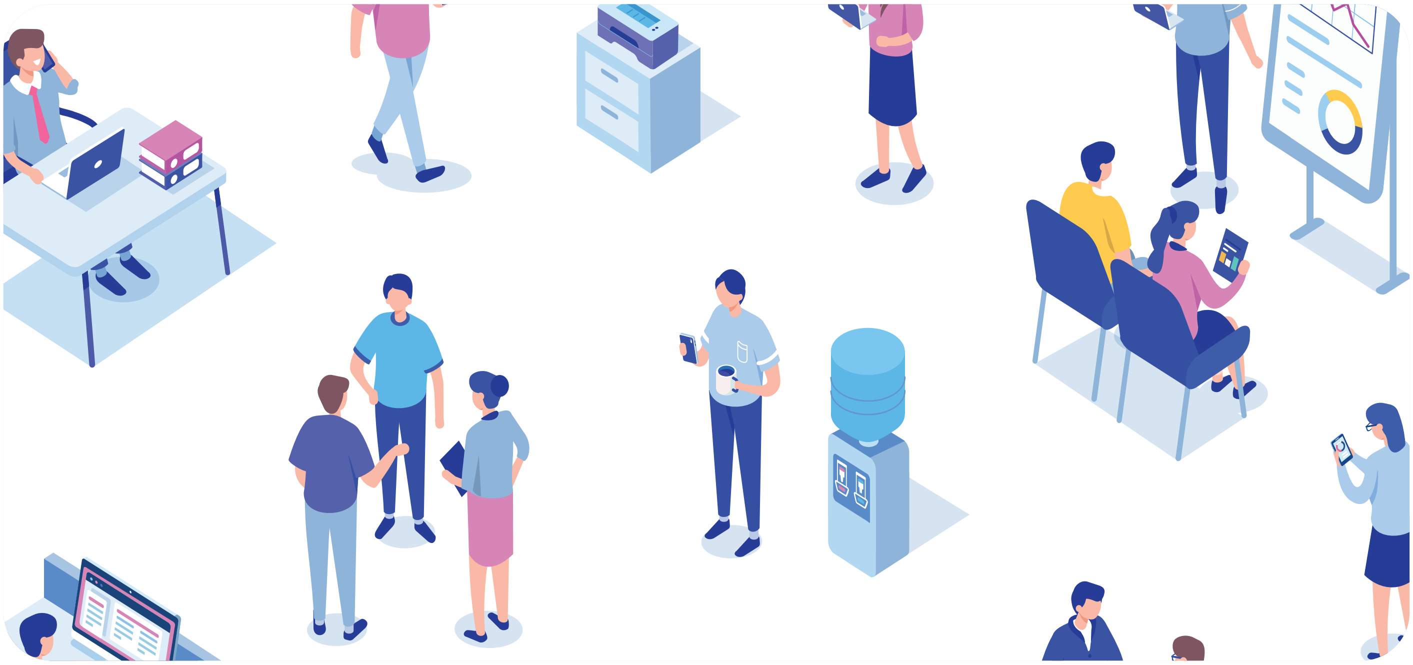


Enhancing Customer Experience Through the Digitization of Payments

There has been a proliferation of new forms of payments emerging around the world as more consumers are brought into the financial system, and consumer demand for greater payment options is translating into merchant considerations. While ecommerce expands globally, merchants are targeting new sets of consumers in new geographies. However, this often increases the complexity of managing a myriad of provider options and relationships. The fragmentation that comes with a distributed payments ecosystem can create significant challenges from a treasury management perspective.

Treasury teams must handle new digital payment acceptance flows effectively and efficiently to deliver the best experience for customers around the world. This means ensuring the fundamentals are in place and that the pitfalls of digital payment acceptance are avoided.

Key treasury considerations around digital payment acceptance

When it comes to digital payment acceptance, treasury teams must factor in their place in the business life cycle. For example, if a business is operating in a mature market, treasury may be focused on cost and counterparty risk. Considerations might include: Are relationships too concentrated? Has enough resiliency and redundancy been baked into planning in the event a provider fails to deliver?

For those expanding into newer markets, treasury might take more of a "startup" approach, focusing on growth at all costs, thus relegating losses and counterparty risk to a more secondary concern. And in the case of traditional brick-and-mortar businesses that are just starting to embrace a direct-to-consumer model, treasury will likely be primarily focused on speed-to-market.

Regardless of the approach, treasury clearly has an important role to play in helping the business grow, while helping keep the company safe from risk.

Treasury should stay involved in how every dollar moves

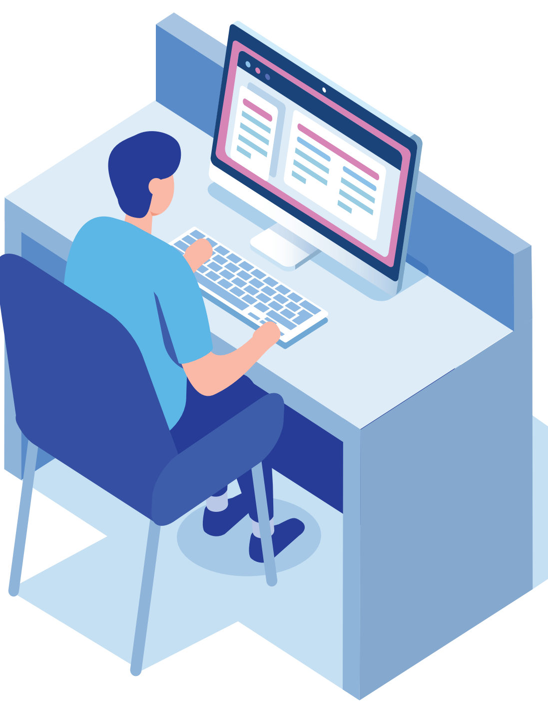
Treasury should be actively involved in how every dollar moves and where funds are at any given time. For businesses that operate in different markets with various legal entities, understanding where and how funds are settled, and if there are any trapped cash implications, is imperative. Payments or revenue teams will be focused on delivering the best customer experience, which means minimizing currency conversions, and achieving higher transaction approval rates that come from utilizing local acquiring.

While there are advantages to going local at the start, there are downsides to consider, such as the greater length of time it takes to set up local bank accounts. This requires working with a new, local bank, which may be relatively small. The possibility of having cash trapped in a local market with a restricted currency creates foreign exchange (FX) volatility.

The case for treasury being involved early includes the insights they will have into potential pitfalls and solutions that mitigate those issues, such as starting with cross-border processing that relies on an existing corporate entity and bank account.

For multi-market, multi-region businesses, understanding counterparty exposure is critical. Treasury will want to know all third-parties at each step of the payments process in order to monitor and adhere to counterparty limits. For obvious reasons, businesses will want to avoid disruptions from a payment processer in a local market that has shut down. At the same time, the complexity and costs of supporting multiple relationships with a myriad of providers creates an undue burden on treasury.

In the past, it was all too common for a large ecommerce merchant to have upwards of 60 different payment processing relationships around the world. This was done with an eye toward delivering the best customer experience. Today, businesses are increasingly rationalizing their provider relationships, consolidating with trusted providers who are robust enough to withstand day-to-day market shocks.



Another important aspect of treasury's purview is reporting. To troubleshoot issues and ensure proper accounting, treasury needs to be able to accurately track settlement of funds. All too often, different stakeholders, such as accounting and card processing, have access to the same database, but utilize their own reporting infrastructure. This can sometimes lead to finger pointing between teams when funds don't land in accounts when needed. Treasury has the cash forecasting responsibility, which means they need complete visibility into all flows to ensure funds are where they need to be when required.

A final consideration for treasury is settlement timing. Businesses will need to understand settlement timing and process in each market, as it can range from two to thirty business days, which will impact the company's cash position. So, for instance, wallets and cards might settle in two days, but buy now, pay later and other local payment methods can take up to thirty days to settle. For this reason, it is important for the different business teams to fully understand the potential impacts on cash position, working capital, reconciliation and reporting.

Improving the customer experience through ease of payments

As previously mentioned, there are numerous payment methods that play a role in digital commerce today. The top methods continue to be credit and debit cards, but other payment types are growing in popularity every day. Currently, there is rapid growth in digital and mobile wallets along with growing adoption of bank transfers that take advantage of a compelling QR experience and instant payment rails. Direct debit transactions, such as ACH which have become more efficient, cheaper and more reliable are also on the rise. Local payment methods are growing in popularity as well.

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At the same time, governments are playing a role through their support of open banking and the rise of nationalized payment schemes. This has brought about the pay-by-bank experience, which has proved particularly compelling for improving the customer experience.

The pros and cons of payment service providers

While Payment Service Providers (PSP) can quickly enable payments to support an ecommerce business, their value can be quickly offset by higher costs and service limitations. Popular PSPs are often FinTech-driven but rely on banks to provide money movement and payment handling capabilities. Merchants are attracted to the ease of set up and having a single contract for multiple markets.

PSPs reduce the complexity of digital payments, but they do come with trade-offs. Treasury oftentimes loses a degree of control, visibility, and access to the underlying bank partners. Again, if the backend payment infrastructure fails, there is little recourse to remedy the situation. Because the business is unable to speak directly to the acquirer, who is underlying their service, it becomes more difficult to leverage the strength of the relationship to improve funds availability timeframes.

Of course, there are bank solutions that perform a similar function to PSPs, while still meeting the need for control and transparency. Such solutions support a comprehensive set of payment methods in markets around the world but do so in ways that connect seamlessly to the treasury and cash management processes already in place. This approach is geared to delivering a consistent experience around the world by simplifying the complexity of digital payment acceptance for merchants. By facilitating new direct-to-consumer experiences, these solutions can help marketplace businesses expand across multiple markets.

As stated earlier, treasury has a key role to play in helping the business chart the best course of action in adopting digital payments to meet the demands of customers and global growth objectives. In the final analysis, delivering a greatly improved customer experience can come from the modernization of payment acceptance processes.

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