Simplifying Money Movement for B2B Payments

An xtrm White Paper

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New Revenue Opportunities for Software and Service Providers

Moving money should be simple and fast. So simple, in fact, that it shouldn't be at all complicated for either payers or payees. But for many B2B use cases that's simply not the case.

While over 60% of organizations believe faster payments will have a positive impact on their organization in a recent AFP survey [1] and 60% also believe that B2B transactions are seen as benefiting the most from faster payments, that same survey reports a full 97% of financial professionals continue to use checks to pay their major business suppliers. Check use may have been cut in half since 2004, but it hasn't gone away.

With the explosion of new payment enabled devices and digital wallets from ApplePay to GooglePay and P2P (peer-to-peer) tools like Venmo or Zelle, it's easy to think that direct digital payments are now ubiquitous, and everybody does it. Not true.

It's also a seemingly safe assumption that, just like other applications, what starts in the consumer (B2C) market will quickly migrate to the B2B market -- especially with the unplanned but widespread stay at home mandates that have forced a far broader segment of the workforce to work from home. And again, it's probably not that simple. The problem with consumer applications is that they often fall short solving B2B use cases.

What does it take to solve complex B2B use cases? Most B2B payments complete a fairly complex business process workflow. Understanding the upstream workflows is the key to mastering B2B payment use cases so that they are simple, secure and efficient.

Business automation software from AR/AP to ERP and CRM as well as e-commerce and Billing/ Invoicing tools continue to evolve evermore focused vertical solutions that meet the unique needs of the segments they serve. While the solutions are often complex and highly customized the end of the process for many of these software tools is to export a file. That file then flows back to the software user's firm to execute the actual payments.

Simple, right? Not exactly.

[1] 2019 AFP Electronic Payments Survey Survey: Key Highlights | www.AFPonline.org

Keeping Things Simple Requires an Intelligent Approach

True, in some use cases, the file flows directly to the user firm's banking partner, but at what cost? And does that serve all of the payment related needs of the recipient or beneficiary as well as that of the remitter? A ***turnkey*** payments platform is architected to address all of their needs; an intelligent payments platform is made so when the payments process, including executing payments, is embedded in upstream software/service solutions informed with business process workflows that are uniquely configured to meet specific B2B use cases.

A turnkey payments platform: a horizontal, global solution that takes manages payments -- inbound, outbound or both -- for both remitter (payee) and beneficiary (payee) while also automating many of the ancillary services associated with payments, is a logical extension for nearly any software or service handling payments and/or payments data on behalf of B2B clients. By definition, to be turnkey it must incorporate automated services required to render payments securely and comply with various regulatory mandates such AML and KYC strictures as well as provide tax data required for payee reporting for all counties such as 1099-K in the US. To be global it must be digital, mobile first. To be digital it must be cloud-based, treating incoming and outgoing payment as endpoints for either entry or exit. And to be frictionless it must be integrated seamlessly (embedded using APIs whenever possible).

Banks and Card Networks Are Not a Turnkey Payments Solution

Both banks and card networks are both vital to making payments seamless for end-users, whether it's a payroll check or benefits payments deposited directly into a user's bank account or added to their reloadable debit card or the ability for e-commerce sites to provide payment options for consumers via the card networks. Without the nearly ubiquitous merchant acceptance of Visa, MasterCard and American Express, the behavioral rails would not have been in place for the next wave of digital and mobile payment applications like ApplePay or GooglePay.

Reducing friction in a payment process is highly dependent on managing the process digitally to the highest extent possible. Embedding payment capabilities directly within software and services is a critical component of simplifying complex payment workflows. Meanwhile, digital workflows often mirror paper-based workflows; and in an effort to mirror legacy processes and systems, opportunities to improve upon them can be missed.

Fundamentally, banks and card networks are both endpoints in any payment process. What they offer in widespread acceptance and familiarity is key to offering seamless experiences for end-users. However, as singular endpoint options for incoming and outgoing money flows, they

are not all-inclusive in meeting all the needs of a turnkey payments platform. Each represents a payment option not the entire portfolio of payment alternatives. Beyond that, they may not offer the ancillary services associated with B2B payments including KYC/AML compliance and tax reporting, nor do they integrate currency exchange automation to facilitate frictionless cross-border payments.

Here's a quick overview of the key differences between in terms of both payer and payee experience:

PAYER AND PAYEE EXPERIENCE			
	Traditional Banking Institutions	Credit/Debit Card Networks	Intelligent Digital Payments Platform
End-user Experience	In-branch, via mail and online and mobile	Plastic: mag stripes, smart cards and virtual adaptations	Digital, mobile only access to select endpoints
	Online and mobile experience designed to replicate as many in-person transactions as practical.	Online experience designed to replicate the card experience.	Digital, mobile first. APIs to manage UEX, multiple inbound and outbound endpoints.
Speed	10-14 days to access for new accounts	Immediate	Immediate
Choice	Limited to bank's proprietary systems and APIs	Limited to card networks and marketplace APIs	Inbound and outbound payer and payee options
Integration	None or limited to bank's proprietary systems/APIs	Limited to card networks and marketplace APIs	Fully integrated within service provider solution
Visibility	Limited	Limited	End-to-end visibility for all stakeholders.
Security	On-site vault, online security	Onine security, credit card holder protections, SOC1, SOC2	SOC1, SOC2
Compliance	AML, KYC limited to each bank's customers	PCI	AML, KYC and PCI
Tax Reporting	1099 based on banking activity	Not applicable	Tax reporting data available to payees globally; 1099Ks issued for US.
Cross-Border Payments	Very expensive	All payments converted to user's local currency	Multi-currency digital wallets enable payments in over 120 currencies
Total Cost of Payments	Numerous transaction and account level fees	Merchant fees vary 2-6% of transaction value.	Simple, lower costs based solely on utilization.

The Critical Role of B2B Payments Automation and Management

B2B business processes and workflows are typically more complex than those seen in the consumer market and may vary widely depending on industry. In consumer markets, the vendor or merchant is typically paid immediately at point of sale or upon fulfillment of services. Credit cards may offer the consumer a delayed payment capability (in effect a loan) but the merchant is made whole immediately (less any merchant processing fee from the card network). All cash and credit transactions are managed through workflows that are highly automated and standardized.

In the B2B marketplace there is significantly greater flexibility in how the value exchange between businesses manifest, thus creating myriad use cases for specialized payments workflows to support various business models. Back office functionality becomes front and center. Payables and receivables software continue to emerge with ever-greater customization around the unique business needs of each software or services firm's target markets. Many of these solutions create tremendous cost-savings and ROI for the software firm's customers, reducing administrative burden, streamlining workflows and automating business processes. But they stop at the payments door, creating an external file rather than executing the actual payments.

B2B Use Cases Create New Revenue Opportunities

Integrating the execution of payments represents both an incremental revenue opportunity for such firms and an opportunity to take yet another administratively burdensome set of tasks and automate it for their clients and customers by leveraging a payments platform to do so. For firms already incorporating payment execution into their offering, a payments platform may offer an alternative approach that is perhaps able to better serve unique use cases. In either case, customer retention should be a key consideration as software can be relatively easy to replace based on functions, however, fully integrated business processes essential to an enterprise cannot be so readily replicated.

SOFTWARE & SERVICE PROVIDER EXPERIENCE			
	Traditional Banking Institutions	Credit/Debit Card Networks	Intelligent Digital Platform & Wallets
Revenue Opportunity	Not applicable	Limited	New revenue opportunities
			Embedded payment capabilities create new service revenue opportunities based on transactional volume as well as implementation related professional services.
Customer Retention	Neutral - no service provided	Neutral - no service provided	Increases customer stickiness
Customer Choice	Not applicable	Not applicable	Choice of payment methods
Monetization	Not applicable	Limited	Increases value of customer base

Moving Money Using APIs

In the aforementioned AFP Survey, 72% of financial professionals cite the greatest impact to come from new developments in payments is from the use of APIs.

A developer-centric approach offering multi-currency wallet infrastructure enables software and service providers to create payment processes mapped to customers' business models, embedding both incoming and outgoing payments within their mobile or web applications using APIs.

Payment services can be embedded to receive from incoming endpoints(Fund), to pay anyone (Send), to convert currency using multi-currency digital wallets (Exchange) and move the money to external endpoints (Transfer) via the payments platform.

Onboarding clients and their users can be made simple using self-serve widgets for digital wallets within accounts to be linked directly to any user's bank account(s). Access to the platform can be delivered completely within a software or service provider web or mobile app, or directly to the platform's web and mobile app providing multiple pathways to providing the optimal customer experience.

Managing Accounts & Payment Transactions

Beyond the developer tools, it's important to remember that an intelligent global payments platform is part software and part automated business process. Combined, it provides an all-inclusive payments capability that complements its ability to send/receive payments using its digital wallet architecture with robust security, automated KYC and AML compliance rigor, and accessible data for global tax reporting including automated tax documents such as 1099-K's.

Automation, of course, is often as much about managed services as it is about software. Agents and service providers, of course, are provisioned with additional payment management functionality.

Additional access rights provide transactional-level visibility that enables Manager Accounts to manage payments on behalf of their clients including access to connected accounts information and limited change capabilities to provide first-line customer service:

Customer Level (Remitter)

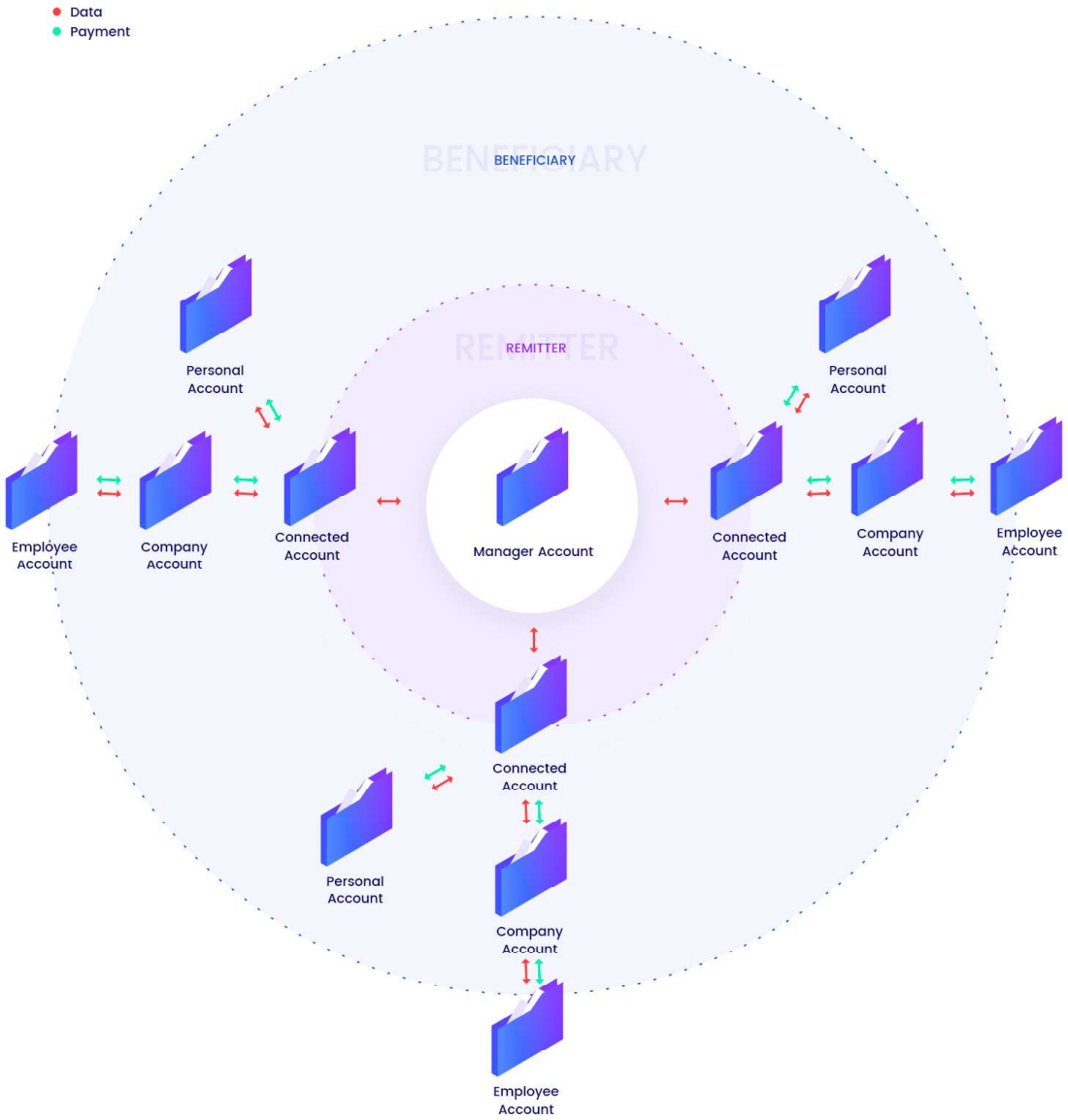
- Customize notifications using customer logo
- Submit customer mass payment files
- Add/link/delete customer banks

User Level (Beneficiary)

- Edit personal account emails
- Edit personal account employer

Developer Level

- Get API company and customer api credentials
- Configure SSO settings



Software and Service Provider Opportunities

A turnkey payments platform provides tremendous potential for operational efficiency providing user self-serve tools that improve the user experience while eliminating the need for multiple interorganizational hand-offs and the associated fees. Bypassing banks and card networks (and their fees) to make payments using an intelligent digital wallet architecture creates major savings and reduces internal administrative costs by simplifying the payments process for all.

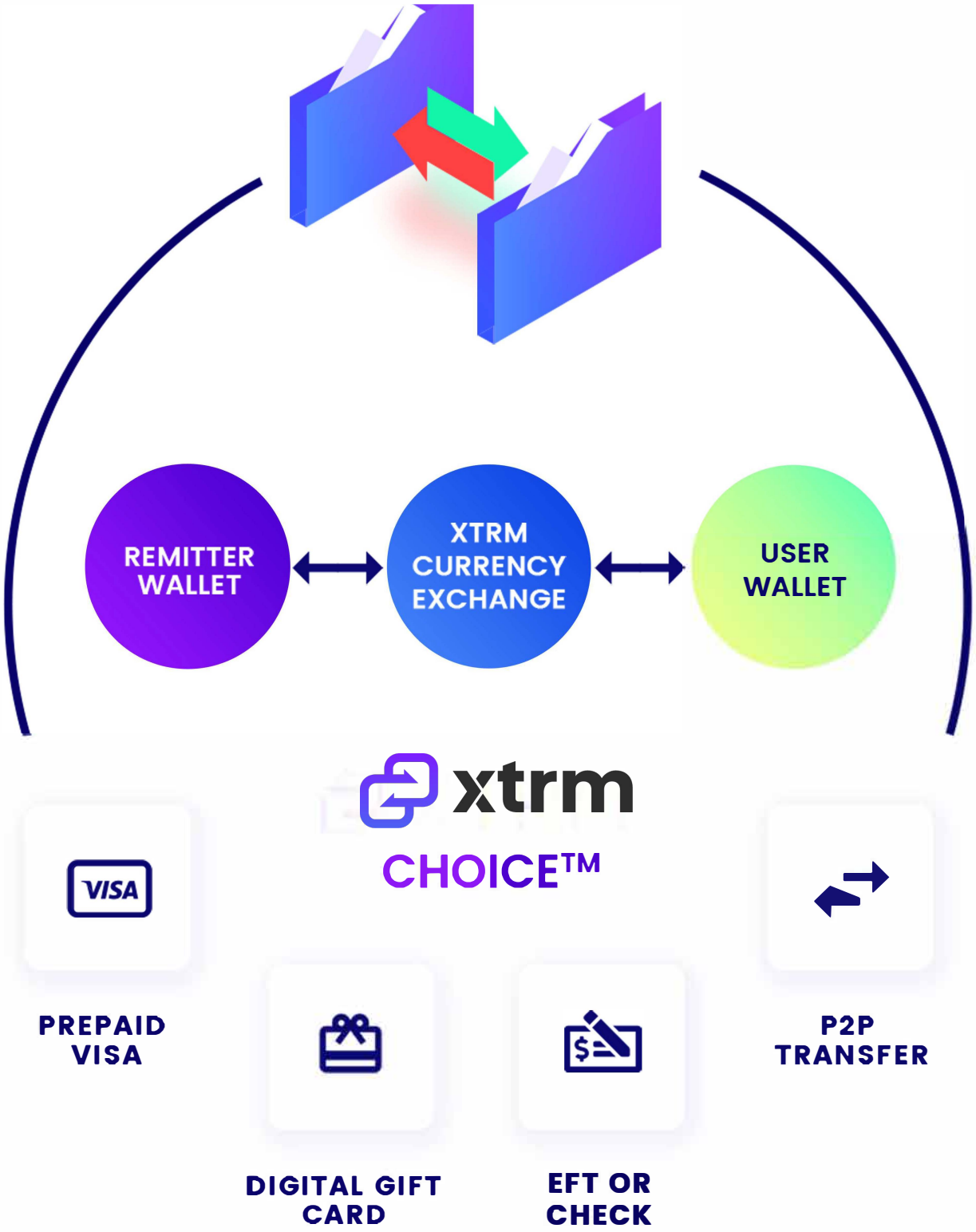
Service providers can use these cost savings to improve the ROI achieved by using their solution, while creating incremental income from transaction fee profit sharing and potential for professional services related to design and implementation as well as support.

Simplifying Outbound Money Flows

Digital wallets can be configured by service providers to make payments to end-user beneficiaries anywhere based on the business requirements specific to their clients (the payer).

Using digital wallets rather than direct deposits creates a complete self-serve, end-user experience for the beneficiary so that they control the bank account or bank accounts to which they would like to transfer the money. It also provides end-users with other choices for how they would like to receive payment including Virtual Visa, prepaid debit cards, digital gift cards and making P2P payments.

A common use case, however, remains a direct payment to a beneficiary's bank account. In this use case, the digital wallet is essentially bypassed as the choice of transferring directly to the beneficiary's bank account is hard wired via the API. Similarly, issuing a paper check can be preselected as the payment method rather than providing the beneficiary with any of the choices available to them in the digital wallet.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DIGITAL GIFT CARD
EFT OR CHECK
P2P TRANSFER

Mastering Inbound Money Flows

Digital wallets can also be used to accept incoming money flows from any source, allowing funds to be aggregated from multiple sources and multiple currencies into a Remitter's digital wallet, bypassing the need for traditional banks and merchant accounts within card processing networks.

Remitters can then use aggregated funds to make payments to end-user beneficiaries anywhere based on their business needs, exchanging currency as needed between their currency-specific digital wallets to fund payments in a beneficiary's default currency or make payments from their default currency to a beneficiary and placing any exchange burden, if needed, upon the beneficiary.

Cross-border Payments and Global Payments Flexibility

Service providers can configure payment processes to bypass SWIFT and traditional banks on an intelligent payments platform using digital wallet architectures so that their clients can create and fund digital wallets in as many currencies they need - USD, euro, British pound, yen, yuan, etc.

While Treasury and Finance requirements continue to dictate how payments are to be made, the APIs provide program designers and developers with the ability to create multi-currency digital wallets that give workflow designers choices in how to accommodate cross-border payments in manners not previously available:

- Handle currency exchange at the Beneficiary level by creating two wallets -- one in the Remitter's payment currency, e.g. USD and one in the Beneficiary's local currency, e.g. euros. The Remitter then pays out in USD into the Beneficiary's USD wallet and the Beneficiary converts to euros via wallet-to-wallet exchange.

- Handle currency exchange at the Remitter level by creating as many currency-specific wallets as needed to pay their Beneficiaries in their local currency. The Remitter then Funds the payments using the Remitter's payment currency, then converts to Beneficiary's local currency via wallet-to-wallet exchange, prior to sending to the Beneficiary.

No matter the use case: global, instant and mobile payments are becoming the new norm, albeit slowly. The current correspondent banking model for international payments is antiquated and prone to errors but entrenched. Cross-border payments have not often been at the top of Treasury or Finance's priority list.

However, simplifying cross-border payments using APIs is within easy reach. And encompassing such digital payments in a platform that surrounds them with the security, privacy, tax and regulatory compliance needed to conduct global B2B business enables software and service providers to focus their service and technology innovations for maximum impact in a changing marketplace in search of cost-savings. The payment platform's digital wallet architecture supports any software or service offering's specialized payments capabilities to make payments more efficient today. And continues to add new APIs and platform capabilities to support new use cases that are certain to emerge.

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