

Five Commercial Payment Trends to Watch in 2019

Commercial payments are joining the rest of the financial world in becoming more digital. Financial institutions and their commercial customers all can benefit from ongoing – and emerging – trends in the digital payments space. But how fast is the transition? What commercial payment trends should financial institutions keep on the radar in 2019?

1. Real-Time Payments

While the trend toward faster consumer payments is escalating, banks need to make substantial changes to business processes, systems and technology to effectively administer a commercial real-time payments program. With ACH processing on one system and wire processing on another, for instance, changing the internal payments infrastructure may be more complex and costly than first anticipated.

However, commercial customers may force banks to change. Business owners – who are retail consumers themselves – see two sides of the transaction system. As consumers, they may use Apple Pay or Google Pay to buy a coffee with their phone and be done in less than 20 seconds. For B2B transactions, when they write checks to pay vendors or receive checks from customers, they know that it will take 24–72 hours to clear. They want (and expect) commercial transactions to align more closely with consumer transaction behavior in simplicity and speed (as with the ease of tracking the order, preparation and delivery of a pizza).

As the real-time paradigm takes hold, many institutions will find it an opportunity to streamline their operations around commercial payments, possibly with the help of an outsourced payments platform that does much of the work for them.

2. Paper Checks to Electronic Payments

On the consumer side, there's no doubt the use of paper checks is declining. But on the commercial side, financial institutions continue to support the use of checks and many businesses continue to pay with checks. According to the 2016 AFP Electronic Payments Survey, a majority (51 percent) of organizations' B2B payments continue to be made by check. Although the use of checks in B2B payments had been steadily declining since 2004, there has been a 1-percentage-point increase in check usage since 2013.

Checks are relatively easy and inexpensive to accept and reconcile. There are established business processes for receiving checks. In addition, the availability of data printed on a physical check, such as account and contact information, makes it easy for businesses to verify the transaction. Even though the current system supports paper checks, interest in digital checks is high. Digital checks are easy to use, simplify invoicing and offer the ability to pay by mobile device. The vendor can even download and print the check to deposit if desired.

The bottom line is, financial institutions will continue to support checks as long as businesses continue to use them. Eventually, commercial customer interest will diminish, especially as the check-using population ages out of businesses.

3. Application Programming Interfaces (APIs)

Business customers are increasingly demanding services that mirror the speed and convenience retail customers enjoy. To remain competitive, forward-looking institutions are exploring the use of APIs in business-to-business banking processes such as cash management, cash forecasting, liquidity management and others. Adding new integrated payment services to the financial institution's online ACH solution is a prime example of how the technology works. The institution can extend its digital reach through an API to mobile apps or websites, while controlling which systems are allowed access and automatically validating information.

In today's digital banking environment, APIs can provide the connection to online services that consumers, corporations and merchants expect from their financial institutions. However, that first step can be tough, especially considering the potential regulatory (data usage) and security (data access) issues surrounding the development of APIs. As the benefits seem to outweigh the downsides, APIs will (and should) remain on financial institutions' radars. Partnering with a reputable Fintech instead of doing it themselves is a good start.

4. Artificial Intelligence (AI)

AI refers to doing a task the way a human would (person driving a car, analyst identifying a fraudulent transaction). Machine learning, a subset of AI, refers to analytic techniques that learn patterns in datasets without being guided by a human analyst.

Financial institutions have used some aspects of AI for years. The question is how to integrate AI more broadly throughout the operational departments of financial institutions, especially when it comes to risk management in payments. AI can help banks prevent fraud and take a more proactive approach to suspicious transactions, particularly as real-time payments grow. AI allows for the automated discovery of patterns across large volumes of streaming transactions and can help distinguish legitimate and fraudulent behaviors while adapting over time to new, previously unseen fraud or money laundering tactics.

5. Fintech

Fintechs continue to innovate in the broader payments ecosystem, and with that innovation comes fewer walls separating financial institutions and Fintechs. With more integration between these two organizations comes more opportunities to partner on projects both large and small. The traditional way of operating dominates for the most part – financial institutions are still trusted with the money and the charter (due to rigorous regulatory hurdles) – and Fintechs facilitate and leverage new ideas and technology.

Often, the relationship can be viewed through a standard business-vendor lens: Fintechs provide an extremely valuable service to more traditional financial institutions and, together, consumers and commercial customers are served with the latest technology that fits their current needs. This trend will continue as Fintechs and financial institutions continue to better understand each other's business model – and partner on commercial- and consumer-focused innovations.

What's Next?

Watching (and testing) these trends will help generate new insights. Could AI remake the customer service experience? Will Fintechs, working alongside financial institutions, be the collaboration catalyst needed to develop the latest API or other digital system to make payments faster? Are paper checks really going the way of the dinosaur? These questions – and many others – can be answered by building financial partnerships through digital innovation, which will lead to more efficient and sustainable commercial payment solutions.

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