November 2015

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 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 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?