Episode 46: Global Payments: Massive Changes

Kyriba

Craig Jeffery: Welcome to the Treasury Update Podcast. This is Craig Jeffery, the managing partner of Strategic Treasurer. I'm joined here on the podcast with Bob Stark. He's the VP of Strategy at Kyriba. He has eight years of experience with Kyriba, and he has over 20 years total in the treasury technology space. He's a frequent speaker and known for offering an engaged, rational, and calibrated voice on all newer and emerging treasury topics, including payments. When he writes something or speaks on a treasury topic, I try to get to it quickly. Welcome to the Treasury Update Podcast, Bob.

Bob Stark: Thanks, Greg. I appreciate it and that was a very complimentary introduction. So yeah, thank you.

Craig Jeffery: Well it's true, but let's talk about the context of this podcast episode. These are definitely exciting and interesting times for treasury and payment professionals. There's so much going on with payments ... faster, smarter, better payments. And it can be a challenge to keep up with it, especially on a global basis. And you advise many clients and how to organize their thinking around payments, around structuring their groups. And you also help and support payment strategy at Kyriba. I'd like to pick your brain on a few of these items, but let's start with payment type changes. What's changing with payment types? What are some of the newer payment types, the bigger items, and what you think is most important?

Bob Stark: That's a great question, Craig. The payment types that are starting to proliferate really focus on this idea of quicker payments, sometimes even real time payments. There definitely are nuances or differences in different parts of the world. So if you look at what's happening, let's just start in Europe as an example. You have obviously things like TSDQ, or in the UK more open banking. And this has driven the opening of bank platforms by API usually, which has accelerated the idea of more technology innovation into payments. What is that mean in today? Because we're talking about why do treasurers care about what that ... what's happening there. And it comes down to the fact that opportunities such as real time payments, whether we're talking about stuff at instant payments, whether we're talking about the United States with the Clearinghouse and their real time payments network that they have a dozen or so banks connecting to now, it means that there are opportunities to send payments, have them received and acknowledged in real time. And that's an advance over what we see today.

Bob Stark: It's another option that treasury and finance teams have. So to me, in terms of payment types, that's definitely one of the most interesting. Now that said, instant payments are something that treasuries still kind of get their head around. Do we need to send payments instantly? That's one interest, we'll say, or a question. But the other one is increased transparency, visibility, understanding of what's going on with the payment. If it is clear and in real time or as close to real time, how much is it going to cost me? There are things like that that matter and those are ... when it comes to payment types and the different options that are available, those are the two that stand out. A third one ... I won't say it's a trend yet, but I think it's potentially going in that direction ... is the use of non-bank payment channels.

Bob Stark: So we've all heard of organizations like Ripple and their efforts to distribute ledgers and Blockchain trying to be an alternative to banks. There's organizations like World First as an example that do the same thing. And it's not like this is a new concept, but what we're finding in the cross-border payment arena is that now that you get better visibility and transparency through something like SWIFT gpi, it shines a light on whether there are cheaper or better alternatives to cross-border payments. And so we're seeing a lot more questions being asked or better cross-border payments experience than what we had before. And so I think, Craig, that's an interesting, I guess we'll say an accessory, potentially becoming a trend.

Craig Jeffery: So the three things, Bob, that you talked about were the speed of payments, the faster, and you gave a couple examples of moving to same day or even real time sending all the way through acknowledgement. And then you talked about visibility with SWIFT gpi knowing where the payment is. And I guess that even adds visibility into what the fees and costs are. And then you talked about some of the other newer methods that might be delivered by non-bank providers. And you mentioned better costs and better customer experience. So what do you think is more important here? Is it speed? Is it a better experience, a better process, a better price structure? What are you seeing there?

Bob Stark: Different organizations will have different answers to that. Speed is one that tends to be interesting in the cross-border experience for the simple reason that a lot of organizations ... when they used to send say wires or even low value payments, it would take a long time. So they weren't as concerned with the cost. They get that it costs X number of dollars or pounds or Euros to send a payment across borders. But this idea that it could take somewhere between one and seven days to clear was kind of a problem. And I think we can all appreciate that in treasury and finance terms why that would not be a great thing. So as a result, what ... speed tends to be prioritized but followed closely by cost and visibility into what those costs are and how long it's taken, which is kind of like a summary of those last two.

Bob Stark: So that's what tends to be important, but for cross-border payments. In general, for payments, for let's say ACHs. This movement from next day settlement of ACH to same day ACH in United States tends not to be as popular as maybe many expected because if you're sending a payment for receipt next day, that's okay for most treasury teams. It works within what they're expecting. Maybe moving that to same day and charging you more for it wasn't necessarily a big value. Moving again to real time and instant payment right now for many organizations is something they're still battling to justify. So there's an element of speed, Craig, absolutely. But it's not to the point where instant payments have become an absolute requirement for every treasury team in every part of the world. There's a lot of interest, but still hesitation on what the business case to spend more to send a payment instantly really means.

Craig Jeffery: Yeah, if payment timeframe, particularly cross-border, might be five or seven days, speed probably becomes a number one issue as you're hinting at. But do you really need to get $1,000, several thousand dollar payment out today versus tomorrow? Those are, those are pretty efficient. But there can be reasons for that. But like you said that might not be the key driver. But I did want to ask you a few more questions on the topic of why is there so much change happening now? What's brought us to that this point? There's is there seems to be a lot more changes in payments now than there ever has been that I've seen. I know there was a lot when we were doing check conversion to ACH. And there's been different things, but now there's faster and better and more complete payment initiatives in every region of the world in many countries and either done within a country, regionally, or globally with the example of SWIFT gpi. Why is that happening and what's the real opportunity for someone in a corporate treasury group or a corporate AP area?

Bob Stark: It's what every CFO and treasurer are trying to figure out themselves is what is driving this for me. Do I just want to be part of the wave knowing that payments are inevitably going to get faster? I might as well be part of that. Or are they trying to figure out do I really need this? And for me, more treasurers are trying to figure out the latter. And it really comes down to, to respond directly to your question, there's an element of stick and carrot here. The carrot is that the technology enables more things. The stick is more that there's an overarching regulatory environment, especially in areas like in Europe with PSD2 and open banking, not so much regulatory, but PSD2 certainly is. And that's where you've seen a lot of response from technology and market providers to meet some of those rising demands. So with PSD2, it simply required banks, international institutions, to open up their platforms to other types of technologies.

Bob Stark: In many cases that meant to Fintech and in many cases those Fintech providers, we're able to provide innovative, quicker, cheaper solutions. So that's where it kind of comes to the carrot. It means that there's some interesting advantages or treasurers, like you mentioned SWIFT gpi. I think, even if it's not an instant payment scheme, fact is is that it offers some amazing benefits over what organizations had before because it addresses that visibility challenges we talked to a few moments ago. It addresses that speed challenge, those payments that took five to seven days. Now that there's more scrutiny and visibility on exactly how long that payment is taking, we've actually seen these settlement times for cross-border payments increase. Or not increased, but improve, I should say. And the reason why one could guess and assert is that because suddenly you know that that payment is being tied up at bank ABC that's a correspondent bank, that maybe they get swapped out in the process. Or maybe we just are more scrutinizing what that bank is doing as part of the service.

Bob Stark: In the end, they are speeding up. So that five to seven days is reduced down to less days. And in some cases, actually in many cases, it's more of a within the same day settlement. So as a result, that's a huge advantage. And I think that's partly answers the why is it happening now? Because treasury teams were getting set up as to why is it take seven days to send a payment? Yes, we're sending it to an area that's perhaps slightly under banked or is not as popular or as maybe multiple levels of currency translation because it's developing currency, whatever the reasons. Seven days is a long time and especially when you don't have the certainty as to when that's going to settle. You know it's somewhere between this and that. That's what drives treasury teams crazy because you can't manage for that. If you knew it was going to take three days every time, you may not like it, but you can plan for it.

Bob Stark: And that uncertainty, the fact that we're taking that away, that's the biggest reason why a lot of these newer technologies, why SWIFT gpi, why even going down the path with some quicker and more instant payments have become more interesting. It's why CFOs are intrigued with what Fintechs are bringing to the table because they're looking at something that says we can get more predictability and potentially at a lower cost for our types of payments that we do. I know there's a lot in there, Craig, but I think that's kind of really the driver for why is this happening now? It's because corporates are recognizing that there's technology that can help them, and they want to see it in their house.

Craig Jeffery: Yeah, that's excellent, Bob. Now I do want to expand the areas that you cover on that answer about why is there so much change now and what's the opportunity. Because you hit two key ones, right? The legislative framework of PSD2 ... we've seen that push over into North America as a number of banks were providing that open banking access via APIs. They're supporting it in Europe. They're supporting it other places. And then the technology pieces that you talked about and some of the efficiency. But I'd like you to also talk through the opportunity or the impact on this change from a couple of more areas. And maybe you agree or disagree, but here are some that may or may not be important. Ongoing globalization. This is the concept of organizations continue to expand to new regions. There are new countries. They deal in more currencies, whether or not it's a cross-border or, they're putting operations there. That would be one.

Craig Jeffery: The second would be this mindset of the client experience, the expectations that you get as an individual. I can send money from my bank to you in a few seconds. Now I have an expectation that why can't I do something similar? And if I was sending money business wise, if I can order materials and they get delivered to my house in two hours or certainly the next day, now I have an expectation of speed and convenience. So is it a mindset of client experience or speed? And simplified. And then finally, if I can throw the most complex question out to you by adding another one in there is, is there also a subset or group of people that are focused on that end to end mindset of efficiency? There's ... you had talked about confirmations. We want a visibility of where payments are in the process, but there's reconciliation. If there's a short pay or a difference, and that information doesn't go along with the payment or isn't communicated, there can become reconciliation issues or acknowledgement issues or concerns. Is that mindset taking over, or is it some of the others? So I threw out a lot there. Feel free to handle any or all of it or just say pass.

Bob Stark: Well, Craig, I'm tempted to say yes and stop there. Only because you articulated it. You articulated it so well. But it's a good conversation. I'm happy to address it. I think I'll come back to the end-to-end mindset because that really involved process on the company side. We're talking about the engagement of, let's say, payment systems internally, ERP solutions, back office processing. All of that will come together, and I think it's really a function of the payment channels being used, if I may say. I'll come back to that though. The mindset of the client experience. I like the way you phrased that because that actually is a big driver for our expectation of change. If you look at the examples that you shared, so whether it's a Bell or whether it's a PayPal or whether it's something that we use in our personal lives to pay more instantly, we have this appreciation now that payments can be done immediately with minimal amounts of information. And we understand, we get that visibility that the payment happened.

Bob Stark: So I sent it. It didn't cost me very much. It was really easy. And I know that it was received. Done. That's a reasonable expectation to have on the corporate side as well. So as a result, the corporate technology and the integration of systems, that entire experience, which touches on your end to end mindset, is starting to go in that direction. But there are a lot of different pieces. So it's not immediate. The first thing is that the payment channel. So we've talked earlier in this conversation about the different payment channel. If we look just in the United States, we're recognizing that there are instant payment channels being introduced. Treasury is, we'll say, slow to adopt those for the simple reason that they're trying to justify why would I send it immediately when I could send it by the end of the day and pay more for that immediate experience? Some treasurers and CFOs say, here's a use case, here's why I would do it, maybe I'm in insurance, as an example. So I want that ability to get payments into the field immediately.

Bob Stark: So there are use cases. But most treasures are thinking I don't need it immediate, I just need it to be predictable and certain as to when it arrives. So that's fine, but that's only one aspect of the conversation. The next part is if I send it real time or if I send it by the end of today, I definitely want the rest of that process to be fully integrated. I want that acknowledgement. Even if I didn't send the payment in real time, I want that acknowledgement in real time. And I want that acknowledgment flowing downstream into all of my different systems, such as my treasury system, such as my ERP system, such as wherever else, maybe even where it was initiated before it came into your treasury system, your ERP.

Bob Stark: I want that immediate touch point, so that I don't have to, say if I'm in treasury, get on the phone or get on email and say, "Oh, the payment arrived." I want that data point flowing through so that people can see it immediately. So that kind of speaks a little bit to the immediacy expectation that we have in our personal lives through all the communication that we have and all the payments that we do that proliferated and moving into the corporate world as well. So even if the payment channel chosen isn't a real time payment, the rest of the process needs to be near instant in real time and needs to be more efficient in terms of the different people involved in an acknowledgement and notification and ultimately update of those systems. But I know there's a lot there that can be unpacked, but I think that speaks to part of your question is how is our mindset changing?

Bob Stark: Our mindset is expecting that these things are going to happen, that systems should talk to each other because we were told that they can. Now, whether that's domestic or global ... because that was the first part of your question ... is globalization offering a lot of opportunity for change? And I think the answer is absolutely yes. More corporates are becoming more mobile with how they run their treasury and payables operations. And as a result, what we're finding is movement to localization of payments or shared services, which is another way of finding simpler and cheaper ways to send payments.

Bob Stark: What that offers the organizations is, in the end, the same things that we're talking about: better visibility, better transparency, better costs. Because you can be more efficient when you're centralizing everything in the organization. And then what we just touched on, that greater efficiency where I can have all my systems talk to each other so that if I send a payment, whether it's a local cash payment that was translated from U.S. dollars into something else and paid out of a local cash pool in Europe or Asia, whether it was initiated by my shared services as more of a payment on behalf of, I get that efficiency in terms of my system integration because once that payment happens ... say if it's done through a shared service, automatically it's ... you have a in host bank transaction or intercompany transaction made on the back, on the back of that actual payment. And then all of those updates are happening.

Bob Stark: The general ledger is updated for that. Payable systems updated for that. The accounts payable is released back to the general ledger. All of those updates are happening in real time because I have that expectation that everything should be end to end and efficient. I don't know if that was the completest answer, Craig, but I tried to come full circle back to your initial question. Because yeah, there's a lot of change in expectations in the corporate world happening right now.

Craig Jeffery: I think it was a very good answer. I think it was a mature, and it covered all the different angles I threw at you. Let's dive a little deeper there too because this ... it's great to talk about faster, better, more efficient, more end-to-end. It addresses the experience, right? Everything's great. But there's an opportunity and a challenge to payment leaders because like you were describing, how do I update my treasury management system, my six ERPs or four accounting platforms for payments? There's a number of elements of complexity in any organization. They're acquiring firms, and they have multiple systems. Making changes on every single platform is one, one certain challenge, right? We have to make and update those changes. I'd like for you to address that. What is opportunity presented to payment leaders, not just to get more, but how is that presented to them? And then I want to get into how organizations are responding most efficiently to this challenge of great payments, but I have to live in a world where I have underlying systems that need to be adapted.

Bob Stark: It actually is interesting because it makes the CIO within an organization become a payment leader. And the reason why the CIO becomes a payment leader is because they own all of these systems or are close to all of these systems that play with in this payment ecosystem within an organization. So if you think of just the simple challenges that they're tasked with, CIO and their team owns the ERP. They may own the treasury system implementation as well. They may open or own other capabilities around payments, but basically they're owning the ERP, which is where a lot of these payments come out of. And they're owning the connectivity from the ERP to the bank. They're owning the connectivity from the bank back to the ERP. And so even though they're not initiating the payments. They're not accounts payable. They're not the controller. They probably don't even report to the CFO. So they're not really in that finance vertical, but they own the responsibility of making these expectations of immediacy and integration. And it's a big challenge.

Bob Stark: Your point around the fact that there might be a treasury system and I got to figure out how that plays in because usually treasury owns the treasury system, the CIO is going to insert themselves into that conversation. And then there might be more than one ERP, or you might have a global ERP. But then you have some decentralized systems and platforms, or maybe different versions if you're very globally entrenched and expanded. There may be a lot of things going on there, to be blunt about it. So I think the challenge of the CIO is to understand how can I do this without tying up a lot of head count and a lot of costs and still meet the expectations being put on me by the CFO and senior management? And that's where you get the increase in technology such as payment factories, payment hubs. That's where you get this idea of centralizing and simplifying bank connectivity. And that's also where you get this idea of having organizational or financial structures such as shared services, such as payment on behalf of, or also receivables on behalf of.

Bob Stark: All of these things come from the fact that the CIO is recognizing there are great solutions to these problems, but what I need to do is understand what my stakeholder's requirements are. And that's what CIOs are excellent at, IP within an organization. They don't just support systems anymore. They don't update software on your laptops. Those things aren't really happening with the CIO's office. They are really trying to understand how can I make this payments experience more efficient for the CFO in there?

Craig Jeffery: Yeah, thanks for that description. I did have another question as we, as we draw to a close here on some of these massive changes around global payments. We talked ahead of time about fraud as a significant issue. We haven't touched on any of that so far. But just as we, as we move towards the end, fraud is a massive issue. What are you seeing in that regard, and how does that inform the discussion that we've been having so far?

Bob Stark: It is a big problem. If we look in the United States ... or even surveys that are outside ... but the AFP in the U.S. does a really nice job of putting out a payment fraud survey every single year. And their most recent iteration had 82% of organizations saying that they were affected in some way by payment fraud, either by attempts that they had to avoid and find ways to not have affect them. Or actually they got hit for payment fraud. And I always playfully say when I see a survey like that, that means that 82% admitted the truth and 18% were too shy to say, "Yes, it affects us too." Because it's a global phenomenon everywhere. I mean, there's so many different stories. And we could go on for hours about all the different stories that we hear. But it's as simple as whether you're in treasury, whether you're in CIO, whether you're head of accounts payable, you need to make sure that the right controls and auditability are in place.

Bob Stark: I saw an example even this morning. Global Airline ... they got hit for millions in payments fraud for the simple reason that they had a payment policy, but it wasn't fully executed across all parts of the organization. So there was certain regions that did not have the same controls that headquarters had. And as an example, it was a failure, you could say, of the technology not to enforce the payment policy. That's an example that just you have to avoid. So whether we're talking about faster payments and suddenly payments settle quicker, and hence you need to have better controls in your organization. You detect anomalies and detect fraud ... which obviously gets into an area of where artificial intelligence and machine learning can help ... whether it's speeding up payments and hence speeding up our ability to detect and sniff out those bad opportunities, or just structuring the right controls in the first place so that there are, there are no exceptions.

Bob Stark: The key that we want to avoid is exceptions. We want the controls to be standardized, and we want them to be consistently applied. And those controls should be enforced by the technology. The technology effectively provides the controls which enforce the payment policy. And if you're doing that and you're avoiding this exception ... where say a regional controller has the ability to sign off on their own for any payment under, let's say five or $10,000, that's a control problem. Because in aggregate, five or $10,000 times many payments can add up to a big number. And we do see instances like that in organizations as they grow globally. Maybe what worked when they were a U.S. company with three people in treasury and maybe a handful of others within AP, as they grow to become more global, suddenly the types of use cases and scenarios where fraud could occur exponentially increase. And if the technology is not in place and the process and policy is not in place to support that, you get these exceptions which can actually create significant fraud exposures. But that was a long answer to your short question. But it deserves a lot of attention because you're absolutely right. It's a global phenomenon that's getting worse and worse until organizations can better protect themselves.

Craig Jeffery: Very true. Good, good comments there. As we draw to a close, do you have any final statements or anything you'd like to get off your chest to our audience about global payments?

Bob Stark: Sure, that's ... I appreciate the invitation to get something off my chest when it comes to payments. To me, there's two big things that matter. And I spoke earlier about fraud. Payment fraud is significant, but it's so easy to put up a, maybe not a perfect barrier because that would be a lot to suggest, but to put up a great penetrable or impenetrable barrier that can be better than your neighbor. If you think of the locked car phenomenon ... if you lock your doors and you don't put your cell phone in view and you don't have your wallet in view, then probably your car doesn't get broken into if there's someone in the same parking lot that actually has all of those things. Door unlocked, stereo on, keys in the ignition. They may be ripe for something bad happening. You don't want to be that unlocked car with the engine on and the cell phone in view.

Bob Stark: So the more that you can protect yourself, you effectively become impenetrable because no one's going to pay attention to an organization that has really strong controls when there's organizations that have weak controls. That's one thing that I really want to get off my chest is that you really can do a lot to prevent fraud in terms of having the right controls, but also detect those anomalies, those things that don't seem quite right around your payments, that don't align with your policy. Why are we sending payments to this country? We don't do business there. Those sorts of things. You can sniff things out. Even if they somehow make it through the controls, you can still have technology that can support that. So that's definitely one.

Bob Stark: Number two, this is a definitely get off my chest thing. I really hate the idea when internal IT and CIO try to support ERP bank connectivity using manual steps. There's so many options out there like payment hubs, payment factories, service bureaus. There's just so much technology there that can simplify. There's so many conversations that I have almost everyday, Craig, where an organization says, "Oh, well this movement from say SWIFT formats to XML that's coming, we don't really know how to handle that." Well, the answer is you don't need to. There's technology. They'll just do it for you automatically done. Simple. So those sorts of things ... it definitely a get off my chest moment, because technology can do a lot. And it's not about selling technology platforms, it's just about simplifying and reducing costs on the corporate side. There's a lot that the CIO can take advantage of it.

Craig Jeffery: Well, Bob, thank you very much for your input, insights, and simplifying some of the complex questions I had. I appreciate that and also your comments about connectivity and fraud. So thank you for joining me on the Treasury Update Podcast.

Bob Stark: Thank you, Craig. I appreciate it.