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ENABLING PAYMENTS IN A GLOBAL CONNECTED ECONOMY

JANUARY 2022

Enabling Payments In A Global Connected Economy, a PYMNTS and technologi collaboration, examines how merchants are tackling the complexity of digital payments while managing risk. The report presents insights from industry-leading financial institutions on how acquirers can play a role in providing a solution to some of the industry's biggest challenges.

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ENABLING PAYMENTS IN **A GLOBAL CONNECTED ECONOMY**

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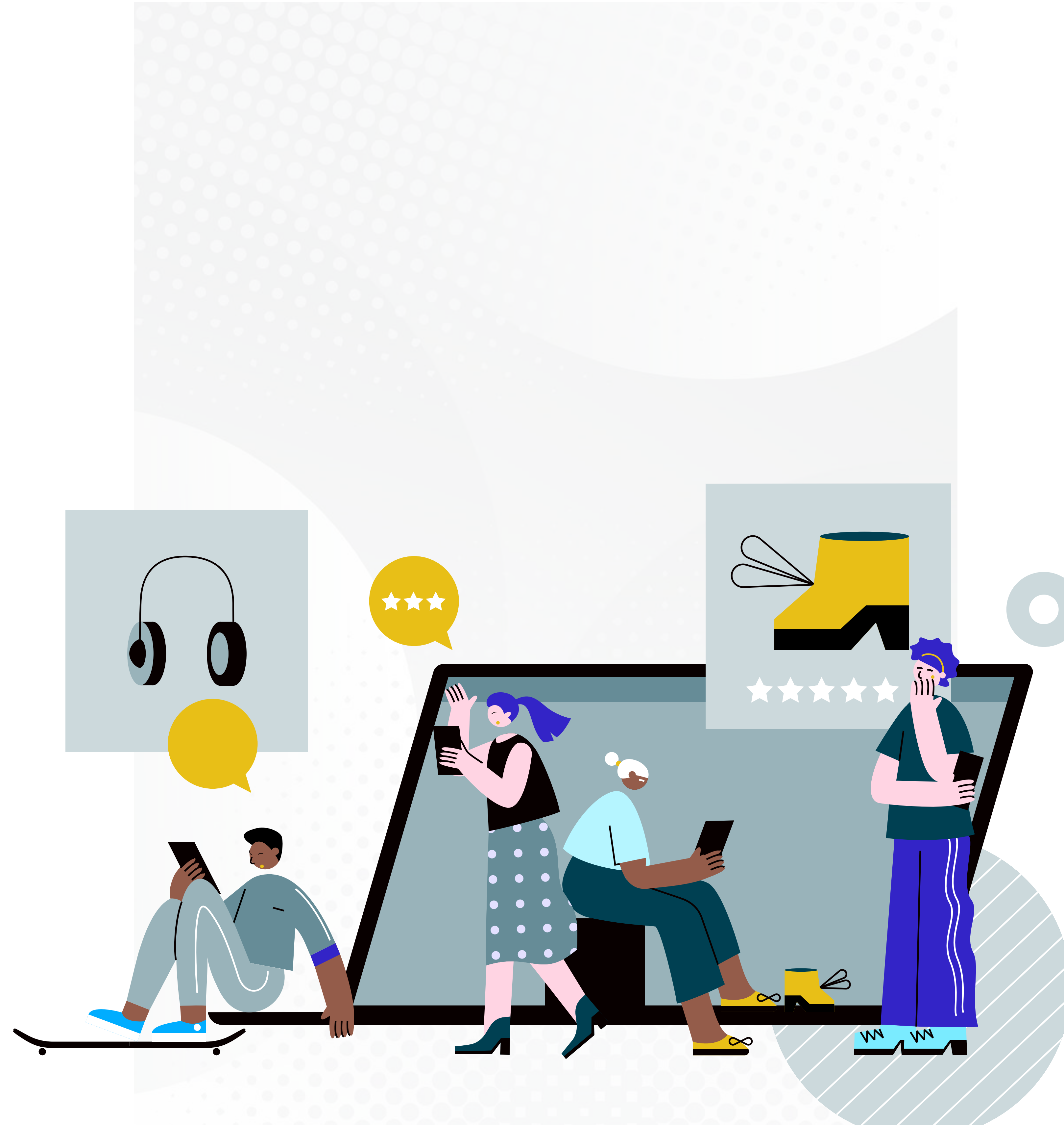
PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

INTRODUCTION

The evolution of the global payments ecosystem has altered the way merchants approach transaction management and risk mitigation. Digital transformation is now a permanent characteristic of the retail industry, and advanced technologies have become the principal catalysts of a new age of user experience-focused innovations. The speed and efficiency of artificial intelligence (AI)-based user authentication and payments processing tools simplified shopping for consumers and made their payment experiences more intuitive and personalized.

Newer payment options, such as contactless virtual cards and in-store buy now, pay later (BNPL) plans, optimize the user experience for consumers but do not necessarily do so for merchants. Many of these new digital payment channels and solutions have added layers of complexity to transaction management for the latter.

Research has shown that merchants require modern digital infrastructure in addition to agile methods to ensure regulatory compliance when clearing and settling in-store payments made via these new channels.[1] That means acquiring banks' and merchants' success has often been tethered to their ability to collaborate on a common goal: making the clearing and settlement of transactions frictionless.

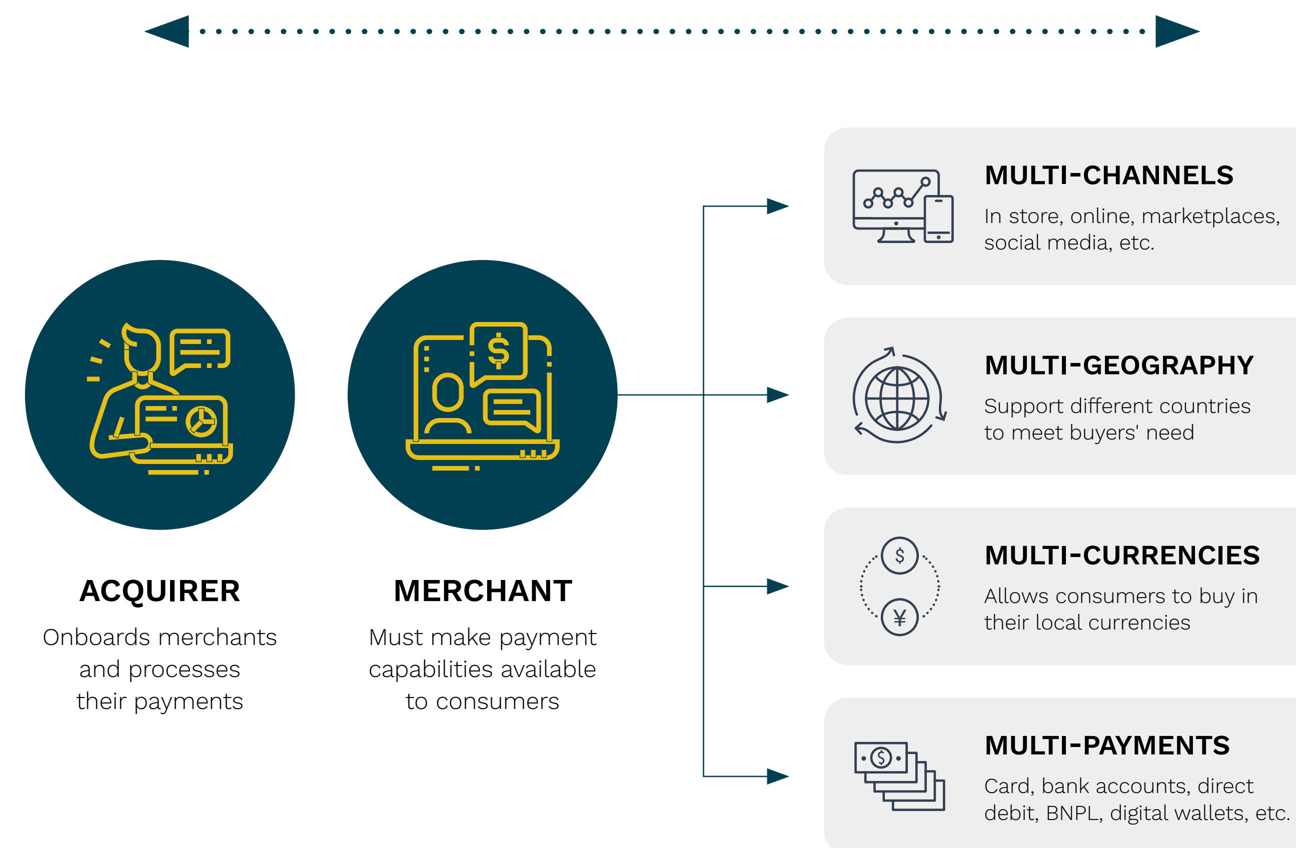


[1] How Emerging Authentication Options Impact Digital Payments. PYMNTS.com. 2021. https://www.pymnts.com/digital-payments/2021/deep-dive-how-emerging-authentication-options-impact-digital-payments/. Accessed January 2022.

Acquirers must address merchants' desire for a simple process to clear and settle transactions at scale and across multiple devices. Merchants must manage downstream risks, such as foreign exchange (FX) conversion costs and increasingly sophisticated card-not-present (CNP) fraud, all while providing smooth customer payment experiences. At the same time, acquirers must provide merchants with tools that can help them maintain regulatory compliance at each consumer touchpoint, or these merchants take the chance of becoming obsolete in the face of challenges from innovative FinTechs ready to meet this need.[2]

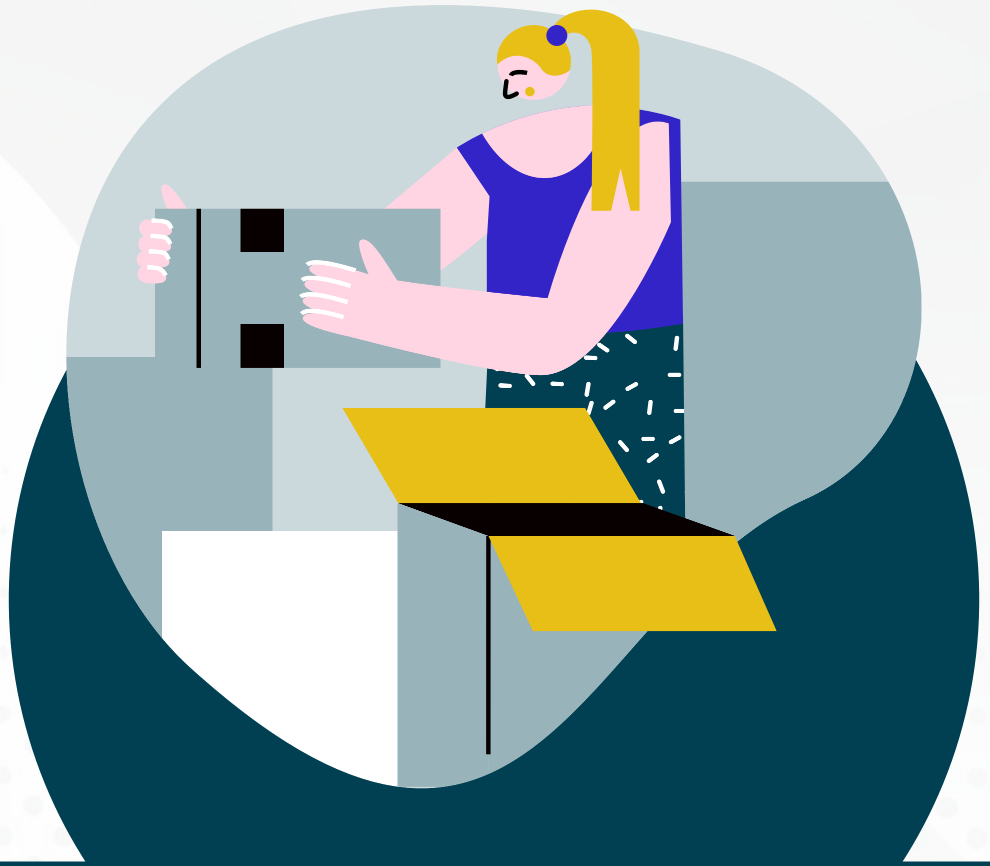
Modern iterations of payments fraud have become increasingly sophisticated in the past decade, making robust user authentication and CNP fraud monitoring an essential, sometimes complex, task for merchants. The complexity is frequently amplified by evolving know your customer (KYC) and anti-money laundering (AML) regulatory standards, which merchants can find challenging to apply or even understand with newer payment options. This often forces merchants to juggle fragmented transaction management services between several point solutions to deal with AML, KYC and settlement as they attempt to guard consumers' user experiences against disruption.

[2] Digital and Automated Onboarding Now Table Stakes for Merchants. PYMNTS.com. 2021. https://www.pymnts.com/pymnts-post/news/payment-methods/2021/digital-and-automated-onboarding-experiences-now-table-stakes-for-merchants/?c=technologi. Accessed January 2022.



As technology advances, the onus remains on acquirers to remove complexity from payments management for merchants. Enabling Payments In A Global Connected Economy, a PYMNTS and technologi collaboration, explores how providing "one-stop-shop" payments solutions can help acquirers deliver the tools merchants need to keep their competitive edge. The Playbook analyzes the common pain points merchants face when managing multiple acquirer relationships and details how acquirers can tailor their offerings to alleviate these frictions.

NAVIGATING COMPLIANCE DURING MERCHANT ONBOARDING



Acquirers face the formidable task of making innovation possible by removing the barriers to merchant adoption of new payments technologies. Eliminating these barriers requires improving the technical infrastructure of conventional reserve and holdback processes, making them more transparent for merchants without compromising efficiency or security.

Before innovation can begin, however, there is the matter of compliance. Most acquirers are aware that creating a long-term strategy for KYC compliance is essential to their success, but many may not understand the complexity involved in its implementation. Compliance starts with a thorough due diligence process occurring well before merchant onboarding. A recent ruling from the Federal Trade Commission outlines examples of what acquirers should look out for when establishing new relationships with merchants:[3]

[3] Fair, L. FTC Message of the Qualpay case: Heed possible signs of fraud. 2020. https://www.ftc.gov/news-events/blogs/business-blog/2020/06/message-qualpay-case-heed-possible-signs-fraud. Accessed January 2022.

Do not ignore holes in merchants' business histories.

Due diligence means just that: ensuring that merchants' submitted track records match their documentation. Businesses can transform throughout time with new names, owners or locales, making it essential to investigate their entire histories, including relationships with any holding companies, before whitelisting them.

Examine business models, not just transaction volumes.

Vetting merchants properly requires understanding the entirety of their business models, not merely how fast they are growing. Acquirers must review precisely how and what drives their revenues and whether their models "fit" with real-world supply and demand.

Flag inconsistencies in documentation or business practices immediately.

Payment processors and acquirers maintaining relationships with noncompliant merchants are unnecessarily placing themselves at risk. They must instead flag suspicious activity and stop payments or transaction management relationships promptly at the first sign of impropriety. This fundamental practice cannot be ignored.

Beware rapid or batch approvals for merchant accounts.

Merchant acquirers' operations can scale quickly, especially when providing a broad range of services to new businesses. That means the risk of noncompliance can multiply exponentially alongside business growth. Using a thorough vetting process or a third-party solution that allows for rapid, compliant merchant onboarding is essential.

Leverage data to authenticate ongoing merchant compliance.

It is not enough to vet merchants during the initial onboarding process and then periodically monitor transactions for potential fraud and other risks. Compliance must be a proactive, continuous exercise, and enterprise-grade, third-party solutions can streamline compliance monitoring when acquirers prepare to scale.

ENABLING PAYMENTS IN **A GLOBAL CONNECTED ECONOMY**

CASE STUDY:

NorthAmerican® BANCARD ON WHY MERCHANTS SHOULD FOCUS ON **USER EXPERIENCE**

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One of the biggest challenges facing merchants today is the battle between simplicity, security and functionality, according to Jim Parkinson, chief experience officer at North American Bancard. Merchants may want to implement technology upgrades that simplify sending and receiving payments, but high costs are involved in improving payment processes. This can slow or even halt digital transformation.

"More than ever, merchants don't want to change things because of the cost of training their staff, potential downtime and other impacts to the business," he said. "We always have to keep in mind that speed and simplicity are critical at the point of sale."

There is also the matter of process complexity, even when the right technical point-of-sale (POS) features are available. Merchants, especially smaller ones, do not necessarily want to manage the bells and whistles accompanying advanced solutions.

"A lot of smaller merchants just want to get their money, and they don't want to deal with the PCI [compliance], fraud protection or a lot of features that POS devices may provide," Parkinson explained. "While the days of the analog device are long gone, unfortunately, many merchants crave the simplicity of those devices."

Merchants also face external pressure from consumers accustomed to seamless payments online, Parkinson said. Those that want to remain competitive will have to balance their customers' preferences for simple payments with their own needs for comprehensive POS features.

"While the industry continues to evolve and provide safer and more full-function products at an affordable price, merchants are challenged by added functionality," he said. "The brands and issuers have to do a better job with the numberless card, contactless support and less-complex return processes. As features like loyalty, pay as you go, contactless and other advanced features roll out, it puts pressure on the POS to provide those features in a simple, easy-to-access and manageable way."

Parkinson believes that how merchants and consumers define "easy" payments may be vital to making user experiences better for both parties. He said there is a connection between the simple payment experiences consumers want and the easy but robust payment solutions merchants seek: a focus on transparency.

"As consumers get more and more choices, the speed and accuracy at time of purchase becomes critical," he said. "In the future, seamless will be defined as transparent. Merchants that embrace some of the new touchless and card-on-file technologies will create that transparent purchasing experience."

Brick-and-mortar merchants, in particular, are challenged to create more positive experiences pre- and post-sale than their online competitors, Parkinson explained. This makes it crucial for them to adopt key features such as stored value cards, contactless options, cards on file and self-checkout.

"POS technology is experiencing what we call in computing 'the waves of innovation,'" he said. "These waves will evolve to provide a superior experience for buyers and merchants [or] suppliers that can blend these waves of technology into a very fast and very personal interactive experience that will win the consumers. This creates the opportunity for brick-and-mortar merchants to bring people back into the stores and off the web. If the experience is fun, safe and very customized, it changes the game."

PAINLESSLY MANAGING TRANSACTION-BY-TRANSACTION MONITORING FOR FRAUD

Merchants that use newer technologies also face more sophisticated fraud risks. Digitally savvy cybercriminals can create fraud campaigns at scale by exploiting newer payment methods and coordinating their efforts across thousands of businesses, often remaining undetected as they do.[4] This can put acquirers using older technologies at a disadvantage in protecting merchants from fraud designed to slip through holes in legacy fraud-monitoring tools. One option is to use a third-party solution to monitor risk, but risk management will always require collaboration, even when acquirers rely on partners for day-to-day risk mitigation. There are three key ways in which acquirers can optimize their merchants' fraud resistance:

[4] Browne, R. 'Criminals love buy now, pay later': How fraudsters exploit popular interest-free payment plans. CNBC.com. 2021. https://www.cnbc.com/2021/11/18/criminals-exploit-buy-now-pay-later-services-like-klarna-and-after-pay.html. Accessed January 2022.

Oversight

Acquirers monitor all transactions for signs of fraud, but they must be particularly fastidious about scrutinizing and flagging those that represent high fraud risks. Transaction oversight should be a collaborative endeavor between acquirers and their clients. Empowering merchants with rich data on current fraud risk tiers and behaviors that indicate fraudulent activity or signal its potential is a simple way to help businesses protect themselves.

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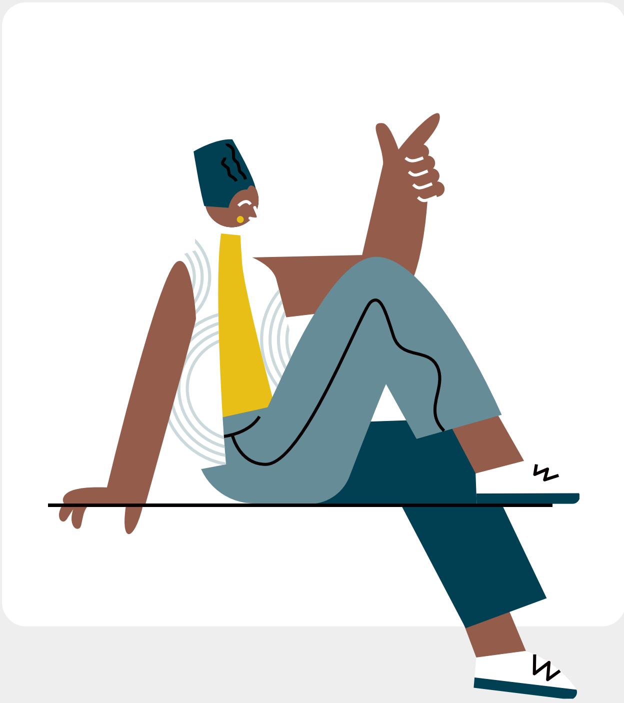
Accountability

Acquirers may work with a technology solutions partner to automate transaction-by-transaction fraud monitoring, but they also play an influential role in ensuring merchants can track and assume responsibility for in-person fraud risks. Acquirers that share KYC and AML compliance information along with analytics that allow their merchants to identify and block potentially problematic transactions will help their clients develop long-term compliance strategies.



Risk management

Merchants cannot afford to react to fraud after the fact. They must create long-term risk management strategies that encompass transaction-by-transaction fraud monitoring. Acquirers' transaction management and compliance solutions can serve as the infrastructure for risk management operations, ranging from helping merchants identify suspicious transactions to aligning financial reporting with current regulatory mandates.

CASE STUDY:

ON HARNESSING DATA TO STREAMLINE AND SECURE PAYMENTS FOR CONSUMERS AND BUSINESSES

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Merchants face numerous challenges in managing digital payments, according to Ben Weiner, chief strategy officer at payments processor Paya. These hurdles range from reconciliation issues between invoices and ledgers to disparate payment systems causing errors and processing delays. Payments processors are frequently tasked with helping merchants remove friction from both consumer and B2B payments experiences. Weiner believes their ability to do so efficiently is key to merchants' success.

Seamless payment processes will soon become the industry standard, he explained, but payment processors must be attuned to clients' and customers' evolving needs to innovate in the best ways possible. He added that offering a meaningful level of personalization in payment choices is of the utmost importance for merchants.

"A seamless experience should allow the payor to have control of the payment experience — from choosing how to make the payment, when to make the payment and where to make the payment [on which device] — and they should be able to do this in a low-friction way," Weiner said. "This applies to both consumers making payments and, increasingly, … businesses making payments."

He also said that data could profoundly impact on digital B2B and consumer payment experiences. This information can give payment processors and acquirers more insights into which payment capabilities will hit the mark and make transactions more efficient.

"From an experience standpoint, data is key to know[ing] payment preferences for both sides of the transaction: payors and receivers," Weiner noted. "This creates a more efficient ecosystem that is increasingly more digital. Data also has the potential to lower the overall cost of transactions, further incentivizing adoption."

Many acquirers and payment processors are now using tools that harness data as well as AI-powered, real-time analytics to optimize their payments processes for speed, security and user experience. He said that retailers and consumers alike benefit when merchants can leverage advanced technologies like AI along with first-party data to inform payments processing and related functions, such as onboarding.

"Take, for example, new ways to frictionlessly [onboard] new customers, provide actionable business analytics through reporting or fund multiple bank accounts in an appropriate and timely way," Weiner said. "All of these processes, which build on the previous generation of differentiating solutions in payments, can be delivered via AI and [the] predictive capabilities that come with it — having all the appropriate data to underwrite a new customer without asking them for painful data collection and form filling."

Creating better digital payments experiences for consumers and merchants requires retailers to either translate data-driven insights into payment process improvements or work with a solution that accelerates payments innovation. There are also security requirements and considerations that must be addressed as a growing number of transactions occur digitally, with solutions such as QR codes, multifactor authentication and text-to-confirm prompts emerging as key tools.

"Challenges around keeping card information safe and secure have been exacerbated in an increasingly remote world stemming from the pandemic, but market leaders have found new ways to adapt … and provide the same level of security in these environments — all powered by data."

Implementing payments innovation is key to keeping customers loyal, as complex or slow payments experiences can permanently damage consumer relationships. As consumers seek more user-friendly and secure payments interactions, and as merchants demand the same, acquirers and payments processors capable of removing friction from transactions and payments management stand to profit.

CASE STUDY:

PNC

ON FIGHTING TRANSACTION FRAUD WITH DATA

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Acquirers face a formidable challenge in helping merchants address an ever-evolving category of commercial risk: transaction fraud. This issue is pervasive and plagues merchants regardless of their size or level of growth, according to Chris Ward, executive vice president and head of data, digital and innovation for PNC Treasury Management. Fraud prevention is also tied to other key components of risk management, such as efficient transaction monitoring, data tracking and user authentication.

"There are a couple of key challenges that merchants are experiencing, one of which is what I call the 'match game,' where money comes in through some means and then the information associated with that payment comes in through a different means," Ward explained. "So, businesses have to manually match the payment and the data together to apply it to their receivables system."

Data management processes that provide incomplete or imbalanced snapshots of transaction activity and payments can be especially problematic, he said. A lack of cohesion can keep businesses from efficiently managing their receivables and ultimately impact their relationships with business partners.

"Businesses need to think about the dollars and the data associated with the payment moving together," he noted. "That's the only way a business can tell a customer that their payment has been received and that it has been applied."

Ward explained that managing fraud risk is not just a matter of identifying issues after an event. Businesses must instead shift toward proactively blocking potential fraud with innovative technologies and solutions, such as the use of aliases to protect sensitive consumer data during transactions.

> **Businesses need to think about the dollars and the data associated with the payment moving together.** That's the only way a business can tell a customer that their payment has been received and that it has been applied.

"A key challenge in today's digital world is that businesses — and merchants, in particular — must protect themselves and prevent fraud," he said. "One of the main ways we look to address this challenge with our clients is by facilitating payments via aliases. In fact, PNC Bank was actually one of the first banks in the country to connect Zelle to the real-time payment networks so that aliases could be used instead of banking information to transact between financial institutions. I think we'll continue to see the use of aliases blossom over the next couple of years, in particular for corporate customers. The use of aliases will remove the need to maintain banking information in their systems and will improve the security of making electronic payments while also eliminating friction in the process."

When innovative, efficient fraud prevention practices are in place, transactions can be processed seamlessly, and B2B and B2C user experiences improve. Businesses are like consumers in that they want better payments experiences, but Ward noted that payments innovation often reaches the B2B space last.

"Consumers and businesses expect immediate interaction associated with their transactions and an integrated experience," he said. "So, today, when a customer orders a coffee online, they can receive an immediate confirmation that includes the time it will be ready. Businesses need that same type of immediate information that, for example, allows them to track their products in real time, so they know when they will be able to ship to customers. However, in the payments space, businesses have historically lagged behind [in innovation]. They are now finding new ways to interact more immediately and with a much more interconnected experience so that when a business makes a payment or receives a payment, it is receiving an immediate confirmation that the transaction was completed."

Ward said that changes in the way B2B payments are made are essential to acquirers and payments processors looking to provide the frictionless, interconnected experiences that consumers and businesses want. Smart data management not only drives better user experiences and helps companies manage risk but also improves the functioning of the digital payments space as a whole.

"Analyzing data and the patterns associated with how customers are transacting provides safety and soundness to the overall financial services ecosystem," he said. "This data also provides a key safeguard to protect customers and businesses from fraudulent activity. Ultimately, our goal with data is to use it to help our clients make informed decisions about their businesses that they can choose to act on."

Savvy acquirers seeking to implement day-to-day risk mitigation strategies may see data as just another component in their toolkits. Data is the Swiss Army knife of B2B payments for many of the world's most successful financial services companies, serving as the foundation of digital innovation while ensuring that transactions, consumers and the overall payments ecosystem remain secure.

CASE STUDY:

ON LEVERAGING DATA TO HELP MERCHANTS **GAIN AND KEEP CONSUMER TRUST**

ENABLING PAYMENTS IN **A GLOBAL CONNECTED ECONOMY**

Customer experience preferences drive consumer loyalty, but maintaining their loyalty is rarely as simple as giving them what they "tend" to want. Consumers' preferences change without warning, and savvy merchants must be agile enough to meet their evolving needs, according to Michael Affronti, senior vice president of product for payments at Salesforce.

"Two of the greatest challenges that merchants face in offering and managing digital payments are staying flexible and maintaining customer trust," he said. "As a merchant, it is important to constantly evaluate which payment methods are favored by your shoppers and incorporate them into your payments strategy. Flexible innovation and agility are key to meeting customer expectations every step of the way."

Affronti said merchants need to consider the entire payments experience, whether it occurs in store or online, as key to customer loyalty. That means merchants and the acquirers with which they partner must prevent issues such as poor security from damaging consumer trust.

"When it comes to digital payments, gaining and maintaining the trust of consumers is imperative," he explained. "Shoppers are often acutely aware of the possibility of scams when it comes to online transactions. Strong fraud detection and other security measures must be a top priority for the checkout process across all payment platforms. While the checkout experience is usually the final step in the path to purchase, it is a crucial one — the shopper's overall experience, checkout conversion rates and brand loyalty can all hinge on a shopper's ability to complete their purchase with ease."

Affronti believes that, as consumers' preferences for payment experiences become increasingly tied to innovation, companies must swiftly make new payment methods readily and easily available. The increase in purchases made with buy now, pay later (BNPL) solutions during the holidays served as one example.

"This holiday season, Salesforce found that purchases made via buy now, pay later options increased by 29% over 2020, accounting for 8% of purchases made online," Affronti said. "As the consumer appetite for BNPL platforms increases, merchants would be wise to integrate these new digital payment options into their checkout experiences."

He also noted that access to the right data is crucial to helping merchants stay in compliance, protected from fraud and agile enough to implement innovative payments strategies as needed.

"Data and analytics enable merchants to understand fraud activity patterns, make predictions about future risk and mitigate it before it ever becomes an issue," Affronti said. "In order to fully harness the value of this data in real time, it must be kept close to the rest of your order, customer and transaction data and done so in a safe, secure and internationally compliant way. By prioritizing data unification, merchants build a single source of truth to not only better understand and connect with the customer but maintain their trust and comply with the latest regulations."

Compliance standards constantly change, but Affronti said that good payment solutions mine data to continually improve their fraud detection and prevention in ways that allow them to stay on track with the latest standards. As acquirers endeavor to provide the right transaction management features to client merchants, their access to data and ability to use it to inform the fraud protection, user experience and transaction management solutions they create will likely bolster their success.

CASE STUDY:

WELLS FARGO

ON INNOVATING TO FULFILL MERCHANTS' USER EXPERIENCE REQUIREMENTS

ENABLING PAYMENTS IN A GLOBAL CONNECTED ECONOMY

The pandemic has pushed merchants to reevaluate their payments processes as they expand into new markets and geographies. However, the complexity often involved in implementing and accelerating digital payments has proved challenging, said Ulrike Guigui, senior executive for strategy and digital innovation at Wells Fargo.

"The challenges merchants face continue to be the ability to grow and manage and their business while simultaneously minimizing costs," she explained. "What's drastically changed, however, is that payments digitization has provided unprecedented capability and, along with that, increased complexity."

Guigui said that the pandemic-induced digital shift has led merchants to jump headfirst into innovation. Many had little time to adjust as they hustled to make digital payments work seamlessly using new business models.

"Merchants were forced to rapidly adapt their environments, reporting, websites and inventory management as they pivoted from in-person to online sales and contactless payments and stored card numbers, for example," she said. "Pandemic conditions led to the emergence of additional acceptance channels, such as third-party purchase and delivery applications, that disrupted restaurant and retail environments, and the need to integrate these services into payment solutions and business management processes. Merchants have also had to navigate the complexity of managing eCommerce shopping cart conversions, consumer chargebacks, reconciling receivables reporting and forecasting cash flow, for example."

The need for better payments integration with existing and new business models means that acquirers often face mounting competition for merchants' business. With thousands of payments providers offering services, it is often difficult for merchants to discern which providers will deliver the best results. Guigui believes that success for both acquirers and the merchants they serve comes down to a clear focus on user experience and the barriers to seamless payments.

"The consumer experience continues to evolve, and its importance is highlighted by the rapid adoption of contactless payments and alternative methods of payment as well as the proliferation of point-of-sale innovation," she explained. "Examples include biometric and 'walk-out' payments. Cross-channel options, such as online purchases with in-store pickup, add to the importance of merchants being able to deliver exceptional consumer payments experiences. On the flip side, there is pressure for acquirers for the merchants to assist [customers] in navigating pain points created by the payments ecosystem's complexity."

Still, opportunities for well-planned innovation to transform users' experiences are numerous, Guigui said.

"We believe opportunities exist in a couple of areas to enhance the customer experience, such as facilitating acceptance of emerging payment forms and channels, using data to enhance payment authorization, deploy customer offers and loyalty programs [as] well as provide market information and performance benchmarking," she said.

Improved user experiences drive customer loyalty for merchants and ensure that acquirers can maintain positive relationships with merchants by helping them become more efficient. Guigui believes that features like fully integrated card acceptance with digital banking platforms and seamless reporting across payments channels and receivable flows can help merchants get the most out of digital payments, solidifying acquirer-merchant partnerships.

CONCLUSION

As merchants struggle with a range of challenges in improving user experiences for consumers, acquirers have a unique role to play in empowering retailers to modernize payments. Ranging from offering better access to critical transaction data and fraud monitoring to enhancing merchants' ability to manage AR/AP flows, acquirers can provide the groundwork for exceptional payments innovation and growth — provided the solutions they offer are user-friendly, compliant and scalable. While payments features may change as technology advances, the place of the acquirer as a driver of growth for merchants will remain. Acquirers seeking to optimize their value to retailers must look to the core of effective transaction management — data — as their best and most useful tool to help their businesses succeed and build loyalty.

ABOUT

PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

technologi delivers award winning solutions to financial services businesses and is part of the NetPay Solutions Group. The business supports the payments industry through its 4 key product areas, customer boarding and management, risk assessment and monitoring, transaction reporting and analytics and funding and settlement.

technologi enables financial services businesses to; improve the customer journey through automated on-boarding, reduce the overhead of customer management, accurately assess the risk of doing business both at initial sign-up and on an on-going basis and provides a suite of tools to manage customers and their payments on an on-going basis. The business serves customers in 16 countries and 8 languages.

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