BAI Banking Strategies
Executive Report

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Payments: Increasing competition in the fast lane

BAI POWERING SMART DECISIONS.

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LETTER FROM THE EDITOR

Payments presents threats and opportunities for banks

BY TERRY BADGER, CFA
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Fintechs have had tremendous success in penetrating the payments area of financial services—PayPal rakes in more than $20 billion in revenue annually, and it is far from the only large player in the space. For Big Tech companies like Apple and Google, payments is the first access point into banking services.

Mobile payments, peer-to-peer, contactless cards and buy now, pay later—these are just a few of the innovations introduced in payments in recent years. The sector has relatively low barriers to entry compared with other areas of financial services, making it likely that new competitors with new ideas will continue to stream into the market.

For traditional banking institutions, there's a lot at stake when it comes to payments. Creating a fast, safe and easy-to-use payments solution can help banks and credit unions maintain the all-important position of primacy in the customer relationship.

In this month's BAI Executive Report, we explore how some institutions are rising to the payments challenge.

In our lead article, BAI contributing writer Lauri Giesen explores some of the new products banks and credit unions are embracing in their quest to catch up to customer expectations. These include using APIs to deliver payments faster and providing visual confirmation of transactions via screenshots.

But complicating matters, she writes, is that customers often give the credit for these solutions—and any accompanying loyalty—to the fintech partners of the banks and credit unions, rather than to the banking institutions deploying them.

And on the security side, the growth of e-commerce has somewhat weakened the protective powers of EMV chips and other upgrades that fight credit-card fraud. One of Giesen's industry experts advocates that U.S. financial institutions pool their efforts to develop better authentication methods, particularly for card-not-present situations.

Jens Audenaert from Diebold Nixdorf focuses his article on how financial institutions contending with the rising demands of digital banking can successfully transition to a more modern payments platform, and then future-proof that platform by preparing for payment types that will inevitably emerge in the years ahead.

He writes that cloud-based technology can allow banks and credit unions to work around legacy systems while simultaneously updating important operational elements to become more agile and reduce the risk of future obsolescence.

Tammi Shapiro from ServiceNow makes the case that financial institutions should devote more attention and spending to bring middle- and back-office operations—often a lower priority for resource allocation—up to the level of their slick customer-facing capabilities.

"To stay relevant and remain competitive, financial institutions must deliver superior experiences through the end-to-end customer journey," she writes. "Banks need to invest just as much in the back end by empowering employees with the connected tools and information they need to be more effective in servicing customers when there are issues, such as a failed or disputed payment."

Also in this month's Executive Report:

- **Open to the future:** BAI contributing writer Dawn Wotapka writes about a new peer-to-peer payments initiative led by a group of community banks working together to create a less expensive and more open option to the more established P2P providers. Only a handful of institutions are currently on board, but expansion plans are in place for 2022.
- **More transparency in buy now, pay later:** My interview with Greg Wright from Experian highlights his company's plans for a new credit bureau that will focus on buy now, pay later transactions. The rapid growth of BNPL, particularly among younger Americans, is increasing the need for credit-related insights for lenders seeking to participate in the market while managing their risk.
- **Ending pulp friction:** Chris Clausen from Deluxe writes that checks as a payment solution are not going away any time soon, but he says there are ways to make them faster at delivering funds and cheaper to issue and process. One way to do this is by innovating the lockbox network to get rid of paper and make everything electronic from end to end.
- **From just plastic to simply fantastic:** Nicole Machado from Vericast explores how financial institutions can deliver effective customer engagement through card programs. She says emerging technologies are enabling innovative marketers to redefine the value proposition of cards: from hard-working but largely generic rectangles of PVC into powerful brand differentiators.

We hope you find useful takeaways in this Executive Report focused on payments innovation. Feel free to email me to let me know what you think.

Terry Badger, CFA, is the managing editor at BAI.

Faster, easier, safer

That's what consumers expect in the payments space, and financial institutions need to rise to the challenge.

BY LAURI GIESEN

Consumers want to use digital channels for an increasing number of everyday activities—from working at home to shopping to learning to visiting friends and relatives. Included in all that activity is making payments, whether paying the bills or making a purchase at a store or online.

Banking institutions have offered electronic payment options for several decades, but consumer demand is greater now than ever. People want payments to be faster, and they want the systems to be easier to use.

"(Consumers and businesses) want immediate interaction associated with their transactions and an integrated experience," says Chris Ward, head of product management for PNC Treasury Management. "For example, a customer can order a coffee online and receive an immediate confirmation about what time it's going to be available. Similarly, businesses can track their products in real time to see when they will arrive to ship to customers."

"Facilitating a payment experience that reflects these new expectations is critical for banks, and the only way we can do that is through innovation," Ward adds.

Banks and credit unions that can't meet consumers' demands regarding payments are susceptible to losing customers. At the very least, they may not be able to sell additional bank services to those who are dissatisfied.

Making matters more challenging for banks is that fintech companies are introducing products that address consumer demands for faster and easier payments. But while many of these options rely on financial institutions and the banking system to hold and move the funds, the services are often branded and marketed by the technology companies.

"Banks may hold the deposit funds used to make the payment and move the funds around, but the brand that is in the consumer's mind is not the bank," says Rodman Reef, managing principal of Reef Karson Consulting LLC.

An example Reef points to is PayPal. The payments are ultimately made through bank accounts or bank-issued credit cards, but PayPal is the brand that customers see. As a result, any gratitude or loyalty consumers feel when making a quick and easy payment goes to PayPal—not to their bank.

"It can be very confusing to customers when they see another name. And that can be very important the next time that customer looks for another financial product and the bank's name doesn't come to mind," Reef says.

Zilvinas Bareisis, head of retail banking for Celent, says that even when banks work jointly with tech companies to provide advanced payment options, they risk losing customer relationships if customers perceive that their payment services are coming

CHRIS WARD
PNC TREASURY MANAGEMENT

ZILVINAS BAREISIS
CELENT

from these outside companies. "Apple Pay is a great opportunity for some banks to provide a great payment experience to their customers, but the risk is that the customer relationship is lost," he says. To prevent this from happening, financial institutions need to reinforce their role in the service through branding and promotions.

Bareisis points to Utah Community Credit Union as an example of a financial institution that used an outside technology company successfully. The credit union offers a service that relies on technology now offered by Fiserv to provide a visual representation of payment transactions using screenshots. He says the service gives consumers valuable information that is easy to understand, and the service is branded in such a way that customers associate it with the credit union.

Another innovation was PNC Bank's early adoption of The Clearing House's real-time payments (RTP) network, which allows clients to send and receive funds at any time. More recently, PNC became one of the first banks to send Zelle payments over the RTP network, providing a fully digital payment experience with improved efficiency by leveraging the emerging global ISO 20022 messaging standard, Ward says.

Another recent addition to PNC's payments platform is Direct to Debit, which leverages an API-based solution to deliver funds to consumers quickly using Visa Direct and Mastercard-issued cards.

But while it is important for banks to provide these types of services to customers, there is also a huge risk if they offer something that doesn't work as promised or is not secure.

"There is a risk in launching a product that consumers are not ready for or if the product is not reliable or not easy to use," says Reef. Offering services that have a lot of downtime or are too complicated to use may be worse than not offering anything at all, he adds.

Another huge risk associated with advanced digital payments is related to security. Bareisis says EMV chip cards have helped reduce card fraud, "but after the pandemic started, many transactions moved away from card-present to e-commerce. Banks need to look for better ways to manage fraud there." He believes U.S. financial institutions need to work together to develop better ways to authenticate identification in card-not-present situations, especially those related to e-commerce payments.

"Protecting consumers and businesses from fraudulent payments will be critical in the years to come," says PNC's Ward. "I think we will see an increased number of financial institutions offering solutions that allow people to make payments using aliases. I think you'll continue to see that blossom over the next couple of years."

Banks risk losing the confidence of consumers who have bank accounts. There is a lot of damage to the banking system if customers feel their banks can't protect the safety of money they place with the banks.

PETER QUADAGNO, VALITY CORP.

The risk to financial institutions is not just the loss of funds caused by fraud but also the reputation of the entire industry, says Peter Quadagno, CEO of Vality Corp. "Banks risk losing the confidence of consumers who have bank accounts. There is a lot of damage to the banking system if customers feel their banks can't protect the safety of money they place with the banks."

Quadagno argues that banks have focused too much of their fraud prevention efforts on data analytics. Data analytics relies on probability theories that determine the likelihood that a given transaction is fraudulent. But while he says such systems worked several years ago, advancements in quantum computing attacks on payments databases have significantly increased the likelihood that fraudsters will obtain payment information that can be used to do major damage.

"Banks need to look at systems that go beyond probability theories and look at how fraud is occurring and why databases are getting taken over," he says.

Lauri Giesen is a BAI contributing writer.

A new era for payments

Successfully modernizing a payments system requires a purposeful, phased approach.

BY JENS AUDENAERT

The payments landscape has evolved considerably in recent years, and customers are increasingly demanding the newest innovations from their banks. This rapidly shifting environment presents a material challenge for financial institutions.

Most legacy platforms were launched decades ago and were explicitly designed to handle physical cards and point-of-sale and ATM transactions. They were not built for the needs of the digital age, yet many organizations struggle to see beyond their complex systems—which are burdened with technical debt—and “do something different.” As a result, many financial institutions incur cost, experience reliability and scalability issues, and lack the innovation, flexibility and speed to market of newer services.

More forward-looking banks are deploying modern payment platforms that feature reusable services. This approach enables them to consolidate many current payment schemes into a single-use platform. They can also future-proof their business by facilitating the easy adoption of new payment types because they can reuse existing services and reduce the amount of new development required to support a new business venture.

Built on a cloud-native, microservice architecture, these platforms incorporate API connectivity and development resources. They provide a number of benefits, including:

- *The ability to offer modern payment systems.*
- *Reduced time to market.*
- *Less dependence on multiple vendors.*
- *Rationalized operational costs.*
- *A more centralized view of authentication, authorization, exposure and risk.*

THE BIG QUESTION

So how do banks and credit unions go from a legacy payment infrastructure to a modern, flexible, next-generation system without risking current operations and budget or stressing the resources needed to make the change?

There are proven ways to make a successful transition, including running a new system concurrently with the old one. Cloud-based technology can help leapfrog legacy infrastructure to bring together existing technology with future-ready options. This approach allows financial institutions to begin to take advantage of flexible cloud-native capabilities while simultaneously modernizing critical operational components to quickly advance the technology road map and become more agile—thus dramatically reducing time to market and risk.

There are proven ways to make a successful transition, including running a new system concurrently with the old one. Cloud-based technology can help leapfrog legacy infrastructure to bring together existing technology with future-ready options.

The new platform acts as a payment services hub that can seamlessly process numerous payment transactions and keep pace with regulatory compliance. It also enables financial institutions to rapidly configure new payment offerings and orchestrate transaction flows across multiple systems by reusing the technology.

Using a phased, agile approach that includes introducing the new system alongside the legacy one, banks and credit unions can upscale step by step, service by service, and transaction by transaction. The new system can be integrated into the existing ecosystem and marketplace to provide a 360-degree view of customers, accounts and transactions.

By leveraging an API-driven architecture, this approach combines existing systems with future-ready options. These ecosystem partnerships—on common, cloud-native architectures—ensure that critical operational components can be modernized cost-effectively. This approach can reduce per-transaction processing costs, elevate margins and decrease the need for manual repairs and reconciliations.

This approach also makes it possible to bridge the gap between existing systems and modern services—namely, real-time transactions, cloud-based services and API enablement. Ultimately, firms are enabled to gradually scale down investment in older platforms, scale up investment in new services when convenient, and shift across skills and knowledge in a measured way.

This architecture is also the key to reuse, as services can be swapped in and out with minimal development support. If services are built according to modern, cloud-native principles, the payments platform can consume best-of-breed products, such as AI-based fraud detection, as well as new authentication services such as facial, voice or iris recognition. It offers a "build once but use often" design that can reduce operational costs and increase speed to market for current and future alternative payment methods.

FOCUS ON THE HERE AND NOW

Regardless of the resources banks and credit unions have invested in maintaining legacy systems, they can start planning for the future now. Institutions can prioritize new and alternative payment types and examine external factors, trends, regulations and consumer expectations. An open and accepting mindset can enable FI leaders to strategically map their new payments journey.

Approaching change in bite-sized pieces can make modernization more manageable, more achievable and less risky. Using available tools to configure new payment offerings quickly can help financial institutions dive into the modernization path without the arduous processes, risk and expense of a complete system overhaul.

Jens Audenaert is senior vice president and general manager of payments software at Diebold Nixdorf, a Fortune 1,000 fintech company.

A payments transformation that delivers smiles

Keep customers and employees happy by delivering digital payments faster and removing a system's complexity.

BY TAMMI SHAPIRO

Imagine this scenario: A customer is trying to make a payment on a mobile banking app but taps the wrong button and the payment doesn't go through. The customer reaches out to the bank for a quick resolution; however, this seemingly simple issue kicks off a complex, 16-step process involving multiple employees working across systems and tools to attempt to recover the funds and make the customer whole.

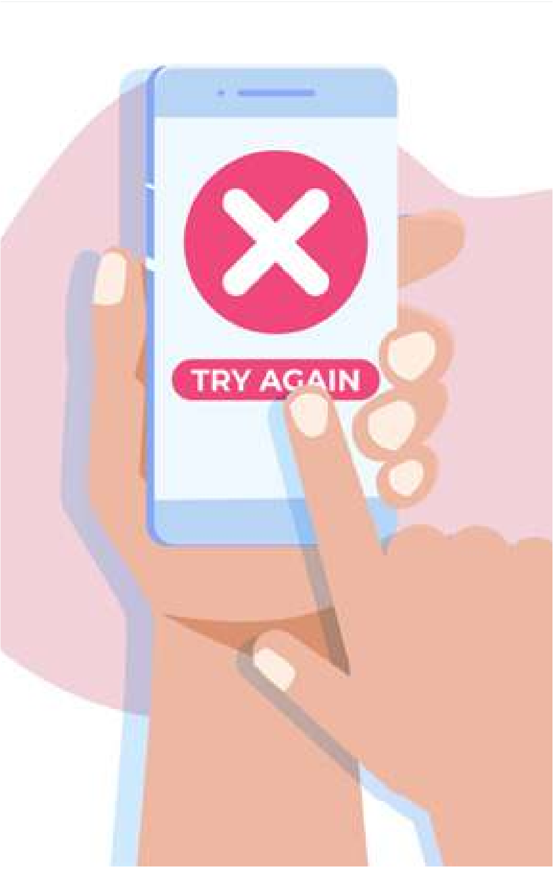
In an age when banks can lose a customer faster than ever, how can they close the gap between expectations and reality? The answer is end-to-end digital transformation.

Financial institutions have invested significant time and money in modernizing the payment capabilities and services they offer customers, including real-time payments and quick-pay services. Not too long ago, reimbursing a friend for your share of dinner or paying a bill would have involved cash, a digital payment that took several days to clear or even a paper check. Now, you can make these common payments quickly and effectively.

But banks have an opportunity to deliver an even more effective experience by taking these advancements further. For example, while these new payment services and rails succeed at delivering faster digital payment experiences, they can also add layers of complexity behind the scenes as new vendors, new systems and new processes are onboarded. That complexity needs to be transparent to customers and employees alike.

Institutions have made significant investments to create more intuitive online, mobile and omnichannel experiences for customers. Now they need to create a comparable experience for employees—one that eliminates the need to swivel across multiple payment systems, look up information in various portals and follow up on issues via email. The answer is a digital, connected "system of action."

To stay relevant and remain competitive, financial institutions must deliver superior experiences through the end-to-end customer journey. Yes, the "happy path" works increasingly well for the customer-facing experience, but banks need to invest just as much in the back end by empowering employees with the



connected tools and information they need to be more effective in servicing customers when there are issues, such as a failed or disputed payment.

Let's put some numbers on this: In 2020, [failed payments globally] led to nearly $120 billion in cost. Much of that cost fell on financial institutions through a mix of labor costs, lost business via customer churn and fees. And this is only the price of failed payments.

Companies should connect existing systems across the institution to ensure that everyone serving customers has real-time, relevant information on each customer's accounts and can resolve issues quickly.

Add in other payment issues, such as disputes and fraud, and the number swells.

It doesn't have to be this way. By connecting teams through a centralized digital platform so they can do their work more effectively, banks can deliver a more consistent, reliable service to their customers. They can also react in a more agile way to changes in regulation, pandemics, natural disasters and other unforeseen events. A slick front end is important, but so is a slick back end. This is what end-to-end digital transformation looks like.

We have identified three key ways to transform operations to improve the customer experience:

Create connectivity: Highly fragmented systems and manual processes create enormous inefficiencies across operations teams, where customer and account information remains siloed. Employees can spend most of their work time searching for answers and scrambling for data, leaving minimal hours for other important tasks. Companies should connect existing systems across the institution to ensure that everyone serving customers has real-time, relevant information on each customer's accounts and can resolve issues quickly. Institutions must also offer the right experiences and channels for each stakeholder, whether they be a customer who wants to interact with a virtual agent for an omnichannel experience, an operations analyst who wants to work entirely through a single interface, or an approver who wants to quickly review and approve a request on a mobile device.

Build automation: Once you have systems and people that are connected, it's much easier to build automation into any business process. For example, you can automatically route work to the person who is most experienced in handling a certain type

> *Integrating multiple systems into a single system of action can automatically route work through that system in real time (instead of relying on email), apply automation and business logic to complete tasks, and expose digital channels so customers can submit issues and check on the status themselves.*

of payment issue or to a team that has the most capacity. You can leverage artificial intelligence and decision logic to automatically make decisions on how to handle a payment exception. And you can trigger automated communications using preconfigured, dynamic templates.

Improve continuously: Once you've established a centralized system of action, it's very easy to scale and adapt to change. New payment capabilities can easily be integrated to maintain that connected and consistent experience. As you identify opportunities to improve processes, you can make adjustments to achieve greater efficiencies. And as regulations change, you can adapt your processes, service-level agreements and reporting to comply. Further, by building the system on a low-code/no-code platform, you can adapt to change much more quickly and easily.

In an improved end-to-end environment, that customer who tapped the wrong button making their payment wouldn't have to endure a process that required employees to tackle 16 cumbersome tasks. Integrating multiple systems into a single system of action can automatically route work through that system in real time (instead of relying on email), apply automation and business logic to complete tasks, and expose digital channels so customers can submit issues and check on the status themselves.

This scenario demonstrates how payments teams can work more effectively. And this is just the start. A truly connected financial institution can drive efficiencies and better experiences across lending teams, deposit teams, credit card teams, customer service departments and more.

Digitally transforming end-to-end operations gives financial institutions the speed and resilience to win and keep customers while retaining valuable talent. The bar is high, and Big Tech continues to raise it. The time to act is now.

Tammi Shapiro is global head of product, financial services industry, for ServiceNow, a company that uses cloud-based solutions to help organizations digitize and unify.

Open to the future

A coalition of community banks is taking on peer-to-peer transactions.

BY DAWN WOTAPKA

You go out to dinner with a friend and want to divide the tab. But your friend uses a community bank and you use one of the leading peer-to-peer payment apps, so instantly e-paying each other is complicated. Enter CHUCK, a new payment solution designed to open up closed networks such as Zelle, PayPal and Venmo.

CHUCK is the brainchild of the Alloy Labs Alliance, a group of nearly 60 community banks working together to innovate as the industry faces a declining footprint—following the rise of interstate banking and years of consolidations, the number of community banks has tumbled by more than half since the 1980s. Digital innovation from industry behemoths, meanwhile, is luring the younger generation away from community banks—particularly from those that have bypassed services such as Zelle, says Richard Crone, CEO of Crone Consulting LLC.

Available for U.S. banks, CHUCK bills itself as an open network for instant payments. It offers financial institutions "a choice when it comes to providing instant payment capabilities," says Jason Henrichs, Alloy Labs' chief executive. These institutions "no longer must settle for a more expensive, restrictive and closed network."

The network was unveiled in late December with the backing of a handful of community banks, including Reading Cooperative Bank, a $730 million Massachusetts bank said to be instrumental in leading the effort; Mercantile Bank of Michigan, with around $4 billion in assets; American State Bank, based in Iowa with $1 billion in assets; and Citizens & Northern Bank, a $2 billion player in Pennsylvania. Currently operational with one bank and in beta testing with another, CHUCK is set to expand to additional banks this year.

RICHARD CRONE CRONE CONSULTING LLC

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The goal is to provide an open network for all financial institutions, including credit unions, fintechs and non-fintech networks. To send money through CHUCK, individuals need a bank routing number or a debit card, though the process will become easier in the near future as the system's network expands, Henrichs says.

CHUCK is embedded in the existing mobile and online banking experiences of participating institutions. The sender clicks a button to send money to another person, enters the person's phone number or email address (if they haven't sent money to the person before), adds the amount to be sent, and then presses "send."

While CHUCK follows the same sending process as Zelle and other closed networks, it eliminates the requirement that sender and receiver use the same network. It also eliminates the need to open another application if you already use a P2P app, Henrichs explains. The recipient receives an alert and chooses where the funds go without having to download an app or open an account, Henrichs says. And senders don't have to join or download a separate app, either: If their institution offers CHUCK, they can start sending payments right from the bank's existing mobile application or online account.

Was there really a need for yet another payment method? "Closed networks are great for the network

JASON HENRICHS
ALLOY LABS ALLIANCE

Closed networks are great for the network operator but not necessarily the users. Building a more customer-centric approach and promoting inclusivity are key objectives of the new network.

JASON HENRICHS, ALLOY LABS ALLIANCE

operator but not necessarily the users," Henrichs explains. "Building a more customer-centric approach and promoting inclusivity are key objectives of the new network."

To be sure, some community banks are happy to join closed networks. Early Warning Services LLC, Zelle's network operator, has reported that 85% of its network participants [are regional and community institutions with assets less than or equal to $10 billion, with the vast majority of them holding assets of $1 billion] or less.

But CHUCK is built on the desire for openness. "There are still unmet needs in the payments world," [Henrichs wrote in a recent blog post.] "We also believe that filling those needs shouldn't be about building another private network but about connecting those who haven't opted into a P2P network to that digital world."

CHUCK maintains that it isn't a low-cost version of Zelle, "even though it turns out to be more cost-effective for participating banks," Henrichs points out. Without this effort, he says, "the largest institutions and incumbents (Venmo, Cash App and, to a lesser extent, PayPal) would have a highly concentrated hold on the future of payments. Banks below the top few, credit unions, most fintechs and nonfinancial institutions that need to move money would be depending on these other players for access and innovation."

According to Crone, "the perceived problem being solved by CHUCK is to avoid the cost of Zelle," which he estimates at $0.24 or less for the largest funding banks to $0.90 for smaller, low-volume financial institutions. However, for community banks, he worries "the biggest risk and cost is falling further behind when solutions exist today, vital to retaining and attracting younger cohorts for new account acquisition."

Dawn Wotapka is a BAI contributing writer.

More transparency in buy now, pay later

The payment method's rapid growth is increasing the need for credit-related insights for would-be lenders.

BY TERRY BADGER, CFA

The global growth rate of buy now, pay later (BNPL) has been nothing short of phenomenal in recent years, in terms of the number of consumers using the alternative payment method, the value of their purchases and the many competitors crowding into the space.

BNPL is a financing solution in which a consumer pays off a purchase in a set number of interest-free, fee-free installments spread out over a short time period, typically no more than a few months. Its popularity spiked during the pandemic, as more commerce moved online. But BNPL is also growing for in-person purchases. Counting all points of purchase, the global value of BNPL transactions is expected to grow to nearly $700 billion by 2025.

BNPL is proving especially popular among younger Americans, with research in 2021 showing that more than 60% of millennials and Gen Z consumers surveyed had used the service at least once. The same survey found that usage in the over-55 set doubled to 40% in a year.

The scale of opportunity creates challenges, including how to gauge the creditworthiness of potential BNPL customers. BAI recently connected with Greg Wright, chief product officer for consumer information services at Experian, to learn more about his company's new Buy Now Pay Later Bureau, which goes into operation later this year to help lenders with their BNPL decision-making.

The interview has been edited for length and clarity.

BAI: Fundamentally speaking, buy now, pay later looks in many ways like a run-of-the-mill installment loan product. What is it about them that makes them less run of the mill, to the degree that Experian has set up a new specialty bureau to assess them?

Greg Wright: The Buy Now Pay Later Bureau will address the unique needs of BNPL without negatively impacting consumer credit scores. Reflecting BNPL information on credit reports as traditional loans or lines of credit may create negative impacts to consumer credit scores, even when BNPL products are used responsibly. If treated the same as mainstream credit products, hard inquiries would show for each purchase, each purchase would show as a new short-term tradeline and each tradeline would have a utilization rate of 100%. These are all factors that can negatively impact credit scores. Without careful consideration of how BNPL tradelines are treated on credit reports, what is now just shopping on a Sunday for many consumers might look like very risky behavior on conventional credit scores.

You have said that one of Experian's goals is to bring better transparency to the BNPL market. Tell us more about what you mean by that—why is the transparency level so low, and what risks does that create?

Concerns about the negative impact on consumer credit scores have prevented many BNPL providers from reporting information. The underreporting of this information has created blind spots for traditional

GREG WRIGHT
EXPERIAN

lenders as well as BNPL providers. Traditional lenders are unable to gain a complete view of a consumer's financial obligations, which limits their ability to accurately assess risk. At the same time, BNPL providers don't have a view of how or if a consumer has managed BNPL payments with other providers. Our solution will provide lenders with real-time insights needed to drive responsible and inclusive lending, while protecting consumers.

One of the key attributes cited for BNPL, including by Experian, is its ability to provide broader access to financial services for underserved populations. How is what you're doing going to foster greater financial inclusion?

While our research shows many consumers who use BNPL accounts also use traditional forms of credit, we

Over time, we also plan to incorporate more BNPL account information directly into a consumer's traditional credit report using a method that will not negatively impact their credit scores but instead help them build credit.

GREG WRIGHT, EXPERIAN

believe greater transparency around how consumers manage their BNPL accounts can increase access to credit for those with limited credit histories or who are currently credit invisible. For example, if a consumer has limited experience with traditional credit, but a lender sees the consumer has responsibly managed BNPL accounts over time, the lender may be more inclined to extend an offer of credit. Over time, we also plan to incorporate more BNPL account information directly into a consumer's traditional credit report using a method that will not negatively impact their credit scores but instead help them build credit.

What about those with a spotty BNPL repayment history—how will that information be incorporated into their credit standing?

Our strategy is to ensure consumer credit scores are not negatively impacted simply based on the consumer's decision to use a BNPL product over another more traditional form of credit. Having said that, missed BNPL payments or derogatory information will not be hidden from the industry or the economy. Transparency about this activity is the right thing to do for responsible lending and to ultimately protect consumers. Derogatory information, or missed payments, is included in our plan to incorporate more BNPL account information directly into a consumer's traditional credit report.

The Federal Reserve is signaling a series of interest rate hikes over the next few years. BNPL's phenomenal growth has come during a time of prolonged rock-bottom rates. How do you see BNPL's growth and overall place in the market changing as U.S. monetary policy tightens?

We believe the growth of BNPL is here to stay. This is not a trend; it's a new consumer shopping behavior. We also know that consumers choose BNPL because of convenience and choice, not because of a lack of access to more traditional forms of credit. In fact, our research shows 80% of consumers who use BNPL products also have a credit card. BNPL providers have done an excellent job meeting consumers where they are, providing fast and flexible options. This improved consumer experience is what's driving the explosive growth we're seeing globally for BNPL.

Once you have the BNPL bureau up and running, what does success for it look like in both in the near term and further out? In other words, what do you see as its longer term value for consumers and the financial industry?

Our solution will allow BNPL providers to furnish data on all types of point-of-sale products to enable a comprehensive view of consumer payments, including the number of outstanding BNPL loans, total BNPL loan amounts and BNPL payment status. Access to these insights will fundamentally change how this information can be leveraged in decisions. As we amass industry data, we will have the ability to better understand these merchandise purchasing and payment behaviors and how this information can be most effectively used to assess and manage risk. Over time, scoring models and lenders using them will evolve to be more accurate and will enable greater financial inclusion.

Terry Badger, CFA, *is the managing editor at* BAI.

Ending pulp friction

How a digital lockbox network can revolutionize check delivery.

BY CHRIS CLAUSEN

No matter how aggressively banks and businesses push for electronic alternatives, checks remain entrenched in B2C and B2B purchasing. Industry experts estimate [40% of all B2B payments] are still made using a paper check.

The simplicity of checks contributes to their resilience. Checks are established, they're understood and they require very little data to issue. While they may not be ideal, they work.

But businesses recognize that this "pulp friction" can create challenges in the cash conversion cycle. Even with lockbox services, significant effort is required to retrieve, process and deposit checks. There are mail delays to contend with, as well as a higher potential for fraud compared with electronic methods. All of this contributes to cash-flow delays and drains on staff productivity.

Even with lockbox services, significant effort is required to retrieve, process and deposit checks. There are mail delays to contend with, as well as a higher potential for fraud compared with electronic methods. All of this contributes to cash-flow delays and drains on staff productivity.

Consider the typical B2B payment cycle:

1. Business sends B2B payment file from ERP.
2. Provider converts data to paper check and remittance statement.
3. Provider sends check and remittance information by mail to lockbox operation.
4. Lockbox operation converts check back to digital file for clearing and payee posting.

Even though almost all B2B checks begin and end as data, there remains a "messy middle" involving conversions from electronic to paper and back to electronic. This unnecessary routing adds up—on average, check mailing and delivery takes seven to 10 days, and processing fees can be up to $1.50 per check.

One of the biggest obstacles to solving this problem is resistance to change. Even tech-savvy companies that value electronic workflows hesitate when faced with the cost, resources and time required to bring those ideas to life. Adopting electronic payments takes work, from instituting new processes with suppliers

> *The [network-based] platform works by transmitting check and remittance data directly from payer to payee through the established lockbox network. This approach bypasses the most labor-intensive steps in the check process: printing, envelope stuffing, mailing, opening, sorting and scanning.*

and adapting legacy systems for new data to securing account numbers and credentials.

INNOVATING THE LOCKBOX NETWORK

There's an alternative to trying to eliminate checks by persuading businesses to use other methods. What if the check itself changed from paper to an electronic transaction?

A network-based payment platform is a win-win for B2B payers and payees. Both sides maintain their established check processes while enjoying new electronic advantages. The platform works by transmitting check and remittance data directly from payer to payee through the established lockbox network. This approach bypasses the most labor-intensive steps in the check process: printing, envelope stuffing, mailing, opening, sorting and scanning.

The result is faster payment delivery, reduced fraud risk, decreased labor costs and streamlined cash application.

Advantages for payers:

» *No more printing, mailing and postage costs*

» *No process or system changes to accommodate new payment types*

» *No need to store or update sensitive account information*

» *No risk of checks getting lost in the mail or stolen*

» *No change in bank or payment provider relationships*

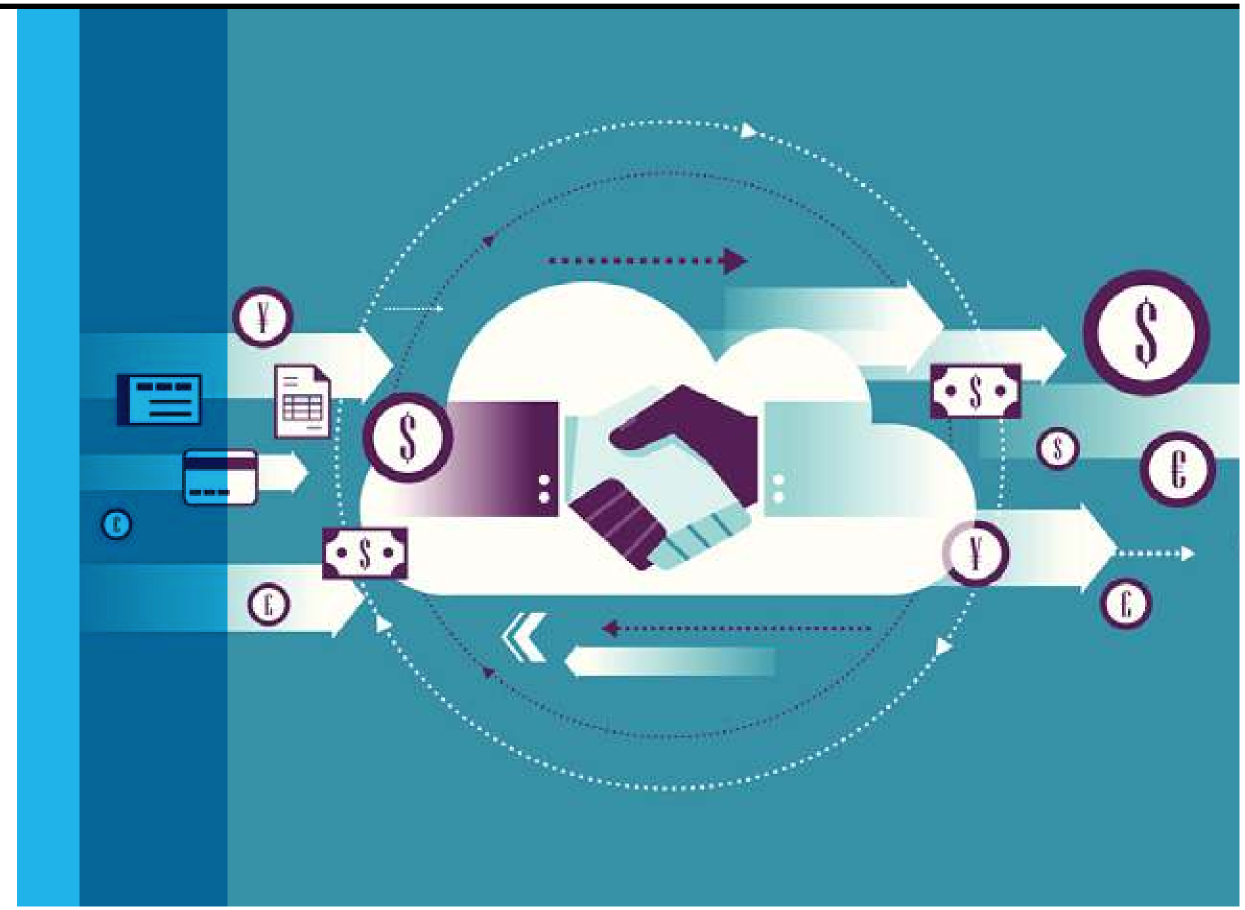
Advantages for corporate recipients:

» *No process or system changes to accommodate new payment types*

» *No sharing of sensitive account information*

» *No need to open, sort and scan checks and remittances*

» *No delays in deposits or cash application*



Advantages for banks and lockbox providers:

» *More electronic processing of receivables*

» *More operational savings at the lockbox*

» *More opportunities to strengthen customer relationships*

» *More revenue potential*

» *More ways to differentiate in the market*

A digital lockbox network can deliver value by transforming check delivery without requiring extensive changes for B2B payers or check recipients. Payers using this network can also accelerate payments from seven to 10 days to just one to two days.

The process is simple: Payers upload a digital file of checks from their ERP system, just as they do today. The digital lockbox platform handles disbursement, allowing in-network payees to receive digital payment in their current lockbox while exceptions receive a physical check.

The service provides digital images of coupons, statements and correspondence. To comply with federal requirements that a check exist (even temporarily) as a physical item, a copy is printed and then securely destroyed.

NETWORK DIRECTORIES AND INTELLIGENT ROUTING

Two important technologies make this solution possible. The first is the nationwide directory of lockbox payees and banks—in essence, a shared digital address book that the system can use for routing and delivery.

Facilitating this network through banks and lockbox providers removes many of the hurdles that slow electronic payment adoption. Businesses don't need to conduct enrollment campaigns or store sensitive bank account information.

Intelligent routing capabilities are the second critical technology—the "brains" of the solution.

For every check payment, the intelligent router makes mission-critical decisions:

» *Is payment information complete, such as amount, payee name and physical address?*

» *Is the payee a participant in the network?*

» *Can the payment and remittance route digitally?*

» *Does the payee have a preference for electronic payment method?*

This scrutiny identifies electronic payees and simultaneously reduces exceptions. The router can fix common errors, such as misspellings, and apply fuzzy logic to recognize that while P.O. Box 17, PO Box #17 and Box 17 are not identical, they still "match" when comparing the address on a check with the directory of payees.

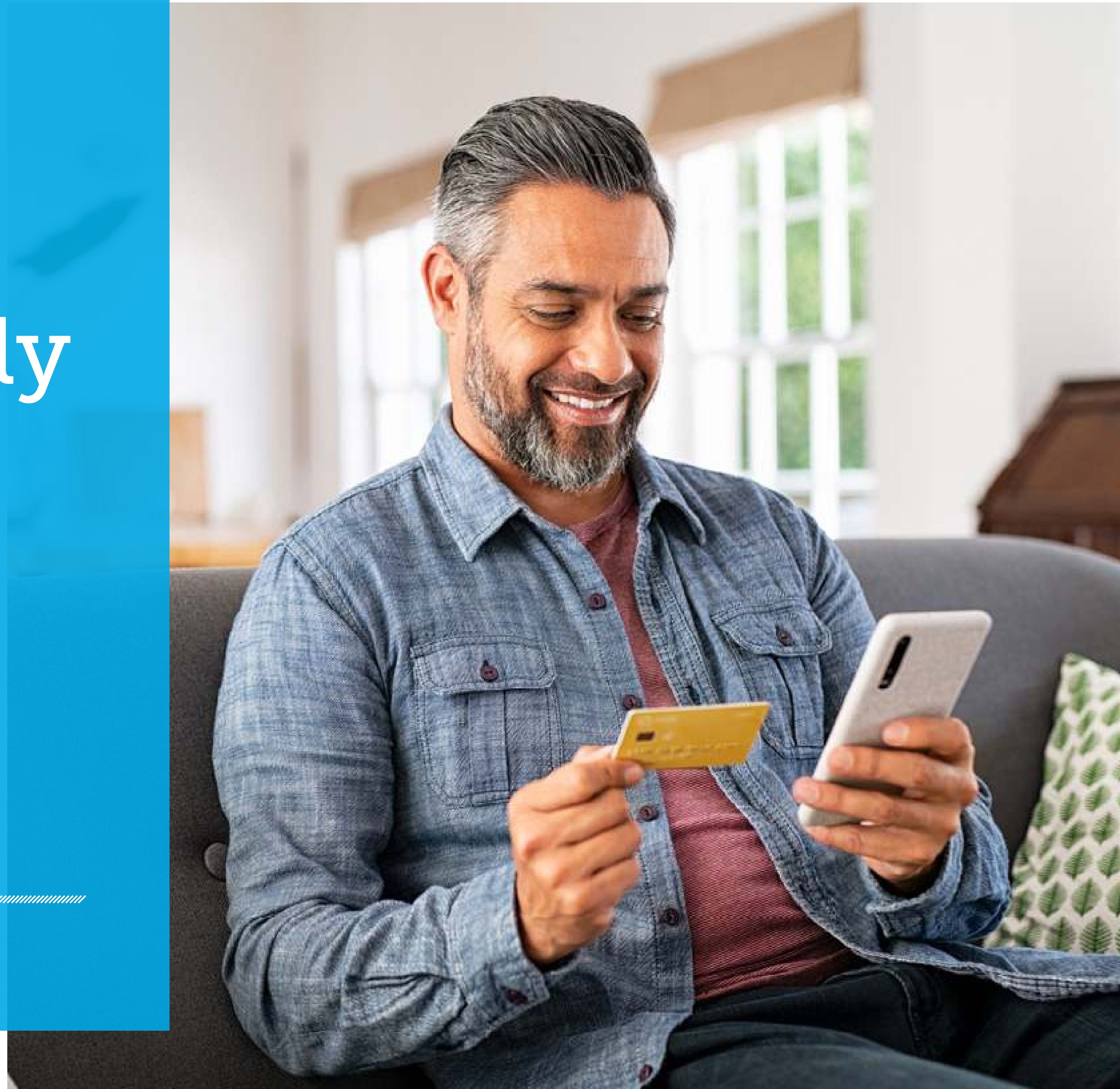
With nearly half of medium and large U.S. businesses already relying on lockboxes, these platforms have massive potential to streamline check payments and help companies large and small.

Chris Clausen is executive director of digital payment solutions for Deluxe Corporation, a payments and technology company based in Minneapolis.

From just plastic to simply fantastic

Card programs can bring close customer relationships even closer.

BY NICOLE MACHADO



We've all been hearing a lot about "customer service" and "customer engagement" lately. Many people think the phrases have the same meaning, but in fact, they're two entirely different things.

Customer service is delivered through individual actions. It has a beginning and an end; a problem and a solution. It's personal, one to one and memorable. And now more than ever, keeping customers happy with high-touch experiences is a challenge for customer service representatives.

Customer engagement is subtler. It's daily, continuous, unobvious, sometimes unintentional, often unspoken—and it's everywhere. And since the COVID-19 pandemic has made many locations less accessible, customer engagement through brand experience and the customer journey is more important than ever.

It's extremely valuable to understand the difference between the two and to deliver on both during times of change. It's especially important in the financial services industry, where customer satisfaction is typically the basis of business success.

The ability to engage on a daily, continuous and everywhere basis is the key business challenge facing financial institutions today. Just about everyone is searching for new and innovative ways to deliver customer engagement along the lines of widely considered masters such as Amazon, Google, Apple, Netflix and Starbucks. In fact, consumers are 85% more likely to recommend a financial institution after a "very good" customer experience.

Luckily, a great way to deliver quality customer engagement has been in your hip pocket the whole time.

It's your card program. Yes, your card program. That check-the-box task during account opening that organizations often see as simply a noninterest income generator, rather than the powerful strategic differentiator that emerging technology has helped it become.

Your card program serves as a daily reminder of your institution's innovation, personalization and relevance.

Financial institutions that offer the virtually limitless customization options available today produce cards that simply get used more. Their cards are given priority by cardholders, achieving top-of-wallet status while increasing customer engagement.

Many cardholders form an emotional attachment to their cards. They love their cards. How much? Let's count the ways.

They're loyal: Financial institutions that offer the virtually limitless customization options available today produce cards that simply get used more. Their cards are given priority by cardholders, achieving top-of-wallet status while increasing customer engagement. Customization can increase usage by as much as 21% over generic cards.

They're aware: When new trends and technologies emerge, especially those that transform experiences, your customers are the first to know about it. Dual-interface cards offer a choice of payment technologies—contact (EMV chip) or contactless (tap-and-go antennae). This flexibility is one of many reasons why dual-interface cards are

widely considered the foundational card-payment technology moving forward.

They're responsible and caring: Consumers are increasingly conscious of the environmental impact of the companies they do business with. Offering cards made from recovered ocean-bound plastic is one way to attract those customers. Made from upcycled plastic waste, these cards have the potential to keep significant amounts of plastic out of the world's waterways and shorelines.

According to one recent survey, [85% of consumers](#) would switch to a card made from recovered ocean-bound plastic if their current issuer offered one.

They're proud: Babies, besties, favorite vacation spot or even their dog, Spot—cardholders love to personalize their cards with images of the people, places and things they value most.

Their expectations are rising: Today's consumers expect instant access to everything, including their credit- and debit-card accounts. Instant card issuance is now a must-have service to make cardholders happy, increase card usage and boost brand awareness.

Consumers want the card that everyone is talking about—and using. Rebrand your cards with the latest technology—clear cards, metal cards, translucent cards, full-face foil, metallic inks and pearl overlays—to create distinction and compete more effectively in your market.

When was the last time you took a good, hard look at the customer engagement potential of payment cards? Card programs have the ability to connect you—even emotionally—with customers everywhere, several times a day, every day. Even in all of the places you are not.

In today's competitive environment, it is crucial to make the most of your card program by driving what matters to your financial institution: affordable innovation, brand awareness, revenue and—most important—customer engagement.

Nicole Machado is the executive director for card services at Vericast. She is responsible for the overall strategy and operations of the company's card business, which includes card manufacturing, central issuance, instant issue and prepaid solutions.

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