Vizant INSIGHT
from the Payments and Treasury Expert

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Reflections on Payments and Treasury Operations in 2015

As the preeminent thought leader and advisory firm in payments and treasury, here are our year-end perspectives on some of the often discussed topics in payments and treasury in 2015.

Treasurer's increased use of technology did not translate to making working capital and liquidity management a routine task: Despite many new technology tools to assist treasurers in their role as protector of the corporate coffers, liquidity management remains a very "human" task. While technology and automation (whether local or cloud based), are playing a key role in managing liquidity and assisting in providing more control and visibility, technology alone will never replace human decision-making. The importance of protecting liquidity and maximizing working capital is mission critical in the new post - 2008 economic crisis world. The human element (the ability to assess more than the just the numbers) is much more important than any technology or software application.

The often rumored and still non-existent "New Payment System" remains a hot topic: The payment, treasury and banking world is replete with chatter and discussions about the emergence of a new payment system, a real-time payment system and a more efficient payment system. Even the Federal Reserve is now involved in leading and corralling together many industry players to develop a "new payment system". However, as we end 2015, this goal still remains very elusive. With the exception of Bitcoin, which has not yet been fully vetted, the legacy and core payment systems still remain the foundation for the movement of money globally.

All of the many new mobile, online and other payment methods and applications still require one thing: use of legacy payment system rails to transfer monetary value. What we have now is comparable to a roadway analogy: Many new and exciting "on-ramps" (payment applications/methods) that lead you onto an old, tired and expensive (but still functioning) "highway" (legacy payment rails). The core legacy systems still control all payment and money movement: ACH, Checking, Debit Card, Credit Card and Wire Transfer systems.

Corporations did not undertake a riskier approach to investments in order to increase financial returns in 2015: Corporations and treasurers remain extremely focused on safety, liquidity and risk aversion. The most favored investment for excess cash continues to be the very safe and very basic liquid money market. Despite historically low interest rates on money type investments, very few corporations are willing to chase a few extra basis points associated with a riskier investment. Simply, the level of risk is too high, given the additional

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Vizant In The News

Listed below are articles in which Vizant CEO Joe Bizzarro and Executive VP Angie Grunte recently provided commentary:

Breaking with Global Liquidity Management Tradition

Vizant Continues Its Rapid Client Growth with the Addition of Blue Cross Blue Shield of Kansas City as Its Newest Client

AFP Denver: Treasurers Demand High-Value Faster Payments

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nominal return. The economic crisis brought down many companies that were deemed to be stalwarts of the financial world. This left a lasting impression on the minds and every-day thought processes of corporate treasurers. Better to be safe than sorry.

No single mobile wallet has gained much traction: Despite all the hype and the many new mobile wallets and mobile payment applications, it remains a very fragmented and disparate marketplace. The same question that was asked a year ago can be asked again: Are mobile wallets solving/chasing a problem that does not yet exist? The same challenges to mobile wallet adoption that existed a year ago, still remain today: 1) multiple types of technology fighting for market share: NFC, QR codes and others; 2) consumers are not demanding it; 3) too many competing and proprietary mobile payment applications: from ApplePay to Android Pay to Chase Pay to bPay to MCX and many others; 4) no compelling reason to make a payment with a mobile wallet application; 5) the card swiping process works just fine; 6) the consumers lack of trust in the security of the mobile payment; and 7) merchant rewards remain disconnected from the mobile payment.

The many new Bank and non-Bank Mobile based P2P payment applications gained very little consumer traction: The massive market of over $1.3 trillion dollars (and nearly $7 billion transactions) in person to person (P2P) payments continue to be handled the old fashioned way. Over 80% of all P2P payments were made with cash and checks and even Millennials prefer checks and cash over the many new mobile transfer applications.

EMV (Chip and Pin) payment card transactions have not come to dominate the retail marketplace as predicted: Not only did this NOT happen, the transition from Mag Stripe cards to Chip embedded Cards continues to be problematic. Multiple problems still exist: 1) some large card issuers have not even sent new CHIP cards to their customers; 2) a large percentage of retailers do not yet have EMV capable terminals; 3) the EMV checkout process is longer than a typical card swipe transaction; 4) a chip card cannot be inserted into the EMV terminal until the transaction is totally completed; 5) consumers are confused as to a chip card and regular mag stripe card; and 6) the pin number aspect of chip and pin could be very problematic, as most people have multiple credit cards and will probably use the same PIN for all, thus reducing the overall fraud protection.

The Shifting of B2B Payment transactions from paper checks to E-Payments is a still a long slog: While many corporations continue to transition from paper-based check payments to e-payments, it is still primarily a paper affair. B2B payments are still dominated by the old fashioned paper check. This remains the reality, despite the many and myriad reasons why checks should no longer be used. There are many advantages to e-payments, including but not limited to: direct cost reductions and efficiency improvements in payments processes and treasury operation, better staff resourcing, easier accounting and ERP integration, stronger fraud control and improved cash flow management.

Payment card usage (credit, debit and prepaid cards) continued to grow faster in 2015 than in prior years: In the first half of 2015, dollar volume on general purpose consumer and commercial payment cards grew 8.6% over the same period in 2014. This marks the fifth straight year of increases in dollar volume. The annual projected volume through the payment card system for 2015 is projected to surpass the $5.4 trillion dollar mark. Debit card volume comprised 63% of all transacted value. VISA and American Express are ranked 1st and 2nd

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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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for credit card spend and MasterCard takes 2nd place for debit card usage. In the first six months of 2015, total payment card volume was $2.67 trillion dollars, with the VISA and MasterCard Brands controlling $2.23 trillion or 83% of the total dollar volume.

While the growth in consumer payment card usage is not a great surprise, the continued double digit growth in business to business payment card volume is eye opening. More and more businesses are utilizing corporate and purchasing cards for routine accounts payable payments. For businesses accepting card payments, they must understand the rules, and the costs and rates that are unique to the commercial card cost of acceptance. It is surely not the same as receiving a simple business check payment. However, all organizations must fully understand the advantages and disadvantages of accepting card payments.

Who was it years ago that said credit card usage would level off and then decrease?

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Payments and Treasury Insight

Current Payments and Treasury News

Current Payments and Treasury News

Banks Not Supporting Working Capital Management

Small to mid-sized companies say their banks are failing to effectively support their ability to manage working capital, according to a new Misys survey. “The survey highlights the challenge corporates face in managing the complexities of cash, trade, and treasury requirements as they expand and work with an increasing number of suppliers, banks, and customers around the globe,” notes Misys strategist Alex Kwiatkowski. He says banks are not providing the needed automation, digitization, and multibank connectivity tools corporations require. Half of survey respondents said projecting cash flow is their biggest challenge to working capital management as import/export operations become increasingly globalized. Corporates also note a growing need for a single view of balances and transactions globally; secure, efficient payment processing; and integration with enterprise resource planning and trade management systems. Moreover, 24 percent of respondents are funding working capital needs via a mix of traditional banks and nonbank alternatives, while 9 percent are more reliant on alternative

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funding than they were two years ago. Almost two-thirds named poor automation as an obstacle to accessing bank trade financing, and 45 percent of SME and mid-sized corporates now require direct integration of their online and mobile activities with their enterprise resource planning and treasury management systems.

From "Avoid Digital, Lose Corporate Customers"
Banking Exchange (10/27/15)

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Corporate Treasurers Lack the Tools to Make an Impact

Corporate treasurers do not have enough technological tools to significantly affect their organizations' bottom lines, according to a new SAP analysis. A September poll found big data is a major source of contention for corporate financial professionals. "The volume of data, including unique data, will only continue to grow, and advanced technologies are needed to wade through it and derive useful insights," says SAP's Thack Brown. Only 44 percent of money-manager respondents were in agreement that their functions can return meaningful, impactful corporate reporting and analysis. Seventy-nine percent agreed their businesses should "develop or acquire capabilities in advanced analytics to meet the speed of information being introduced by digitization and automation." The analysts also noted the finance department "is gaining more responsibility within organizations as the pace of business becomes faster and more volatile due to the shifting global economy, new financial regulations, changing government policy, and greater customer demand." Moreover, 85 percent of respondents predicted their businesses' success will rely "on their ability to adapt to the rapid pace of change and greater business complexity" in the next five years. Similarly, 84 percent said their companies must learn how to employ data to accelerate decision-making and issue real-time financial bulletins.

From "Corporate Treasurers Lack the Tools to Make an Impact"
Pymnts.com (11/03/15)

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U.S. Inches Closer to Faster Payment Systems

The U.S. is a little closer to hosting faster payments with the Clearing House's (TCH) announcement of two partners—VodaLink and Fidelity National Information Services (FIS)—as part of a plan to develop a real-time consumer/business payments system. FIS says the alliance with TCH builds momentum for both groups' payments modernization agenda. “We really have to move [to ubiquitous faster payments] and there needs to be some larger organization that gets the industry moving,” says Q Insights' Nasreen Quibria. A similar move is being made by Early Warning Services with its acquisition of the clearXchange person-to-person digital payment platform. More than 14 countries, including the U.S., are modernizing their payment system infrastructures, but NACHA reports “real time can mean many different things with vastly different implications to users of the system.” Among the elements NACHA identifies as essential to any U.S. real-time payment system are around-the-clock availability, near-immediate payment authorizations or rejections, and irrevocability. Meanwhile, the Federal Reserve outlined a roadmap for faster payments and has been pushing U.S. banks to lead its implementation. The Fed also backs NACHA's efforts to phase its rules to support same-day ACH payments beginning September 2016.

From "U.S. Inches Closer to Faster Payment Systems"
Green Sheet (10/30/15)

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The Age of Instant Payments Is Arriving

The age of instant payments is arriving, with such tools valued for their ability to effect the immediate exchange of monetary value, boosting market liquidity while also reducing settlement risk. Payment processing costs also fall thanks to the likely reduction in the use of checks and cash. However, realizing these benefits will entail significant infrastructure investment, which makes the issue one of whether the payment mode's "soft" advantages will warrant such investment.

Justification is provided by the observation that instant payments will serve as a general business enabler. Various players are building new end-user "overlay services" to encompass the full purchasing experience, with examples that include automated matching of purchase orders to invoices or in-store promotions that are triggered by a consumer's geographical position, their loyalty profile, and their purchase history. A migration to real-time payments demands true modernization of IT systems, as batch-based, legacy systems cannot support real-time requirements.

Instant payment systems also require complete integration with other systems and services, such as cash management. Faster, more transparent internal processes also are a necessity to eliminate the risk of endless liquidity fluctuations. Other required ingredients of an instant payment implementation include support for a round-the-clock service proposition, enhanced fraud detection applications and payment interdiction processes, and stronger customer authentication and encryption processes for their transactional applications.

From "The Rise of Instant Payments"
Banking Technology (11/11/15) Andrieux, David

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Visa Exploring Blockchain Technology for Remittance Processing

Visa Europe's innovation hub has partnered with distributed ledger specialist Epiphyte on a proof-of-concept project aimed at determining how the blockchain and bitcoin can be used for international remittances. Visa Europe Collab is focusing its attention on such new technology, which has long been touted as a less expensive and simpler alternative for moving funds across borders. "There is a real opportunity to develop an improved remittance service for both the sender and receiver of payments in terms of fees, speed, and ease of use," says Visa Europe Collab's Jon Downing. "That's why we're proactively exploring the area with Epiphyte, to see if the protocols and processes involved could be improved by utilizing blockchain technology." The proof of concept is already underway, and a controlled test environment will be used over the next two months to run real-world transaction using bitcoin as an alternative to conventional remittance processing.

From "Visa Europe Explores Use of Blockchain Tech for Remittances"

Finextra (11/12/15)

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NACHA's Same-Day ACH Payment Rules Pass With Compromises

NACHA's voting members in May approved mandating the acceptance of domestic same-day automated clearing house payments by receiving banks, clearing a three-phase plan that would last 18 months. The first phase would be limited to credit pushes, followed one year later by debit pulls in phase two. The final phase will require receiving banks to make credit payments available to the receiving account holder by 5 p.m. local time to the receiving bank. In September, the Federal Reserve Board of Governors removed the contingent status of the regulations, and allowed the participation of FedACH, which serves as an ACH operator on behalf of the Reserve Banks. However, compromises were required to garner sufficient votes for passage. Among the compromises were that same-day payment eligibility rules change due to a multi-phase development cycle requiring 18 months to complete from start to finish; delivering certainty to the receiver that funds availability will be expedited on the day of settlement as part of the final phase, rather than earlier; and having any payment amount of more than $25,000 settle one business day later than the payment originator may have expected if the payment originator is unaware of the payment cap.

From "Will NACHA's Same-Day ACH Rules Change Be an Exception-Only Service, at Least in the Short Term?"
Take on Payments (11/02/15) Cordray, Steven

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SWIFT Analyzes Real-Time Payments Systems

A new study from the SWIFT Institute proposes a hybrid model for real-time retail systems, integrating the advantages of a real-time gross settlement (RTGS) system and a deferred net settlement (DNS) system. According to the report, fast e-commerce growth in tandem with domestic and cross-border payments is driving demand among financial institutions for a cost-effective way of accelerating clearance and settlement of low-value retail payments. Retail payments have traditionally used interbank netting systems, in which payments are compiled for end-of-day settlement. Although this method reduces the liquidity needs of the payment system, it features innate operational and financial risks for unsettled intraday payments. RTGS is gaining prominence as an appealing option amid accumulating large-dollar retail payments, as it enables immediate settlement of transactions during the day, but comes with its own risks and incentive issues. SWIFT's proposed mechanism supports centralized queuing, allows payment prioritization, shrinks payment delays, augments liquidity, and optimizes the settlement process. SWIFT Institute director Peter Ware notes there currently are 18 countries supporting domestic real-time payments systems, while another 29 are investigating the concept. "We hope that this paper contributes to the ongoing debate around the best methods for devising these systems," he says.

From "SWIFT Analyzes Real-Time Payments Systems"
GT News (11/17/15) Buck, Graham

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Digital Technology Transforming Finance Organization

Digital technology is enabling the evolution of the corporate finance organization from an expense control, spreadsheet-driven accounting and reporting facility into a business value-creating predictive analytics hub. The new financial model supports analytics and forward-looking decisions to create value and manage risk. It also migrates traditional accounting and processing to cross-functional, integrated business services models that apply robotic process automation. Accompanying the transition to this model will be a transformation in the chief financial officer's (CFO) role to business value architect. The current finance operating scheme, technology, and staff must undergo significant revisions for the digital finance model to take hold, starting with the reconfiguration of traditional finance elements. This action serves to convert finance into an insight producer comprised of analytics competency centers, integrated business services, and communications and control centers.

The second component bundles accounting and transaction processing with tasks from other business segments. Another key change will be a move away from enterprise resource management's historical status as a mostly passive system of record that delays decision-making due to siloed data and batch processing. Cloud-based platforms will come to govern reporting, planning, forecasting, and analytics in tomorrow's finance organization. Also anticipated is a change in the composition of new hires to include statisticians, data scientists, behavioral scientists, economists, and anthropologists, instead of "finance" experts. Transactional tasks will be folded into integrated business services solutions that use robotics, which will automate or remove up to 40 percent of transaction accounting work by 2020.

To map out their futures in such transformed organizations, CFOs should first define a value proposition, and then develop their future vision for the organization. The next step is to ascertain the organization's core capabilities, followed by creating integrated service offerings. The final task in this planning process is to develop and update the finance talent strategy to guarantee that recruiting and training concentrate on obtaining and nurturing the right skills.

From "Death by Digital: Good-Bye to Finance as You Know It"
CFO.com (10/27/15) Axson, David

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Corporations Starting to Exploit Mobile Money Solutions

More and more corporations are exploiting the value from the mobile money solutions to enhance the security and efficient of collections. Asia is assuming a leading role in the development of both mobile banking, including mobile-to-mobile payments, and mobile money solutions, thanks to its cultural and economic diversity. A refined user base, large under-banked populaces, strong regulatory buy-in for mobile-based banking and electronic wallet solutions, and banks leading the design of practical, robust solutions for deployment that fulfill the needs of both retail and corporate customers have combined to create a big potential mobile payment user base. Driving this user base further will likely be new large-scale mobile-to-mobile payments.

A change in professional behavior fueled by advancements in personal banking and consumer technologies has taken longer to catch on. As chief financial officers (CFO) and treasurers' comfort with mobile payments grows, so too is their adoption of this technology for corporate banking. The next issue for CFOs and treasurers is tapping the increasing desire and availability of mobile-to-mobile solutions to address business challenges, such as reconciling and apportioning collections more efficiently. Mobile payments could potentially eliminate the dearth of consistent, high-quality remittance data underlying this problem, especially for sectors with a large retail customer base.

Mobile payments also have tremendous potential in the business-to-business area, typified by industries with large sales and distribution networks that are usually cash-oriented. The payments landscape will likely be transformed in the years ahead as both payers and payees increasingly see value in mobile payments, and regulators and infrastructure suppliers respond to maturing demand.

From "A Force for Change in Mobile Payments"
Treasury Management International (11/15) Wong, Kee Joo

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Wearables, Biometrics, Banking API Payments Trending in 2016

Over the past year, significant growth has been seen in mobile wallets, real-time payment initiatives in the U.S., and the long-awaited U.S. introduction of EMV, also known as chip and PIN. In 2016, mobile payments are expected to at least double if not triple in volume. As the EMV shift continues to bring new point-of-sale terminals to market, more options that are at least as convenient as EMV cards, if not more convenient, also will likely lift this space dramatically over the course of the next 12 months. However, a clear mobile payment leader is unlikely to emerge. Peer-to-peer will be the biggest trend feature in the mobile wallet space, followed by coupons/offers. Chase Pay and MCX will likely drive this conversation but Apple, Samsung, and Android will not be far behind. Other predicted trends in 2016 include virtual-reality headsets and other wearables and biometrics for unlocking banks' mobile apps or paying for goods at the cash register. Facial recognition could be the next big phase in the form of pay by selfie. With the anticipated implementation of PSD2, a European Union directive for a single payments market that could impact the U.S, the opening up of banking application programming interfaces to third parties will likely occur.

From "The Payment Buzzwords to Expect in 2016: Wearables, Biometrics and Banking APIs"
City A.M. (11/18/15) Ranta, Mark

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