Vizant INSIGHT
from the Payments and Treasury Expert

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Analytics on Steriods

Business intelligence (BI), analytics and big data are the tools that many decision makers utilize to drive decision making in today's business world. However, most organizations do not use the best or most effective methods when it comes to BI, analytics and big data. It is not that simple, as there are many forms and shapes of analytics, big data and BI. The result is this: decision making that is narrowly focused due to inadequate business intelligence, analytics and big data and/or the misinterpretation of one or all of them.

Business intelligence is not the end-all solution and approach that so many experts tout. The reason is simple: business intelligence, at its core, is no more than a very basic approach. Why? Business intelligence is all about telling us what 'already' happened and what 'may' happen. While this is also known as predictive analytics, it surely does not help a business decision maker with planning what to do if the 'what may occur' actually occurs. So, predicting something is of little value if it is not conjoined with an action plan to deal with the prediction coming true.

For example, let's say you are a car rental agency. You are analyzing the car rental activity in a particular region for a period of time. You are using business intelligence and predictive analytics to give you insight to rental activity, seasonal fluctuations and car rental mix. This will give you guidance into the mix over a past period, but does it really help you with the future? Does it help you in planning the most efficient way to maximize resources? How does the decision maker determine what the rental car mix and allocation should be, since he/she does not really know what the rental car demand will actually be? How does future rental activity transpire and what should the associated fleet resources be? How should they be allocated? How should they be priced? How can he or she maximize profitability in the next 12 months?

This is where a new form of analytics comes into play, known as "*Prescriptive Analytics*," also known as a 'prescription for action.'

Prescriptive analytics are all about using a prescription, or preparedness plan, so a decision maker can maximize resources and profitability given certain business rules, customer demand and behavior. The airline industry has been a master at using prescriptive analytics to determine seat allocation to each class and the associated pricing. This type of analysis is not a simple undertaking, as it requires an organization to have an integrated analytics environment that is capable of this type of intense deep dive into data points, business rules and predictive modeling. For example, in the airline industry, margins are very thin. This requires a frequent and ongoing proactive or prescriptive analytics approach. An unexpected event like bad weather will require new resource planning as to seats and planes, i.e. optimizing the assets that are available.

The biggest problem with prescriptive analytics is that it requires the creation and maintenance of a large set of business rules; it could be thousands for a large organization. There can be immense overhead and a high error rate with so many variables. It only works if the analytics approach is integrated into every information system and every data base within an organization. It requires 'buy-in' from all

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functions and departments in an organization. The rewards can be game changing: the combination of business intelligence, predictive analytics and business rules can truly transform a company.

What does all of this mean? With advanced prescriptive analytics, along with tools and solutions, organizations can achieve an almost real time resource optimization and the resulting profitability. We no longer live in a world where pure data, or lots of it, are of any value. Data, information and business intelligence must be coupled with prescriptive analytics so that one can plan how to maximize the finances of expected and unexpected future events.

Currently, almost all analytical systems, approaches and technologies are concerned with 'what has happened' or 'what will happen.' Prescriptive analytics tell us *how* to best deploy resources and to optimize operational activities, all with one goal in mind: increase bottom line profitability.

In the world of inbound payments, outbound payments and treasury operations, think of how much value can be delivered to your organization with the utilization of prescriptive analytics. You will be able to allocate people and system resources and optimize all aspects of the management and control of money and funds movement. Your organization would be prepared for a new payment system/method or a new banking product/service being introduced into the marketplace, one that does not exist today. Most importantly, you can reasonably plan for the associated resources and the associated bottom line impact.

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Featured Articles

U.S. Organizations Plan to Adopt Digital Currencies

Seventy-nine percent of U.S. organizations intend to support digital currencies in the future, while 80 percent expect paper currencies to be overtaken by virtual currencies, according to a Hewlett-Packard survey. The study indicates growing positive perception of electronic payment systems, including digital currencies. However, despite the popularity of mobile wallets, respondents' concerns about security have not been assuaged. HP found 60 percent of respondents said digital currencies are a critical component of their organization's electronic payment strategy, with 26 percent saying they "strongly agree" with that sentiment. Mobile payments were especially well regarded in respondents' future outlook, with 75 percent verifying their organizations' plan to offer mobile payments support in the near future, and 59 percent saying they will integrate support for stored value cards. Meanwhile, 43 percent said digital currencies will have a role in their mobile payment strategy.

About Vizant

Vizant is a financial consulting and advisory firm with a specialty focus in the area of inbound financial payments and treasury operations. We work with organizations to maximize the efficiency of their payments and treasury environment. Our unrelenting focus is to attain the lowest possible cost to accept and manage all types of financial payments. We are unlike any other professional services or advisory firm, as we operate with a 100% results based performance pricing model.

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Of those respondents convinced digital currencies will overtake paper currencies, most expected this to happen within five to 10 years. Respondents expect digital wallet adoption to be swifter, with 24 percent planning to adopt them over the next two years, while another 56 percent said they would do so in five to 10 years. Still, only 14 percent of respondents said their organizations currently support digital currencies, although interest is growing. Eleven percent said they planned to integrate digital currency support in the next six months, compared to 9 percent expecting integration over the next year. Forty-five percent of respondents said they plan to deploy support for digital currencies more than 12 months from now, versus 21 percent with no plans for support.

Forty percent of respondents cited acceptance of paperless or virtual currencies as essential to their organization's innovative e-payment strategy, while 43 percent called it "very important." A majority of respondents listed one-time passwords or tokens as the most important security strategies, while federated identity and authentication systems and multi-factor authentication respectively came in second and third in terms of priority. In addition, most respondents said digital currency acceptance would decrease the security and integrity of e-payments.

From "HP Survey: 79% of U.S. Organizations Plan to Adopt Digital Currencies"
CoinDesk (11/13/14) Hajdarbegovic, Nermin

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B2B Payment Tech More Popular Among Smaller Businesses

Business-to-business payment startups are finding smaller businesses to be more receptive to offerings than larger firms. Zipmark CEO Jay Bhattacharya believes B2B adoption will be fueled by "the Ubers and Airbnbs and Etsys" that work with many smaller businesses with extreme sensitivity to cash flow. For example, Zipmark provides businesses an application programming interface for taking digital checks, and its customers include the CrowdTap marketplace, which matches brands with consumers who create social media content promoting the brand. "As these [marketplace] companies emerge, typically payments isn't the first thing on their plate—getting suppliers to the platform is," Bhattacharya notes. "But as soon as they get a modicum of success, payments become an issue." Bhattacharya says ZipMark's recent merger with WorkingPoint also enables the vendor to offer services and attendant scalability to small businesses.

B2B payments are perceived as being less "sexy" than consumer payments, which partly explains why startups took such a long time to become interested in the B2B market. Forrester Research now forecasts B2B commerce will reach $1 trillion in 2014, about quadruple the size of the business-to-consumer market. Last year saw the launch of several B2B payment-oriented incubators and accelerators. Globally, 6 billion B2B checks are written annually with the average check size about $1,400, totaling $8.4 trillion in check volume yearly, according to the 2013 Federal Reserve Payments Study. B2B platforms that digitize the procurement process and the payment are particularly valuable in the U.S. where overall check volume is $21 billion, notes Apruve founder Michael Noble.

"Especially in B2B where you have traditional catalog companies...these companies are projected to do close to 50 percent of their revenue online next year," Noble says. "Companies are realizing there are efficiencies to be gained within B2B commerce—and consumer insights to be gained, but the payment process is still a big opportunity." Meanwhile, some startups are exploiting blockchain settlement stemming from the advent of bitcoin to enable seamless, inexpensive B2B commerce.

From "B2B Payment Tech Gets a Bigger Boost From Smaller Merchants"
PaymentsSource (11/17/14) Reutzel, Bailey

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The 10 Most Pressing Issues in E-Payments in 2014

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Among the urgent issues surrounding electronic payments in the past year is the battle between competing payments industry interests concerning tokenization, with particular focus on the use of static versus dynamic tokens. Also concerning is Visa and MasterCard's use of closed token standards to become more predominant in the EMV and mobile payment spaces, and merchant trade groups have called for an open tokenization approach in response to these trends. Another issue is Apple's goal to revitalize the mobile wallet with its Apple Pay service, which has no guarantee of success or any upfront benefits for consumers or merchants, but its marketing savvy is one factor in its favor. Rampant retail data breaches have come to the fore in 2014, and contributing to them is many merchants' dislike of meeting PCI's myriad rules. EMV will reduce card counterfeiting at physical retailers, but it offers no special security for online payments, and once again Apple Pay, with biometrics and tokenization, promises to help—if it can prove itself in the mass market.

Of interest to payments companies this year was strife over Operation Choke Point, which has been interpreted as either a blanket crackdown on third-party payment providers or a narrow attack on specific fraudulent conduct, with backers saying the operation seeks to halt enablement of fraudsters by banks and processors. The advent of value-added point-of-sale technology resellers as direct rivals to ISOs also is a key issue, offering both opportunities and aggravation for traditional ISOs; crafty ISOs will determine how to collaborate with resellers for mutual advantage. Meanwhile, payment players' EMV deployment is racing against an October 2015 fraud liability deadline, which hinges on merchant adoption of EMV-enabled POS terminals. Amazon is drawing attention with its tablet/smartphone-enabled Amazon Local Register payment service, which aims to intensify competition.

Other e-payment-related issues include virtual currencies' pursuit of legitimacy with the payments industry, despite growing regulatory scrutiny and their perception by acquirers as a threat to card-based revenues. Meanwhile, NACHA stepped up efforts to introduce same-day ACH payment settlement, which if ratified could complicate things for banks. Another significant pressure is finding and hiring exceptional merchant acceptance salespeople in the face of changing services and technology, with agents being increasingly required to focus on business solutions that cover sales-encouraging hardware and software.

From "The 10 Most Pressing Issues in E-Payments: 2014"
Digital Transactions (11/14) Vol. 11, No. 11, P. 30 Stewart, John; Woodward, Kevin; Daly, Jim

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Current Payments News

Faster Payment Settlement May Not Resolve Liquidity Issues

There is no simple answer to the issue of whether a faster payment settlement solution from the Federal Reserve will address liquidity issues inherent in many current payment schemes, writes the Atlanta Fed's Julius Weyman. He says the pressure on liquidity businesses experience when they must replace goods but may not have received payment to cover the resupply stems from the lag-time in settlement between issuers and banks when a customer pays with a payment card. Weyman cites Fed representatives' observation that "real-time settlement is not required for real-time availability." The implication is that a faster payments system may not include immediate settlement, at least at the outset. "And if settlement does not occur simultaneously with messaging, certain parties in the transaction remain exposed to liquidity as well as other settlement risks," Weyman notes. He offers Britain's recent launch of real-time clearing and availability without real-time settlement as an example of one arrangement that is not dogged by settlement risk, but acknowledges other countries' incorporation of real-time settlement within their new systems because it reduces systemic risk. "If a new system here is to be built from scratch, it seems important to probe fully the range of design issues and options and consider solving all of the longstanding payment risks that can be feasibly solved," Weyman says.

From "What's Unsettled in Faster Payments?"
Portals and Rails (11/24/14) Weyman, Julius

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Midsized Companies Face Unique Payment Challenges in Europe

Expansion into European markets presents novel challenges to North American mid-market companies, with payments a particularly formidable area. Reliance on checks has declined significantly in Europe over the last four years, although this erosion is inconsistent throughout the continent. Meanwhile, the balance of payment tools in Europe is moving toward cards, ACH credit transfers, and direct debits, which means midsized firms must be ready to adjust to such shifts to best serve their European customers. Implementation of the Single European Payments Area (SEPA) removed the need for individual domestic accounts for many payments instruments, but localization is still an important factor in overseas expansion, as SEPA continues to be deployed differently at a domestic level. In addition, account opening and reporting requirements all demand localized payment methods for global corporates. Repatriation of funds to the U.S. also is a major issue for U.S. mid-market companies with European operations, and an area where treasury managers may lack experience outside dollar-denominated cash handling. Treasurers must usually contend with three issues—managing a local treasury manager's funding requirements, deciding what type of provider to employ for third-party platforms, and ascertaining the denomination of an invoice for a buyer or overseas supplier.

From "Mid-Sized Companies Face Unique Payment Challenges in Europe"
PaymentsSource (11/13/14) Weaving, Alex

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PCI Council Looks to Stem Data Breaches With New Technology

In the wake of one of the worst years for payment card security, the PCI Security Standards Council is seeking improved breach prevention through emerging technologies. The council is meeting in Sydney to help industry players deploy better security practices, as the group's Jeremy King estimates up to 2.3 billion records were compromised in 2014. Many merchants are discovering their compliance with the PCI Data Security Standard does not render them immune to hacks if configuration errors are left unchecked. As of Jan. 1, 2015, organizations must be adherent to PCI-DSS 3.0, and many of the improvements businesses can implement are process-oriented, such as changing default passwords for remote login systems and making sure all card data is encrypted when it is idle. King thinks face-to-face and lost card fraud should be impacted by the U.S. adoption of EMV technology. Meanwhile, incoming PCI Council general manager Stephen W. Orfei says recent breaches at least have spread awareness of data security among C-level executives. He also stresses all of the breaches were preventable, and notes the industry is examining ways of making stolen card data worthless to criminals via solutions such as point-to-point encryption and tokenization. "You can actually devalue the data, and that is the end game," Orfei says.

From "PCI Council Looks for Ways to Stem Data Breaches After Bad Year"
IDG News Service (11/18/14) Kirk, Jeremy

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Bitcoin Startups May Get Transitional License in New York

New York may allocate transitional licenses to virtual currency companies and startups, giving them room to expand before hitting them with a full roster of new rules to comply with, according to the office of New York financial services superintendent Benjamin Lawsky. "There has to be a way for startups to start up and play by the rules without getting crushed by huge compliance costs," he says. "To that point, we are considering creating a special type of 'Transitional BitLicense.'" Lawsky has been working on a BitLicense to guarantee virtual currency firms shield consumers and help foil money laundering, and he said when proposing the license model in July that he wanted to safeguard people and thwart malfeasance without choking innovation. He says the transitional license would give startups and small businesses a more flexible framework in which to operate for a set interval, when they would undergo individualized examinations. Lawsky also notes his office may weigh the scope of the business, the amount of money handled, and consumers' risk when considering applications.

From "Bitcoin Startups May Get Transitional License in New York"
Bloomberg (11/03/14) Kharif, Olga

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EMV Having Little Effect on Card Not Present Fraud

The U.S. transition to EMV payments is expected to have little impact on card not present (CNP) fraud, which is projected to rise dramatically during the next several years, according to a new Javelin Strategy & Research report. The study predicts CNP fraud will be fueled by explosive growth in online transactions, unless businesses deploy online fraud prevention measures more widely. Javelin foresees CNP fraud climbing to more than $18 billion in 2018 whether the U.S. switches to EMV or not, with most of that growth spurred by e-commerce sales increasing from $351.9 billion in 2013 to $486.3 billion in 2018. "In Europe, EMV deployments were correlated with increases in card not present fraud," notes Javelin analyst Nick Holland. "That mythology has been transcribed to the U.S. market. Retailers think that if you bring in EMV, they will get a net negative. They think you’re just moving fraud to online." Still, Javelin expects retailers to benefit from EMV in the form of a significant decrease in in-person fraud at the point of sale. Holland says a key challenge for reducing CNP fraud is to incentivize retailers to deploy solutions to better protect online payments.

From "Report: CNP Fraud Going Up, Regardless of EMV"
Bank Systems & Technology (11/11/14) Camhi, Jonathan

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