Vizant INSIGHT
from the Payments and Treasury Expert

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Are Payment Trends Affecting Your Organization?

The underlying foundation of our Economy is in the billions and billions of transactions and the resulting trillions and trillions of dollars in monetary value transfer, also known as "Payments." Non-government payments can generally be categorized into one of four types: 1) Business payments to consumers (B2C) 2) Business payments to other businesses (B2B), 3) Consumer payments to other consumers (C2C) and 4) Consumer payments to businesses (C2B). These four non-cash payments are at the core of how our economy functions every day.

The Federal Reserve System Payments Study (released in 2014), revealed some very surprising and foundational changing trends in payments, across all business and consumer payment channels. These trends impact every organization, from small to Fortune 500, that have inbound payments, treasury operations and outbound payments.

ACH payments, check payments and payment card payments experienced large swings in transaction volume from 2000 to 2012 (the period covered by the Federal Reserve Study). The number of "Checks Paid" through the checking system was 18.3 billion check transactions in 2012, versus 41.9 billion check transactions in 2000. Payment card payments (also known as commercial and consumer credit, debit and prepaid cards), constituted two-thirds (2/3) of all non-cash payment transactions in 2012, versus only one-third (1/3) in 2000. When you break out payment card payment transactions, debit and prepaid card transactions were double the number of credit card transactions. ACH payment transactions also showed a major shift, with transactions nearly tripling in count from 2000 to 2012, from 6.1 billion to 21.7 billion.

ACH debit and credit payments continue to increase and the expectation is that this will not change. As consumer and businesses move to automated payments and online payments, checks are being replaced by ACH payments. In 2012, the 21.7 billion of ACH payments equated to a total dollar value of $134.5 trillion dollars. The average ACH payment transaction in 2012 was $6,700, including both business and consumer ACH payments.

Wire Transfers, which are generally not used for day to day business and consumer transactions, represent a large dollar share of payment transactions, but a much smaller share of payment transactions. In 2012, there were only 287.5 million wire transfer transactions. However, they totaled a whopping $1,116.3 trillion dollars in dollar volume. By far, the wire transfer system is the largest dollar value payment system. Business wire transfers comprised 94% of wire transactions and 99.9% of wire transfer dollars. Wire transfers are the only true form of real time, risk free noncash payment.

The number of "checks paid" dropped to an all-time low in 2012, at 18.3 billion Check Transactions. From 2009 to 2012 alone, check usage dropped 9.2% per year. The total dollar value of checks paid in 2012 was $25.9 trillion dollars. An interesting fact is that the average dollar value of a check paid in 2012 was $1,410 versus $1,291 in 2009. The actual numbers of checks deposited at financial institutions in 2012 was 24.7 billion checks.

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Transactions and the associated dollar volume for general purpose commercial and consumer Payment Cards attained record numbers in 2014. Total dollar transactions crossed the $5.0 trillion dollar mark, reaching $5.14 trillion dollars in 2014, which represented a nearly 9% increase over 2013. VISA branded-credit, debit and prepaid cards led the way, with $2.9 trillion of the total dollars. The total number of transactions was an astounding 28.3 billion individual payment card transactions.

Online and mobile bill payments, which utilize one of the six core payment systems, continue to rise. In 2012, there were 2.5 billion online and mobile bill payment transactions initiated by accountholders. Online or mobile person to person payments totaled 138.0 million payments. In addition, mobile wallet payment transactions, using SMS messaging, mobile bar code applications, NFC and cloud based technology increased at a torrent pace. The Federal Reserve study indicated that there were 250 million mobile wallet transactions in 2012. Projections by most experts are that mobile wallet transactions will increase to 720 million transactions by 2017. With Apple Pay and other new emerging payment applications, mobile wallets and mobile banking will continue on a meteoric rise.

What does all this data mean? The payment type, payment channel and the payment method that is utilized, whether it is consumer or business, is critical to how an organization manages its inbound payments, its outbound payments and its treasury operations. Historically, the collection of revenue, receipts, payments and the management and disbursement of funds was seen as a rather mundane task. Well, those days are over.

Every organization must not only be customer friendly as to the types and methods of payments it accepts, it must also be well versed on the impact and timing of all inbound and outbound payment types. The many costs of the different payment types, the timing of payment receipts and the efficiency and management of inbound payments and outbound payments has an effect on operations, marketing, finance, procurement and every facet of an organization. Payments are no longer just a “finance” thing.

Vizant, as the premier thought leader and advisory firm in payments and treasury, can assist your organization in navigating an ever changing landscape.

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Payments and Treasury Insight

Current Payments and Treasury News

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The Changing Landscape of Real-Time Payments

A new SWIFT report evaluates the global real-time retail payments environment, and the trends and challenges impeding widespread adoption of real-time payments in a

(Greensboro, NC)
www.ccl.org

About Vizant

Vizant is an advisory firm and thought leader with a specialty focus in the area of inbound payments, treasury operations and outbound payments. We work with our clients to implement actionable and real world solutions that will maximize the efficiency and reduce the ongoing costs of their payments and treasury functions. Our business model is truly unique in the world of professional services and advisory firms: We operate with a 100% results based performance pricing model.

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business-to-business (B2B) and business-to-customer setting. Among the report's observations is that transaction-by-transaction real-time processing has gained more realism as the cost of technology declines, while mobile innovation is fueling demand as anytime/anywhere purchasing is more common. A migration from standard batch processing in deferred payments to real time necessitates investments in operational changes, and SWIFT says next-generation payment systems will require instant, irrevocable access to both payers' and payees' accounts for debiting, crediting, and confirmation. Also needed is 24/7 availability.

SWIFT also found real-time payment adoption is most pronounced in countries with strong regulatory support, and there is regional variation in the reasons underlying such support. Real-time payments in emerging countries can offer better banking opportunities to the unbanked or under-banked. Reducing the role of cash in B2B transactions to a minimum fortifies the formal economy, giving governments related taxes. In established markets, real-time payments can help accelerate economic growth. For example, if a business is paid in real time, its cash conversion cycle is shortened, generating required working capital and making it less dependent on costly short-term financing.

The prosperity of cross-border real-time payments will rely on the coexistence of differing real-time payment strategies such as legacy and newer models, which means interoperability will be crucial for banks, according to SWIFT's Juliette Kennel. Real-time B2B payments could apply transformative capabilities from conditional payments on large invoices to a more transparent view of working capital for everyday transactions. All stakeholders must collaborate to make progress. “Real-time is a growing trend led by consumer expectations, supported by regulatory reform,” Kennel says. “The industry is going to have to come up with ways to enable banks to offer real-time capabilities while keeping costs in check. Collaboration and innovation is going to be key.”

From "The Changing Landscape of Real-Time Payments"
Pymnts.com (04/27/15)

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The Art of Balancing Cash Flow and Electronic Payments

Bringing corporate cash flow into balance with an ever-shifting business environment is achievable via several approaches for lowering costs, simplifying processes, and guaranteeing the availability of cash to leverage business opportunities. One strategy involves the use of low-value electronic funds transfers, which can help trim costs and ensure funds are held as close as possible to required payment dates, thus minimizing the effect of no longer having a float from uncleared checks. In addition, vendors favor an electronic payment that is delivered on the assigned payment due date over checks, which can arrive late as well as be subject to an extended clearing time before the recipient receives full value.

Another strategy is to set up a controlled disbursement account, especially for vendors that cannot transition to electronic payments. The value of this option becomes clear in scenarios in which items experience substantial clearing times and delays when presented to the bank. A controlled disbursement account gives 24 hours' notice of an impending check, so accounts can be funded on an as-needed basis. Meanwhile, a vendor-management solution from a payments system provider is helpful in cases in which the migration to electronic payments is blocked only by the time needed to collect and manage banking beneficiary data. Such a solution would have a fully-integrated process that collects the data, assembles electronic beneficiary templates, and manages the database continuously, while removing much of the initial time investment holding up the decision to move ahead with the migration.

Bringing business processes and payment processing cutoff times and clearing cycles into alignment is a sensible strategy for companies that want to manage and maintain many domestic bank accounts for different purposes to boost the accuracy and timeliness of cost-based accounting accruals or reconciliations. Concurrently, managing account balances and ensuring adequate funding levels across multiple

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accounts is challenging from a fund availability perspective. Sweep accounts that automatically transfer net balances at day's end enable full account segregation. By focusing key cash management and transactional bank needs on a single specialist, the resulting volume discounts and processing efficiencies will almost always compensate for attrition of incremental relationships with marginal value.

From "The Art of Balancing Cash Flow and Electronic Payments"
FEI Daily (04/27/15) Frey, Mark

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Taking on International Supply Chain Payment Risks

Amid a strengthening U.S. economy, many corporate treasury managers are reviewing established payment practices so they can fully exploit new growth opportunities. For example, a well-considered review of the enterprise resource planning (ERP) system can help the company simplify and automate both supplier and intra-company international payments, while a fresh examination of the supplier master file or payee configurations also helps ascertain whether the company is paying in the best currency with the appropriate payment instrument. It is important when determining the best currency for supplier payments to know that each scenario can vary according to contract terms and supplier agreement, but overall there are advantages when payment is made in the supplier's local currency.

Putting the invoice in their currency instead of yours helps avoid any conflict with how the supplier came to the amount due in your currency such as when was it converted, and at what rate. At this stage, treasury managers should go over pricing terms with the supplier, as without having to account for FX volatility risk and conversion mark-ups, suppliers may be positioned to offer a reduction. To avoid losing the benefits of paying in local currency, the company should extend its process review to the payment treatment in its ERP system and subsequent reconciliation initiatives. The company also must be cognizant of the cross-currency payment modules available for its ERP system if they are not currently in use, as they may offer substantial process support as the organization migrates to supplier local currency payments.

The use of the low-value clearing systems for repetitive payments helps boost straight-through processing rates, provides significantly less expensive transaction fees, and minimizes the exposure to lifting fees that are often applied to wire payments. The company may need to collect additional banking details from its payees, update its vendor master record files, and notify suppliers of the payment method change; the effort may be worthwhile in terms of potential shrinkage in fees for both parties. Operational insights and efficiencies also can be realized via detailed, systematic analysis of the costs and benefits of paying in local currencies. To be featured in the analysis are the costs of any system alterations, and training for staff to use new system modules and learn new processes, FX management, and risk considerations. In general, any ad-hoc changes to ERP systems to include multi-currency payments are less efficient and less sustainable than modules built for such purposes. Moreover, the company should calculate the impact of lower supplier prices, potential FX management savings, staff savings from reduced investigation, and reconciliation work.

From "Taking on International Supply Chain FX Risks"
Treasury Management International (04/15) Kretz, David

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Same-Day ACH Settlement Could Reshape Pricing Approach

Both merchants and financial institutions that accept payments transactions via the ACH network would pay a significant toll as part of a proposed same-day settlement plan, with experts at NACHA's Payments 2015 Conference noting the toll could reshape banks' pricing of ACH services. The plan is designed to establish a system to clear and settle most ACH transactions the same day, and NACHA calculates receiving financial institutions will subsequently incur $49 million in net new operating costs and $118 million in deployment costs by 2027. Much of these expenses are tied to a need for more rigorous review of transactions for risk, more comprehensive reporting systems, and greater due diligence directed at originators, say conference speakers. The NACHA plan calls for an 8.2 cent interbank fee on each transaction, to be paid by originating institutions to receiving institutions as remuneration for these costs and to offer some return on investment. Merchant groups are concerned originating banks will hand off the fee to them. But speakers say originating institutions should price the service to merchants based on a combination of factors, instead of imposing one universal fee. Such variables could include the merchant's SIC code, the value of the entry, the mix of debits and credits, and return rates, according to former NACHA CEO Elliott C. McEntee.

From "New Costs Imposed on Banks by Same-Day ACH Could Reshape Pricing Approach"
DigitalTransactions.net (04/23/15) Stewart, John

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W3C Developing Standards for Digital Payments

The World Wide Web Consortium (W3C) is developing online payments standards that could be beneficial to all players in the payments value chain, which should improve consumer usability and choice, says W3C's Ian Jacobs. He also says standardization should make online shopping more accessible to the under- or underbanked, and W3C is engaging with other payment standards groups—such as EMVCo and the FIDO Alliance—to ensure interoperability between its standard and theirs. The wariness payment industry stakeholders felt toward standardization in past years appears to have given way to a desire for collaboration. Jacobs observes a push to address fragmentation stemming from the success of mobile computing, the demand for more security, and rising interest in cryptocurrencies. Digital and mobile wallets are a key area of focus for a W3C Web payments interest group tasked with identifying the requirements, use cases, and framework for standardized Web payments. The group wants to define an architecture for a mobile wallet application programming interface enabling providers to compete on services while also disbanding the conflict over the point of sale with differing technology. Jacobs says the group also wants to ensure merchants' branded payments instruments are visible and easy to use at checkout.

From "Mobile, Web Payment Standards to Stem From Industry Collaboration"
PaymentsSource (04/17/15) Reutzel, Bailey

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Why B2B E-Commerce Is Set to Grow

Although the migration to business-to-business (B2B) e-commerce has been slow, such sales are expected to experience substantial growth over the next five years, according to a new Forrester Research report. Reasons underlying the slow B2B adoption include the fact there are far less sites for B2B sales than there are for consumer retail, which makes it simpler to use a traditional buying method than to attempt to seek out a website that can accommodate a large order from a business. Forrester predicts e-commerce will constitute 9.3 percent of B2B sales in 2015, representing an estimated $780 billion. The projection calls for e-commerce accounting for 12.1 percent of B2B sales by 2020, or $1.13 trillion. As more e-commerce sites are established and their services are promoted to business owners, e-commerce B2B sales will climb as better prices online assert themselves. Forrester estimates 74 percent of B2B buyers research at least half of their work purchases online. Another factor is that more business owners are starting to see the savings available online and can find e-retailers who have been around long enough to build trust. Forrester predicts 56 percent of B2B buyers will complete at least 50 percent of their work purchases online by 2017.

From "Why B2B E-Commerce Is Set to Grow"
Atlanta Business Chronicle (04/20/15) Roesler, Peter

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Report Examines Operational Intelligence Maturity for Payments

Operational intelligence maturity for payments within financial organizations was the focus of a new Axway/Finextra Research study, which found information technology departments are facing growing pressure to support instant decision-making to augment the customer experience, boost profitability, and improve performance. "As the volume and speed of digital payment transactions continue to grow, organizations are increasingly required to do more instant decision-making," says Finextra's Paul Penrose. "With comprehensive end-to-end monitoring of transactions and business activity, the ability to deliver a high level of customer satisfaction—and resulting profitability—is greatly enhanced." The study found 77 percent of 105 surveyed decision-makers noted they process immediate payments of some type, and 90 percent said their bank is directly linked to a payment-processing platform. In addition, 56 percent contend with at least 1 million daily payment transactions, and the same number has an aggregated monthly value of transactions equivalent to $1 billion or more. Meanwhile, most respondents said they are expected to make immediate operational decisions daily, but just 51 percent have actually made commitments to how quickly they would respond to customer inquiries. Eighty-five percent of respondents named cutting operational risk their primary strategic objective, and 71 percent cited improving the customer experience as top goals of operational intelligence maturity.

From "Research Highlights Increased Pressure on Payments Operations and IT Operations to Support Instant Decision Making"
Yahoo! Finance (04/28/15)

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U.S. Companies Using More of Their Bank Credit Lines

In a promising sign for the economy, companies are tapping more of their credit lines to fund hiring and expand their businesses, according to U.S. banks. Commercial borrowers are using 2 or 3 percentage points more of their credit lines than they were last year, reaching levels not seen since before the recession started in 2009. The companies are using the funds for a range of services, including boosting manufacturing capacity, investing in new businesses, and building inventory. Commercial and industrial borrowers were using "in the high 30s" percent of their credit lines last quarter, the highest in six years and up from a range "in the very low 30s" during the recession, according to Bank of America's Bruce Thompson. The increased usage represented about $1 billion worth of loan growth over the past year in Bank of America's commercial lending business. At JPMorgan Chase, corporate borrowers were using 34 percent of credit the bank extended to them last quarter, up 2.8 percent from 2014 and 4 percent higher than in all of 2013, marking the highest utilization rate since 2009, says JPMorgan Chase's Marianne Lake. "Confidence is back," says Wells Fargo & Co's Laura Oberst. "It's fragile still, but stronger than I've seen it since the meltdown of 2008."

From "U.S. Companies Use More of Their Bank Credit Lines in Sign of Confidence"
Reuters (04/17/15) Henry, David; Lacapra, Lauren Tara

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Security Still Top Issue Preventing Payments Investment

Security remains the biggest impediment to payments investment, according to more than 50 percent of approximately 1,100 surveyed executives. Despite the fact that 80 percent of respondents understand they are at risk of losing customers, just 40 percent are concentrating on improving the customer experience. "Where payments were traditionally given little attention up until a few years ago, the changes taking place just on a daily basis are significant, to say the least—from new providers to new platforms to new payment tools," notes Ovum analyst Gilles Ubaghs. "As payments become smarter, this evolution has the power to transform the payments experience; and, as such, the needs, experiences, and expectations of all of the players in the payments value chain is more critical than ever." Forty-four percent of polled retailers and billing organizations claim to be moving toward shrinking the number of intermediaries in the payments value chain, or would like to. The survey also found banks hold a clear advantage in numerous payment product categories such as contactless cards and real-time settlement. In addition, banks are still deemed the most capable providers of mobile apps and mobile Quick Response codes. "The key takeaway is that the customer experience is the primary imperative and this will not change," says ACI Worldwide's Paul Thomalla. "All of these players must satisfy shifting consumer demand and enhance their payment capabilities."

From "Security Still the Top Issue Preventing Payments Investment"
Help Net Security (04/28/15)

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The State of Mobile Payments in 2015

Some analysts expect mobile payments to go mainstream this year thanks to a convergence of factors, including an expanding base of NFC-enabled devices and terminals and increasing consumer acceptance. Momentum is building for contactless mobile payments, with Deloitte expecting 5 percent of the approximately 650 million NFC-equipped smartphones worldwide to be used at least once a month for contactless in-store payments by year's end, versus 0.5 percent last year. Meanwhile, Forrester Research predicts U.S. mobile payments to national brands and local merchants will total $142 billion by 2019, and the Wall Street Journal notes a base for new mobile payment and security features could be established by American Express' work with facial recognition and wearable technology. Forrester's Denée Carrington anticipates Apple Pay "will influence every discussion of mobile payments through 2015," and will emerge as "the standard-bearer for the best use of tokenization to secure payments and biometrics to combat fraud." Other expectations for 2015 include the summer debut of CurrentC, which integrates mobile payments and loyalty benefits, and growing interest in the NFC-based Google Wallet. Moreover, Microsoft will likely make major inroads into mobile via its Microsoft Payment platform, and Starbucks will likely continue to drive mobile payments with its loyalty program.

From "The State of Mobile Payments in 2015"
CIO (04/22/15) Martin, James A.

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