FINANCIAL SERVICES

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Conquering the Complexity of Client-Centricity

How a strategic approach to revenue management and billing can solidify payments industry partnerships and revenue streams

Introduction

The act of paying for goods and services has changed beyond recognition from the days of physically handing over coins or bills to shopkeepers behind a counter. Over the years, consumers and merchant acceptance of payment cards has been pervasive. Hundreds of millions of cardholders make billions of transactions worth trillions of dollars each year.

But today we also want more than just simple transactions of exchange. We demand and actively seek out new paths of payment that provide us with additional functionality, extra security and even rewards for our business. Unfortunately, market conditions and trends are driving standardization in the payments landscape, increasing commoditization in the products and underlying processes.

In this environment, it is imperative that payments providers distinguish themselves. Payments firms need to focus on specialization to diversify their offerings such as pricing and incentives programs to make themselves more client-centric.

Critical to the success of this specialization is the ability to support complex client organizational relationships, client specific pricing and calculation schemes and more all the way through the billing and settlement processes.

The Challenge

Over the years, the payments industry has grown into a complex ecosystem with many market participants. As the industry has matured, lines between participants have blurred and the relative value of each step in the process has shifted. To be successful in the future, firms must understand the current forces acting upon their current landscape and adapt to this change while maintaining flexibility for the future.

Industry Structure

The industry primarily generates revenues through merchant fees which merchants eventually recover through higher prices or more sales. Supporting this is a highly evolved group of intermediaries that sign up merchants to accept cards and/or process transactions.

The key institutions in the process are the merchant, merchant acquirer, payment card processor and the card issuers. The merchant acquirer and payment card processor together provide the communication channel and link between the merchants and card issuers. Figure 1 shows the typical relationship between payment industry participants.

Card Issuers provide cards and may extend credit to the consumer. The merchant acquirer signs up merchants to accept payments cards for the network. Acquirers also arrange processing services for merchants which may include transaction authorization, routing of transactions to the network, backend processing and more. Merchant acquirers may act as processors themselves or may outsource this to a third party service provider.

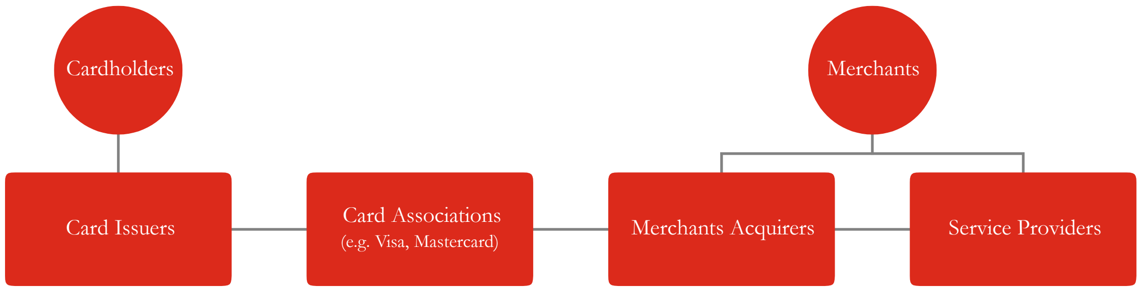

Figure 1: Core Payment Process Participants

Card Associations such as Visa and Mastercard are networks of banks that process payment cards of a specific brand. As only banks may join associations such as Visa and Mastercard, many acquirers and processors form alliances with banks adding further complexity and commoditization to the transaction process. In addition to these core participants, are regulatory agencies that set the rules that cover payment transactions.

What has resulted is an intricate web of interconnected organizations with many delicately managed business-to-consumer and business-to-business relationships. It is these relationships that will require more client-centricity for network participants to be successful in the future.

Trends

There are significant changes going on in the payments industry. This includes:

- Increased competition and commoditization
- Continued globalization and demand in emerging markets
- Improved handling of Big Data
- Tightened regulations
- Adopted electronic bill presentment and payment solutions

Increased competition and commoditization

Banks, payment networks processors and other payments incumbents are increasingly encountering competition from mobile carriers, Internet players, software providers, retailers, and other new entrants as the landscape evolves. For example, there is currently more competition between the traditional credit card payments model and more peer-to-peer payments schemes for online transactions such as offered by PayPal.

New payment service providers and alternative payment solutions, made possible in large degree by ubiquitous and lower cost technology, are requiring existing payment service providers to continuously defend market share and margins. In addition, businesses are adopting software that is improving the efficiency of transaction management forcing further margin compression.

We have also seen dramatic shifts in relative power between industry participants. Merchants are demanding lower pricing for existing payment services and are proactively seeking payment alternatives.

As this trend continues, payment facilitators are looking for ways to continue to differentiate themselves and drive operational efficiency. In some cases, this includes bolstering their financial services offerings within their organizations as compliments to their traditional communications-based offerings.

Continued globalization and demand in emerging markets

Globalization will continue to drive the growth of eCommerce, which in turn will drive the proliferation of new and novel payment solutions. The payments industry is global and interconnected, with common trends and issues but each local market has characteristics unique unto itself.

Emerging payments markets such as Eastern Europe, China, and Africa are evolving, creating tremendous opportunities to create value for consumers and businesses as consumers and providers of payment services.

Established payments markets such as the United States and the United Kingdom continue to evolve but the rate of change has accelerated for several reasons, including regulatory reform, new entrants and payment solutions, and shifting market power between value chain participants.

Improved handling of Big Data

Big Data challenges consist of the processing and analysis of large sets of information that are too complex to be handed through traditional databases. This issue has become more prominent as organizations look to mine data to obtain insight into customer preferences and purchasing habits as a critical input to specializing their offerings. Adding to this is the desire of many organizations to break down existing silos to seek cross-sell/up-sell opportunities, better manage risk and drive operational efficiencies out of their day-to-day operations.

How firms are able to effectively access their data will have significant implications to their competitiveness going forward.

Tightened regulations

Heightened regulatory scrutiny is being seen as the CARD Act and Dodd-Frank continue to be enacted. For example the Consumer Financial Protection Bureau has begun to respond to a high number of billing and credit card complaints. This is taking its toll in the form of increased reporting and record keeping requirements on network participants. It may also cause shifts in the balance between favored products (e.g. credit vs. debit cards) and may open up opportunities for smaller, exempt banks and credit unions to take advantage of legislative inconsistencies. Additionally, consumer protection groups, with cries of “unfair” pricing practices, are putting pressure on fees charged to credit and current account customers. As a result, regulation is expected to drive new and unexpected business models in the future and is expected to add significant overhead to existing models.

Adopted electronic bill presentment and payment solutions

The migration of payments from paper to electronic channels continues to be driven by automatic e-bills, online banking and mobile payment services. The establishment of recurring and more prompt payments is shifting the economics of the industry as third party payment processers continue to gain traction. The growth of eCommerce, requires new payment options that fit the requirements of online merchants over the Internet and Mobile channels and continues to evolve.

A Client-Centric Solution

In response to these trends, many payment industry participants are now pursuing an integrated payments business focused on proactive client-centricity. Firms are doing so to protect existing revenues, quickly take advantage of new opportunities as they emerge and to drive operational efficiency.

To achieve this some firms are looking at restructuring around FIRST capabilities including Flexibility, Incentives, Reliability, Standardization and Transparency.

Flexibility

In order to respond quickly to a dynamic marketplace, firms need to be lean and to have processes in place for quick identification of, testing of and execution upon opportunities.

Innovations will continue to appear especially driven by the younger generation market segment all the way from the point-of sale through back end processing.

Incentives

Now that credit cards have penetrated into the majority of the population and countries, many firms' first thought is how to maintain their existing customers. That coupled with new market entrants and the shifting environment is driving existing market players to continue to innovate in product and service offerings to stay competitive. Incentives such as affinity programs are a critical way for companies to route business in the payments network to their organization.

Reliability

As competitiveness increases, customer satisfaction becomes more and more important. Clients want to work with an organization that have stable systems that are easy to work with and are never down unexpectedly. Firms must also put an emphasis on process and system scalability as electronification and uncertainty in a marketplace can result in the rapid increase in volumes and capacity issues. In general, given the importance of reliability, firms should be looking across the payments value chain for ways to reduce systemic-risk and improve control.

Standardization

A critical input to client-centric specialization is standardization. While many think these two focuses are contradictory, the truth is that firms that want to be able to provide many options for clients that better suit their needs must first look to standardize their interfaces, structure and processes around options for clients. Smart firms don't create custom processes and interfaces for each specialization they provide a client. Instead they design and preselect a set of options that can be handled consistently operationally that still give clients the variability they require.

Transparency

Transparency is critical to being able to provide a sustainable client-centric offering. A firm must clearly understand the value they are providing to their clients at any point in time and the related cost of their offerings. This insight will be a key driver for business decisions including business development targets, pricing changes and operational investments.

How Oracle Can Help

Oracle Financial Services Revenue Management and Billing (ORMB) can help payments industry firms face the industry's onerous trends while supporting the 5 desired capabilities of the FIRST framework.

ORMB is a global, flexible and scalable application that can support the products, services and charging schemes for the payments industry overall.

For example, payment network providers are expected to augment their incentive and other affinity capabilities to entice acquirers to route payment decisions onto their individual network infrastructures. In addition, network providers, especially outside of the US, will be adopting vertical integration strategies whereby they will become issuers, the network providers, and the processors.

As payments methods change, billing solutions – and more specifically, pricing and charging schemes within billing systems – need to be flexible enough to support them. ORMB's architecture has the proven flexibility to allow firms to quickly design and deploy products, services and charging schemes.

ORMB supports complex organizational hierarchies and client specific pricing and calculation schemes for any level. This will enable payments firms to configure products, services, charging, credit and incentive offerings on a client-by-client basis. In addition, ORMB supports client-specific price configurations, transaction aggregations and price assignments any level of a merchant hierarchy.

In general, the amount of electronic payments volumes is expected to continue to grow. ORMB has proven to scale linearly with hardware and has a performance benchmark for 1 billion transactions resulting in 100 million bills processed, the equivalent of generating an invoice for every household in the United States.

ORMB also has the strength and scale of the Oracle Corporation behind it, making it an ideal partner for a complete end to end offering. This can include billing, settlements, receivables/collections, customer relationship management, integration with payments solutions and more.

Conclusion

The payment industry has matured into an extremely complex system made up of tightly integrated partnerships and commoditized transactions that have many options for processing.

Organizations looking to strengthen these partnerships are focused on establishing a shared client-centric approach to decision-making. All parties involved believe in putting their customers first by meeting their needs, exceeding their expectations and enhancing the value of their services.

To effectively accomplish this, firms must lay a foundation that provides Flexibility, Incentives, Reliability, Standardization and Transparency.

To build this foundation, many organizations have had success working closely with a strong Platform partner to provide the core capabilities they need to keep existing business, to quickly take advantage of new opportunities and to streamline their organization.

Oracle is well positioned to help given its industry leading Oracle Financial Services Revenue Management and Billing (ORMB) solution and it’s global, wide-ranging capabilities.

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