



# INSIGHT

from the Payments and Treasury Expert

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## Does Invention, Innovation or Stagnation Best Describe the Payments Landscape Today?

Before answering this question, let's further define these terms:

The *Payments Landscape* encompasses a wide and varied list, including but not limited to the following: payment methods, payment types, payment technologies, payment systems, payment networks, banks, software applications, hardware devices, payment processors and many, many more.

*Invention* can be defined as a new process, new product, new machine, new procedure, new technology, etc., and one that did not exist previously and is the result of some unique intuition or genius.

*Innovation* can best be described as the addition, alteration, deviation, modernization, adaptation, etc., to an existing process, product, machine, procedure, technology, etc.

*Stagnation* is best described as a status or condition of having stopped, a failure to develop, progress or advance, and a state of very little happening.

Has there been any *Invention* in Payments over the last 10 years? One can state rather emphatically that there has been no "new" *Invention* in the payments world, with one exception: a possible new payment system by the name of Bitcoin. The simple fact is this: everything that is "new" in payments has been the result of *Innovation*, not *Invention*. Many think mobile payment applications and mobile payment devices constitute *Invention*. That is just not the case. Mobile payments are not a new technology and they are not a new payment system. Mobile phones have been around for a very long time. The payment methods used with mobile devices have been around a very long time. Mobile payments surely represent some *Innovation*, as they are an adaptation or alteration of an existing product or process for a new and more efficient use.

Some think reloadable payment cards (prepaid cards) are a new *Invention*. This is also not the case. In fact, they are really not that innovative, just a different way to create economic value on plastic. You also hear many so called experts stating that NFC (near field communications), which is used for Apple Pay and other mobile payments, is a new *Invention*. This is just not an accurate statement. While NFC has been in use for over ten years, it is no more than a child of RFID (radio frequency identification) technology, which has been around since the 1980's.

Apple Pay is often touted in the media and in the payments world as a new invention. There is no doubt that Apple has found a way to make mobile payments more consumer friendly, a little faster and a little more secure. However, Apple Pay is not a new *Invention* and one can say that it is not really a great and innovative payment application. Apple used an existing mobile phone product, existing NFC (RFID) technology, existing payment systems, existing payment networks and banks, and payment processors. This looks more like the proverbial "bright and new shiny paint job on a very old car."

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### About Vizant

Vizant is a financial consulting and advisory firm with a specialty focus in the area of inbound

There is no doubt Apple Pay will be forced in the retail face to face and mobile payment landscape. However, because it uses so many old and existing systems, the same problems have already beset it. Some Card Issuers have reported fraud rates with Apple Pay of 8% of transactions. Historically, fraud in payments is less than 1/10 of 1%. Surprisingly, the fraud is not with the finger print or tokenization security added to the phone, which is a big step forward. The fraud is with stolen cards being added to Apple Pay mobile application, which has little security. Thus, the fraud starts before any payment is ever made and tokenization cannot stop that. Criminals know how to beat a legacy payment system.

It is not just Apple Pay that speaks to innovation, but really offers the same old approach to payments. MCX, which has not yet launched and is expected to challenge Apple Pay, takes a different approach, using existing bar code technology (QR codes) to make mobile payments. MCX is all about reducing the cost of acceptance for merchants by using debit cards and ACH payments as the wallet funding and payment source.

The bottom line is this: There are only five electronic payment systems in the United States today. They are: ACH System, Checking System, Debit Card System, Credit Card System and the Wire Transfer System. These are the same payment systems that have been around for a very long time. This speaks to a simple fact: *There has been no New Invention in Payments and there has been very little Innovation in Payments.*

We are left with payment systems that are not real time, not fraud free, not efficient and not very innovative. It is the definition of *Stagnation*. Simply “bolting” on new payment applications and methods to existing and aging legacy payment systems is not very inventive or innovative. This results in costs that are ever rising. Businesses and Consumers deserve more alternatives and options, along with cheaper payment methods and payment types. We need New Invention. Otherwise, the efficiency and cost of inbound payments, outbound payments and treasury operations will continue to rise.

Vizant prides itself on delivering Efficiency and Cost Reduction to its clients. It is why we are recognized as the Thought Leader and Expert in Payments and Treasury.

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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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We are proud to announce the expansion of Vizant! Vizant Technologies will be opening a new office in Charlotte, North Carolina in the heart of the financial district. Charlotte was selected because of its large financial and banking presence, along with its associated large number of banking and treasury professionals. This location will service Vizant clients located in the south and southeastern United States.

The office is located at:  
One Resource Square  
Suite 320  
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The office phone number is 704-930-0132 .

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## Current Payments and Treasury News

### 5 Billing and Payments Trends for Treasurers

Treasury and finance professionals should be mindful of five trends as they strive to update their billing and payments processes. One trend is the continued use of paper statements for both monthly statements and business-to-business payments, in spite of the interest in online and mobile payments. Many who pay via the Web also ask for monthly paper statements for record-keeping purposes. A second, related trend is greater corporate investment in color print to make paper statements more eye-catching, as well to help correlate documents. Research by Pitney Bowes found the addition of color and relevant messages to the exterior of an envelope boosts open rates by 2.5 times, while transactional mail has an open rate of 97 percent and is usually read by a consumer for two to five minutes.

A third important trend is reconsideration of how payments are collected and processed, and companies using lockboxes might see their viability continue, yet may not necessarily investigate how to improve or even set up a true approach for lockbox operations. Of increasing importance is a lockbox's ability to integrate all payment types received into a single processing stream. Organizations with lockboxes also must guarantee their provider offers a remote deposit capture option so a company can scan payments that arrive at the office and ensure they immediately and smoothly enter the payments stream.

Meanwhile, consumers' expectation of access to online and mobile self-service options is growing to the point where they are a necessity instead of an indulgence. The fifth trend involves the integration of all payment channels via a single platform that accommodates both printed and electronic bills and payments. Payment channel unification enables financial professionals to obtain the transparency they require into an organization's cash flow and treasury operations.

From "5 Billing and Payments Trends for Treasurers"  
*FinYear (03/01/15) Shiver, Todd*

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### Cash Management and the History of Global Treasury

Cash management remains a local or regional task for many companies despite the perception it would be standardized globally. The continued localization of cash management is rooted in differences between Europe and North America that supported key infrastructural and attitudinal variances in how cash management operates between the continents. The heterogeneity of currencies and their associated risks in Europe has led to a system in which treasury is either conducted separately per location, or within the hubs of London, Frankfurt, or Zurich. By contrast, U.S. treasury operations have had one main currency to support, enabling

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a uniform payment infrastructure and greater centralization of U.S. dollar cash management. U.S. treasury also tends to concentrate more on short-term cash management instead of long-term because of the continued use of paper checks. Meanwhile, the Eurozone's routine use of electronic payments has placed greater focus on mid-term and long-term cash management.

European and American treasuries also diverge in terms of their accounting roles, with treasury and accounting functions generally independent in the former and more tightly interwoven in the latter. Technology alone cannot remove European and American treasury's dissimilarities, and the initial area of concentration should be bank transactions. The unification of electronic banking standards, which have been undertaken in Europe, can be viewed as the first step toward reconciliation of cash management and treasury management overall. A major force in Eurozone standardization is the adoption of the SEPA framework, and the SWIFT MT940 standard offers companies real value by broadening electronic transaction options.

However, few corporations are prioritizing the connection and integration of all company components to enable global treasury, and this is where the most growth needs to occur. The U.S. financial crisis has spurred many major U.S. firms to give board-level attention to the need for global cash forecasting, and a global liquidity management and debt strategy. It is ultimately the treasurer's responsibility to push for a reconfiguration of treasury's organization around new technologies and standards to support a global and integrated focus.

From "Cash Management and the History of Global Treasury"  
*Treasury Management International* (03/15) No. 228, P. 21 Bellin, Martin

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#### Businesses Seek Best Ways to Manage Cash Flow

Businesses are seeking new strategies for squeezing the maximum cash-flow value out of working capital, which means it is increasingly important to closely monitor how rapidly invoices are settled by customers and to ensure bills are paid on time. Experts say these strategies promise to deliver benefits of far greater value to companies than a few cents off the unit costs of supplies. Ways to help this process include ensuring financial operation teams are carefully following fundamental cash management disciplines when readying payments with the correct value date, as well as timely collection. Related tasks include estimating a company's needed working capital and optimizing its deployment.

Focusing on the company's cash-flow business can help extricate firms from the dilemma of suppliers asking for earlier payment and customers demanding better credit terms. Despite the long-term availability of numerous compelling liquidity management tools and techniques to treasurers, there remains an overabundance of companies borrowing, yet with enough cash to cover the debt. Appropriate and dynamic controls of such balances in diverse markets and currencies will substantially bolster the bottom line.

Meanwhile, the use of a single global bank can lead to a significant reduction of the financial strain both within multinational firms and their suppliers/clients. The use of technology often offers the best tools that combine these various developments together, enabling a new degree of transparency and speed with a transformative effect on cash management. For example, centralizing treasury and financial process operations yields a transparent real-time perspective of businesses' position and cash deployment optimization, and all but the smallest operators can now conduct outstanding global cash management thanks to technology.

From "Sound Management of Financial Flows Critical"  
*The Nation (Thailand)* (03/09/15) Chayapirad, Rachakorn

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#### Remittance Coalition Proposes B2B Payments 'Phonebook'

The Remittance Coalition aims to accelerate its push toward more efficient business-to-business (B2B) payments by launching a new platform called the B2B Payments Directory. The coalition announced the directory as a platform that would function as a "phone book" for electronic payment information, or a secure database of payees businesses will use to more easily access the data needed to settle invoices. MinteralTree CEO B.C. Krishna and Republic Services' Patti Ritter say the directory aims to support faster and seamless B2B payments at a time when corporate payments often still rely on paper checks to complete a transaction. Among the criteria the directory has to meet is the filing of accurate information, and the coalition is seeking to add this information via an Electronic Payee Identification, which includes all required data for electronic payments to occur. Featured in the identification would be basic information such as address and contact information, remittance specifications, and account information, according to the coalition. Moreover, the success of the database would depend on trust and integrity among all payers and payees, robust security, remittance data, and the platform having sufficient flexibility to integrate into businesses' existing operations.

From "Remittance Coalition Proposes B2B Payments 'Phonebook'"  
*Pymnts.com (03/09/15)*

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### Treasury Management Is Now About Value Creation, Not Profit

Corporations expect their treasury managers to devote more effort to value creation than profit generation, according to a new Treasury Strategies study, which surveyed 200 corporate treasuries and 33 treasury functions. Most respondents said their core agenda includes projects in cash forecasting, financial risk management and FX, access to credit, balance sheet optimization, and treasury management systems (TMS). In addition, respondents said they also intend to prioritize cross-site efforts, training, centralizing or decentralizing treasury functions, shared-service centers, integration with other business units, and other tasks relating to treasury's functional structure. Companies also expressed eagerness to investigate more integrated and powerful systems offering real-time data and reporting. TMS, enterprise resource planning systems, and investment portals ranked highest in terms of technology areas, although cybersecurity and exploring entirely new technology also were of interest. Seventy-five percent of respondents said they would concentrate on at least two of these areas during the coming year. In terms of treasury processes, the poll found conducting foreign exchange tasks, outbound payments and inbound receipts, short-term investments, and banking services were high priorities. Also highlighted as key areas of concern were more general issues such as operational efficiency, process documentation, and pooling structures.

From "Treasury Management Is Now About Value Creation, Not Profit"  
*Treasury Insider (03/02/15) Kennedy, Lindsey*

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### Security Essential to NACHA's Faster Payments Push

NACHA CEO Jan Estep stresses the importance of payment security and speed to both her organization and the Federal Reserve System, with NACHA moving forward with its plans for faster and more secure transactions. She says a newly established Board Advisory Group will assist NACHA in ensuring its agenda aligns with the needs of banking institutions, merchants, and others. Estep notes NACHA's continuing campaign to encourage broad same-day ACH adoption is essential to the Fed's vision of real-time payments. NACHA estimates the ACH network handles nearly \$39 trillion and almost 22 billion electronic payments yearly, and Estep says in addition to pushing same-day ACH, her agency is "doing more strategic work on directories, like cross-border payments." She notes the Board Advisory Group's role includes guaranteeing NACHA is addressing the concerns of a wide spectrum of industries. Meanwhile, Transactis CEO Joe Proto cites security related to faster payments as a primary issue for the new group. "Having the opportunity to come together as a group and ensure that we are knitted together for the common goals that we have around the movement of money and data, ensuring that security is always our first



and foremost priority, is really an opportunity for the Board Advisory Group to help lead and ensure that we're covering everything that is most important," he says.

From "How Faster Payments Could Reduce Fraud"  
*BankInfoSecurity.com (02/23/15) Kitten, Tracy*

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### Competition From Samsung Could Spur Mobile Payments Growth

Intense competition between Google, Samsung, and Apple could spur dramatic growth of mobile in-store payments, with Samsung recently unveiling Samsung Pay. Samsung Pay, in conjunction with Samsung's Galaxy S6 and Galaxy S6 Edge smartphones, incorporates older NFC and LoopPay's magnetic secure transmission (MST) technology so users will be able to make transactions at up to 90 percent of the approximately 12 million payment sites at U.S. outlets. By contrast, Apple Pay and Google Wallet depend on newer NFC-enabled payment terminals, which should spread to about 50 percent of point-of-sale locations by the end of the year. MasterCard verified plans to support Samsung Pay by implementing tokenization software for both magnetic and NFC payments, while Samsung says Visa and American Express will do the same. "We're viewing this MST as a bridge technology to enable consumers to take advantage of digital payments while NFC catches on," says MasterCard's Sherri Haymond. Meanwhile, Google Wallet will come pre-installed on new Android phones at Verizon, T-Mobile, and AT&T later this year via Google's acquisition of Softcard. Samsung Pay also differs from the MCX consortium's mobile payment products with its continued reliance on debit and credit cards and issuing banks, while analyst Jack Gold points to the value of business partnerships between mobile payment providers and retailers and financial institutions.

From "Battle Over Mobile Payments Is Raging"  
*Computerworld (03/01/15) Hamblen, Matt*

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### Improved Payment Security Can Cause More Inconvenience

As financial institutions, retailers, and payment solution vendors implement more security measures to fortify payments, the potential for added friction, or inconvenience, to financial transactions grows, according to the Atlanta Fed's David Lott. "In the payments environment, friction can be measured by the number and degree of barriers that impede a smooth and successful transaction flow," he notes. "Potential causes of friction in a payment transaction include lack of acceptance, slow speed, inaccuracy, high cost, numerous steps, and lack of reliability." For example, security-bolstering EMV cards, which must be left in the terminal for the duration of the transaction, cause friction. Merchants and financial institutions dislike friction because consumers who abandon transactions add up to lost revenue, and Lott writes payment industry players are striving to reduce friction in all types of payments. He says technology can help in this regard by presenting consumers with a diversity of payment form factors. "For example, smartphones can support integrated payment applications allowing the consumer to easily call up their payment credentials and execute a payment transaction at a merchant's terminal," Lott points out. In addition, online merchants are simplifying the checkout process by lowering the number of screens shoppers must navigate.

From "Does More Security Mean More Friction in Payments?"  
*Portals and Rails (02/02/15) Lott, David*

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### Cash Could Be Phased Out Within a Decade

Hard currency could be gone within 10 years as it is phased out in favor of electronic money, according to Australian National University (ANU) Research School of Economics professor Rabee Tourky. "One of the major economic issues we have now

is the emergence of this great experiment with electronic cash, such as Bitcoin," Tourky notes. "In 10 years' time there won't be any paper cash. The big question is what's going to replace it in Australia?" Tourky believes AusBit, a digital currency issued by the government, is a more likely replacement candidate than Bitcoin. The phasing out of hard currency could preview a new age of digital money such as cryptocurrency, and Tourky notes "it's quite clear that the central bank in Australia is going to have to issue electronic cash. It's also going to have some issues that cash as we know it doesn't have, such as privacy, anonymity, and perhaps the emergence of anonymous markets." Tourky says the rise of digital currencies are going to raise big open questions for economics and treasurers. "It's going to become a major issue for people studying money and banking," he says.

From "Cash Could Be Phased Out Within a Decade"  
*ANU Newsroom (03/03/15) Walker, Aaron*

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#### Bill.com Seeks to Grow Business Payments Network

Bill.com is now offering a digital payment product designed to expedite billing and payments for small and mid-sized businesses, and the company says it will use \$50 million in venture capital raised in a recent funding round to further upscale its core technology and grow its network. Bill.com CEO René Lacerte reports most companies still manage their accounts receivable and payments via manual processes, which means "there is a significant market opportunity for us and our esteemed bank partners to better serve our customers. With this new capital, we will continue to expand our core technology and fulfill our promise to deliver digital payments solutions to businesses nationwide." Lacerte emphasizes today's businesses want digital payments solutions that remove the hassles associated with the manual processing of payments, checks, and invoices, and Bill.com is committed to meeting that need.

From "Bill.com Raises \$50M to Grow Business Payments Network"  
*Silicon Valley Business Journal (02/11/15) Schubarth, Cromwell*

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