowledges. Meanwhile, fewer companies reported fraud exposure on automated clearing house (ACH) debits, but slightly more reported attempted or actual fraud on ACH credits. There also was a rise in wire transfer fraud, with 14 percent reporting fraud exposure compared to 11 percent in 2012. For all payment methods, AFP members reported attempted and actual fraud declined to 60 percent, the lowest number seen since the first year of the survey, when 55 percent reported fraud exposure.

From "Study: Companies Upping Security Ante to Avoid Payment Fraud"
Associations Now (04/07/14) Bascuas, Katie

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Current Payments News

Study Indicates Dramatic Shift in Use of Cards and Checks

The preliminary results for the U.S. Federal Reserve of Atlanta's 2013 Federal Reserve Payment Study indicate dramatic shifts since congressional passage of the Check Clearing for the 21st Century Act in 2003. Paper checks, which accounted for 46 percent of noncash payments in 2003, constituted just 15 percent in 2012. Consequently, automated clearinghouse (ACH) transactions—many of which originate from the conversion of paper checks to ACH—slowed down, expanding only 5.1 percent from 2009 to 2012, versus 10.9 percent growth from 2003 to 2012. One trend underlying this slowdown is the number of business payments to consumers and consumer online payments using ACH increasing faster than the overall number of ACH payments. Meanwhile, payment cards continued growing, comprising 67 percent of consumer and business noncash payments in 2012 compared to 43 percent in 2003. Prepaid card payments grew the fastest of all noncash payments, with yearly expansion of 15.8 percent. Some 122.8 billion non-cash payments were made in 2012, up 4.4 percent from 2009 and totaling $79 trillion. Checks comprised 33 percent of payments in 2012, for a total of $26 trillion. The study also found the number of credit card payments was about half that of debit card payments in 2012. Prepaid card payments rose at the fastest rate from 2009 to 2012, totaling 9.2 billion transactions in 2012.

From "How We Pay: Results From the Federal Reserve's Latest Payments Study"
Payments News (04/24/14)

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Finance and Treasury Departments Are Wary of Bitcoin

The qualities that make people excited about the potential of Bitcoin, particularly the absence of regulation, are serious flaws that hamper the virtual currency's trustworthiness and thus its viability, according to many investors and corporate treasurers. "The lack of a central authority means that the Bitcoin payment system is not really run by anyone or anything," says Temple University's Nikolei Kaplanov. Fundtech's Gene Neyer also takes issue with Bitcoin, noting the boundaries or constraints to inflation or deflation of the currency cannot be predicted. "Although there was a small argument made for the [foreign exchange] efficiency of Bitcoin, it pales in comparison to the negatives: namely, finding and dealing with parties that will accept Bitcoin and not having any regulatory dispute resolution under the [Uniform Commercial Code] or similar," Neyer says. Price volatility driven by wide speculation also adds to Bitcoin's instability. The disappearance of a vast trove of Bitcoins deposited by users at the Mt. Gox exchange demonstrates that depositors have neither protection nor insurance against theft and bank runs, says New York University professor Aswath Damodaran. "The Bitcoin economy may need a banking system of its own that is regulated and perhaps even insured by a centralized entity," he notes. Meanwhile, governments are still struggling with the issue of how Bitcoin can and will be regulated.

From "In Bitcoin We Don't Trust"
CFO.com (04/24/14) Ryan, Vincent

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Visa to Cut Half Its Operating Rules to Lower Payment Costs

Visa CEO Charles W. Scharf says Visa is significantly revising its rules for merchant acquirers, merchants, and card issuers. He says Visa will eliminate nearly 50 percent of the more than 1,500 pages of operating rules in its fixed acquirer network fee in an effort to make Visa more attractive for small merchants with less than $15,000 in annual transactions. “This includes reducing the complexity of our dispute-resolution processes," Scharf notes. He says the decision to downsize the rules came after feedback from issuers, merchants, and acquirers. Scharf says the consensus was "we were probably pretty difficult to deal with." He notes the reductions will be focused on chargebacks, processes, reporting requirements, and documentation. The changes will go into effect on Oct. 1, and Scharf says there may be more changes to come after that. “We want people to enjoy doing business with us, and that we treat them openly, fairly, and clearly,” he says.

From "Seeking to Become More User-Friendly, Visa Will Eliminate Half of Its Operating Rules"
Digital Transactions (04/24/14) Daly, Jim

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NACHA Plans Phased Approach to Same-Day ACH Settlement

NACHA—the Electronic Payments Association announced that it will follow a phased approach to deploying new functionality as a first step toward a ubiquitous, same-day automated clearing house (ACH) settlement capability. NACHA plans to move the ACH Network from next-day settlement to multiple, same-day settlement options that would be available for virtually any ACH Network transaction. “A phased implementation enables us to introduce new capabilities more quickly, and then continue to build over time, creating value for all participants at each step along the way,” says NACHA CEO Janet Estep. The functionality outlined by NACHA includes multiple, new settlement windows, and more certainty around faster funds availability. The initial phase would supply a platform to better enable same-day ACH credits to support key use cases such as payroll, person-to-person payments, and expedited billpay. The second phase would roll out same-day ACH debits and facilitate various consumer bill payment use cases such as utility, mortgage, loan, and credit card payments. The following phase would enhance the service level across the ACH Network and lower counter-party risk by adding a second same-day settlement and accelerating funds availability. NACHA is initiating a study to evaluate the industry's costs and potential transaction volume for same-day ACH in order to collect data to inform rule-making that could be held as soon as fall 2014.

From "Phased Approach Toward Same-Day ACH Settlement Planned"
ABA Banking Journal (04/15/14) Ginovsky, John

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Study Points to Low-Cost Protection for Payment Systems

Retailers, hotels, and restaurants do not necessarily need to spend more to protect information and payment systems, according to the annual report from Verizon on cybercrime. Nearly 200 payment systems were hacked last year, and most could have been better protected by making sure passwords are not set to factory defaults and not using social media accounts on point-of-sale systems. Verizon's cybersecurity team also recommends running the payment system on a separate system from corporate email and other functions. "It's about doing the right things," says report co-author Chris Porter. "There are things organizations can do that require elbow grease and work." Although the number of times hackers successfully stole data from POS systems declined from previous years to 198, Porter says fraudsters have become more advanced and many cases were not disclosed. Verizon says there were 1,367 data breaches in 2013.

From "Verizon Points to Low-Cost Protection for Payment Systems"
Wall Street Journal (04/22/14) Yadron, Danny

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Has E-Procurement Peaked?

The pace at which companies are adapting a new enterprise strategy for procurement has halted in recent years, which may signal saturation for strategic transformation with e-procurement strategies, according to a January Zycus survey of more than 300 procurement executives and professionals. The report estimates that 76 percent of respondents were either already using e-sourcing or were planning an imminent deployment, versus 65 percent in 2012. The bulk of operational expansion continues to concentrate on cumulative cost-saving strategies. The majority of executives think the technology profiles are far removed from ideal and they are still seeking greater integrations in their procurement solutions to support higher-quality, more combined, and predictive business intelligence. A substantial number of enterprises said they lack plans to roll out an e-sourcing or other complementary systems to oversee the procurement of products. More than 20 percent acknowledged they do not have plans to launch e-sourcing, procure-to-pay, or procurement management systems. This is unusual because for simple categories, companies with deployed peer-to-peer solutions exhibit weighted average order cycle times half as long as companies without P2P solutions. For services, the improvement is just 11 compared to 13 days. “Looking at investment interest by major procurement technology category, e-sourcing shows the largest increase from 2012 with the percentage [of companies] already using the technology or planning to invest” in it, Zycus observes.

From "Has E-Procurement Peaked?"
Pymnts.com (04/24/14)

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