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Finextra

INTERNATIONAL MERCHANT TREASURERS: THE NEW PAYMENT "SUPER USERS"

EXECUTIVE SUMMARY

Only 13% of multi-national corporates can see their global cash position in real time, according to research carried out by Ovum. Obtaining a real-time view on cash positions is a challenge to treasurers across all industries and geographies, but is particularly acute among multi-national firms. While corporates with a more condensed global footprint report some improvement, this highlights the gap that exists between the services corporate treasurers need and what they experience.

Merchant treasurers require access to a broad range of cross-border trade and payment solutions. The options used depend on a range of factors, including company structure, liquidity, geography and the relationship with suppliers. As such, merchant treasurers need access to a range of options to meet their specific needs for effective cash and liquidity management, particularly around smoothing peaks and troughs in receivables, and where foreign exchange volatility introduces additional costs and challenges.

Although some corporates take advantage of bank-provided direct connectivity services to obtain a real-time view on their cash positions, this is only part of the challenge. Few corporates can (or choose to) fulfill all their needs from a single provider, and treasurers must both manage a network of relationships as well as the cash flows that run between multiple institutions. In practice, costly integration work is usually needed to aggregate account information, creating an opportunity for third-party providers (TPPs) to provide innovative services that deliver requirements while also meeting cost and efficiency objectives.

There is a clear business case for forecasting based on a real-time view of cash across all accounts and providers, as well as future transactions, including payments. Four areas in which data analytics can deliver significant additional value to corporates include advice, risk, leakage and profitability.

1 INTRODUCTION

As Europe's payments landscape is transformed, corporate treasurers now have the opportunity to exert greater control over the financial health of their companies. After years of struggling with high fees and a lack of visibility over payments, tools are available to give treasurers control of their treasuries and the ability to side-step banks and card processors to slash costs.

Treasurers at international merchant companies stand to benefit the most from significant changes such as the revised Payment Services Directive (PSD2) and the SEPA Instant Credit Transfer scheme because they speak to both banks and suppliers in the evolving payments ecosystem. Not only are these treasurers clients of corporate banks, they are also processing eCommerce payments online or in store.

No other corporate treasury group has such potential to reap from PSD2, open banking and instant payments. At present, a treasurer at an international retailer must pay bills, move various currencies around, process payrolls and pay supply chain partners. The retailer's corporate bank will charge for each of these activities. Various nostro accounts will be set up in different countries, for example, which makes it difficult for the treasurer to get transparency on funds. At a stroke, PSD2 and instant payments remove these costs and challenges, empowering the retailer to do these activities itself.

PSD2 aims to standardize card, internet and mobile payments, thus making them interoperable and improving competition, innovation and transparency across Europe's payments market. It lays the foundation for open banking by requiring banks to open access to their customers' payments and account information to TPPs. With PSD2, TPPs do not have to be a bank and digital service providers can deliver payments. These TPPs will be free to develop payments and information services for customers, including corporate treasurers, taking on banks and card companies.

In an open banking world, corporate treasurers will have access to aggregated account information, displayed in one place. This will enable them to gain an overview of their cash positions across multiple payment service providers. Data will no longer be locked in distinct silos at each bank. Corporate treasurers will be free to use third-party application programming interfaces (APIs) or other financial services that are not offered by their banks. These "Open APIs" will make banks' data and PSD2 services accessible. New services will emerge, including:

- Account information, which will provide useful historical transaction data and balances
- Payments initiation, through which payments can be initiated on customer accounts
- Confirmation availability of funds, which will enable users to check account balances for each card payment

In providing such services, TPPs will position themselves between customers and banks. Moreover, retailers will be able to become TPPs themselves.

At the same time, instant payments are attracting the interest of corporate treasurers. Initially targeted at the consumer market, instant payments is now a real possibility for corporate treasuries. Carlo Palmers, Head of Market Infrastructures at SWIFT, describes the combination of PSD2 and instant payments as a "major milestone on the way to a real-time digital economy throughout Europe. As new payment service providers work to take a bigger slice of the payments business, banks and other players will also need to carve out their role in this changing landscape. Many are adopting innovative new ideas, co-operating with FinTech companies and extending their services to compete with these emerging PSPs."

2 THE FINTECH REVOLUTION AND CORPORATES

In response to changing user needs and regulatory and technological drivers, many countries globally are undertaking major initiatives to modernize their national payment infrastructures to allow for faster payments and other innovations. At the same time, globalization is driving modernization and spurring the adoption of the ISO 20022 standard, which allows for much richer data, such as remittance information and invoice details, to be carried on payment messages.

This will enable businesses to automate their accounts payable and accounts receivable functions and more fully deploy electronic payments, improve straight-through processing, and automatically deal with errors and exceptions. The enhanced remittance information also provides greater transparency, enabling easier payments tracking, issue resolution and system reconciliation for financial institutions and their customers.

Until recently, the FinTech revolution seemed to be passing by corporates, where treasury automation levels remain comparatively low. The U.K.-based Association of Corporate Treasurers' report, *The Business of Treasury 2017*, found that changes in technology have clearly affected a treasurer's role during the past few years, particularly the pace of those changes. A survey found that planned investment in treasury technology is on the rise, with 53% looking to increase their spending on FinTech, compared with around 40% in 2016.

However, treasurers generally are cautious, so their enthusiasm to be leaders in technology development and adoption remains curbed. One-third of survey respondents said their treasury departments adopted new FinTech systems "only once the majority of the market is using them". Only 2% identified themselves as FinTech innovators, while 7% were not aware of the expansion of non-bank FinTech tools.

3 CHALLENGES FOR CORPORATE TREASURERS

To understand the potential impact of PSD2 and instant payments, it is useful to look at the current challenges corporate treasurers face. For example, in a multi-bank environment, corporate treasurers are faced with isolated pools of data distributed throughout the enterprise. This has an impact on their understanding of liquidity positions as well as of their customer base.

In the retail sector, customer behavior is changing, with consumers becoming more demanding in the wake of technological developments. They want instant service and payments that are easy to transact. Customer loyalty is increasingly based on convenience in a retail sector that has become very competitive. Data analysis of customers and their spending habits is crucial.

World Payments Report 2017 reports that corporate customer expectations are also changing. For example, in the B2C segment, the increased digitization of services means retail merchants must find new and better ways to engage with customers, and payments will be central to this. "Value-added services in areas including customer analytics, fraud management, process optimization and compliance tracking are expected to supplement payment solutions to improve customer engagement," says the Report. "Retail merchants are demanding value-added services including wallets, secure payments and improved analytics. They also want these services at a lower cost. On the other hand, in the B2B segment, transaction banks face increasing demand from treasury managers for virtual accounts, fraud management solutions and compliance tracking."

A growing acceptance of collaboration will lead to merchants collaborating with TPPs in the future to build customized offerings and provide innovative payment solutions in a secure payments environment, bypassing banks, asserts the Report.

In terms of the geographical presence of corporates, global B2B companies want centralized transaction banking processes to improve transparency across cash positions. Further, to optimize group cash flows and funding at the lowest cost and risk, corporate treasurers are demanding that these centralized transaction banking processes are standardized and optimized.

The charges levied by payment providers to process transactions (collection costs) are a pain point for corporates. For a typical retailer, the fees they pay per good can represent 2.5% of its value. These charges include:

- A merchant service charge, made on every credit or debit card transaction a merchant accepts. This can range from 0.25%-0.35% for debit cards and 0.7%-0.9% for credit cards.
- Chip and PIN card terminal hire. Retailers must pay a monthly fee for their card payment terminals.
- Authorization fee. This ranges between 1p-3p in the U.K. and is applied as an additional charge for every authorization on every transaction.
- Minimum monthly service charge. Applies if a retailer's transactions fall below a certain level.
- Chargeback fees. Apply every time a cardholder requests a chargeback. The typical fee in the U.K. ranges between £10-£20.
- Set up costs. A one-off fee for the installation of processing facilities (around £50-£100).

In opening competition in the payments world, PSD2 will bring greater transparency to the market as TPPs offer services that were once the sole preserve of banks and card companies. New services will make it clear what charges are being added on to card payments, for example. The ability to move to potentially cheaper TPP service providers — or to become a TPP — will help corporates to reduce their payment costs. There is of course an issue here: this ability to move to TPP services, or to become a payments initiator yourself, involves a shift in liability. Corporates understand their risks and liabilities in relation to their banks, but they will be required to have this understanding with TPPs in the future.

Instant payments will offer considerable improvements in customer experience, providing speed of payments and ease of use. By accepting payments made via a mobile application, retailers will no longer necessarily require a location for a physical cash register. By using a QR code and a mobile payments application, the request for payment can be sent to the customer's mobile phone, on which the payment can be approved immediately. Retailers will receive their money and obtain useful transaction data much more quickly. In the U.S., Amazon last year opened its first Amazon Go grocery store. Customers can purchase goods without having to queue at a checkout to pay. Various technologies are used that detect which products a customer has picked from the shelf.

These are then registered to a digital cart (found on the Amazon Go app). Then, when the customer leaves the store, this is recognized in the app and the digital cart is turned into an invoice that triggers an instant payment across the Amazon payments service.

As customers pay immediately for goods via their mobile phones, unique payment references and information can be linked to product data, giving the retailer a wealth of useful data. However, for consumers to agree to open their transaction data to third parties, retailers will have to make the benefits clear. The creation of very tailor-made services will aim to eradicate any privacy sensitivity consumers have.

A December 2017 survey by consultancy Accenture found that retail companies could "become the new face of everyday financial transactions" in the PSD2 environment. As part of the study, Accenture surveyed nearly 80 payment executives at large retail companies and banks across Europe to determine how they will respond to PSD2. Nearly one-third of the retail companies surveyed will be able to plug in directly to banks to obtain consumer information and initiate payments by the January 2018 PSD2 deadline requiring banks to provide access to TPPs. Nearly 90% of the retailers will be able to do so by 2019.

The opening of banks' networks to non-bank TPPs will enable consumers to transfer funds, compare products and manage their accounts outside of the banking environment. Open banking will help banks reach new customers by enabling them to offer plug and play financial products through TPPs, such as retailers and FinTechs. Additionally, Accenture says it will give retailers the opportunity to accept payments directly from a consumer's financial institution without the need for an intermediary, and access a consumer's financial data if the consumer consents to share that information.

4 THE BARRIERS TO CHANGE

Retailers also expect open banking to drive significant in-store innovation. The APIs most often cited by retailers as ones they plan to embed into their existing POS channels to enable consumers to access information directly from the retailer are bank account balance display (cited by 67% of respondents), payments initiation (63%) and bank account transaction history (60%).

Sophisticated multi-national retailers stand to gain considerably from the benefits of PSD2, open banking and instant payments. These corporates can process millions of transactions per day globally across multiple retail channels and currencies. The standardization offered by PSD2 will considerably improve straight-through processing rates. This applies not only to the basic payments information, but also to customer data that can be leveraged to develop more tailored solutions.

Corporates will look to their banks to deliver consistent data that can be easily processed by ERP systems, irrespective of location and currency. This will give these retailers unprecedented visibility across their positions around Europe. As a result, a bank's physical network (including its access to local clearing systems) will be an important selection factor, as are its integration capabilities with ERP and treasury management systems.

5 CONCLUSION

Merchants stand to gain significantly from the increased innovation in the payments space. They have an opportunity to provide payment initiation services, reducing their transaction processing costs and opening new revenue sources.

PSD2 will also enable merchants that choose to become, or work with, a payments initiation service provider to collect real-time information from clients initiating an instant payment directly from their account. This will be much more cost-effective than the current use of card schemes and acquirers.

By using the APIs of TPPs and banks, merchants will gain better quality transaction data, which they can use in loyalty programs to create more personalized offerings, automated services and faster response times. These capabilities are particularly welcome in the highly competitive retail market.

By facilitating digital innovation, PSD2 will help corporates — particularly merchants — to create more customer-friendly interfaces and products. Greater competition is expected to result from transparency of transaction charges, which should drive down costs for corporates, especially for cross-border transactions. Features such as automation and aggregation of services are expected to improve the convenience and efficiency of account management for corporates.

While the sheer pace of development in the FinTech space may seem daunting, the benefits that corporates can experience in the PSD2 and instant payments environment will far outweigh any perceived risks of innovation. Corporates stand to gain from PSD2 and instant payments; they now need to take up the challenge and realize the potential.

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