

Experts Weigh In: How Three Trends are Changing the Commercial Payments Industry

The payments industry has experienced dramatic developments over the last few years as new technologies that facilitate more efficient payments, such as Apple Pay®, Google Pay™, Venmo® and Zelle®, have emerged. These applications are focused on business-to-consumer and peer-to-peer transactions, making it easier for consumers to shop online and in-store or pay another person. Business-to-business (B2B) payments, on the other hand, have not seen the same level of innovation. For example, while most consumers rarely write checks, 51 percent of B2B payments are still made by check, according to the Association of Financial Professionals 2016 Electronics Payments Survey.

There are various reasons why the B2B payments world has been slower to embrace new technologies, including cost, complexity and lack of time to plan for strategic enhancements. Nevertheless, change is occurring in B2B payments and it is incumbent on financial institutions to understand how the changes will impact their business and corporate customers. Is the change gradual and incremental, resulting in business evolution? Or, is it something revolutionary that requires wholesale change and adoption of a new way of business?

Commercial Payments Customer Advisory Council

Formed by Fiserv in 2017, the Commercial Payments Customer Advisory Council is comprised of senior commercial payments strategists from institutions and corporations – including broad representation from banks across North America. The council’s primary focus is to understand and apply the “voice of the customer” to product and business strategies.



Here, industry experts from the Commercial Payments Customer Advisory Council (CPCAC) weigh in on the question of evolution or revolution for three of the top trends affecting commercial payments: Decline in check usage, Same-day ACH payments and Payment-centric application program interfaces (APIs).

Three Commercial Payments Trends: Evolution or Revolution?

Decline in Check Usage

Even with the steady decline in check usage for B2B payments since 2004, the Association of Financial Professionals Electronics Payments Survey made it clear that businesses rely on this form of payment. In fact, the survey found that only 44 percent of companies would be “very likely” to move from checks to electronic payments to pay major suppliers within three years.

Why are banks and businesses so reluctant to move away from paper checks given the explosion in electronic payments in the retail world? “We just haven’t given clients a real incentive to completely move away from checks,” said Kurt Shreiner, executive vice president of Atlantic Capital Bank.

Shreiner noted that the industry is partly to blame because it is “ultra-easy” for banks to distribute, process and image checks. The checking process is mature and the costs are low. This allows them to pass the savings on to their corporate customers, which helps them compete for cash management and treasury opportunities.

Aaron Wiatrek, commercial online banking product manager for Frost Bank, added that reluctance to change is primarily a generational issue. “There are workflows that have been defined for years and years. And the baby-boomer client base, they’ve been writing checks and banks have built processes around checks that continue to work well. It’s a very easy accounts receivable and reconciliation process,” he said.

Another hurdle to change is simply the availability of data printed on a physical check, such as account and contact information. “It’s not the payment, per se,” said Don Shaurette, director of market intelligence and strategy, Payments Management Solutions, Fiserv. “It’s the information about the payment, or the data that needs to accompany the payment to substantiate the business transaction that the commercial entity is involved with.”

Ultimately, demographics will be the true catalyst for change as more millennials drive business decisions. “There’s a demographic that still likes checks, but we have 80 million millennials coming. That’s this Venmo/PayPal generation, and they’re having experiences in their personal life where money moves at the snap of a finger, or it feels like it,” said Russell Ellsworth, director of payables product line, product management and development, MUFG Union Bank. “They will expect the same from their business banking services. However, I think until somebody mandates, like the government, that we’re not going to do checks, they’ll still be in the system.”

Consensus: Evolution

Moving away from checks is inevitable as millennials demand it, but it won’t happen any time soon. Over the long run, this change will be beneficial for banks and corporate customers.

Same-Day ACH Payments

Although the concept has been around for decades, the trend toward faster payments seems to be escalating. There are efforts underway in the U.S. to spur adoption, including the Federal Reserve’s Faster Payments initiative and NACHA’s Same Day ACH initiative. Despite the increased attention, however, adoption for same-day ACH has been tepid.

“Banks are kind of standing on the side of the pool, waiting for us to lead them in a direction,” said Wiatrek. “I think there’s still a lot of education that has to happen.”

Shreiner noted that B2C experiences are helping to educate executives and beginning to affect corporate client expectations. “A corporate CFO today, whether at a small company or a big company, is saying, ‘I can do all these things at home. Why can’t you people do these things for me as a corporate client? Why do I have to wait a couple of days to find out what my ACH returns are?’” he said.

Banks need to make substantial changes to business processes, systems and technology to effectively administer a real-time payments program. Changing the internal legacy payments infrastructure may be more complex and costly than first anticipated. “A lot of work has to be done just to get to the point where you can accept and process those payments,” Wiatrek said.

“It’s a paradigm shift,” said Ellsworth. “Most banks currently use batch processing. We have to now move more towards real-time banking. What does that mean? No longer can we function as just a Monday through Friday operational unit. There’s a whole lot of work to fine-tune all of those different processes and make sure that you’re ready to handle those calls 24x7, 365.”

Shaurette added, “The skill sets that exist currently from a payment operations and technology perspective may not be the ones that we need to take us forward.”

“Today we are very siloed,” said Wiatrek. “You have an ACH processing facility that’s on one system. You have wire processing which may be running on another system. These departments typically don’t talk.”

Consensus: Revolution

Real-time ACH is going to require a comprehensive overhaul of many bank processes and organizational structures.

Payment-Centric APIs

Today, the vast majority of APIs used in banking are designed for retail payments. Nevertheless, the promise of dedicated APIs that deliver commercial banking services seems to be bright. NACHA formed the API Standardization Industry Group (ASIG) in 2017 to standardize key APIs across the industry, and its work to date is encouraging.

"It's a game-changer," said Ellsworth. "I'll use the example of Apple, how they have opened up their platforms for APIs and all of the different apps that you can create by having access to that data. So I think, similarly, clients are looking for ways to get information and they want to get it on their mobile, on their PCs, at home and at work. They're not necessarily using the term API, but their questioning is right in line with what an API is going to solve for."

Those APIs will also help banks become "information purveyors," not just transaction providers, according to Wiatrek. "Fewer and fewer people want to log into some system to initiate those transactions or to consume that information. They're looking for us to be a conduit, have a two-way street between us and them. I think APIs are really going to help out with that," he said.

Consensus: Both Evolution and Revolution

Development of commercial banking APIs will be slow, but steady.

What's Next for Commercial Payments?

Some evolutions will move slowly while some revolutions will speed through the industry, according to Wiatrek. "It's going to create a lot of change, and all that change creates opportunity," he said.

"I think the next five to ten years in the financial services industry will be exciting and there will be more opportunity than we've seen in years, because we are on the verge of a revolution," said Shreiner.

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Fiserv, Inc.
255 Fiserv Drive
Brookfield, WI 53045
800-872-7882
262-879-5322
getsolutions@fiserv.com
www.fiserv.com

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