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EMERGING TECHNOLOGY IN CORPORATE PAYMENTS? FASTER STRIDES BUT LEGACY PROVIDERS REMAIN THE LEADERS

Despite fast and furious pace of activity across corporate payments space, no game-changing breakthroughs evident yet

Much activity is underway across the corporate payments ecosystem. But is there really some emerging game-changing player or technology, or do the developments just represent better and faster delivery? The jury remains out.

by Steve Murphy,
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Introduction

Much has been written about financial technology (fintech) and payments in the past few years. In this ForeSight report, Mercator Advisory Group pauses to consider whether new technologies or models of corporate payments/payables are really "emerging" or if they are simply part of a natural progression of digital solutions across this market space. We consider "corporate" in the payments context to be associated with mid-to-large market companies, although potentially emerging solutions could (maybe should) apply to businesses of all sizes across the spectrum. We have all heard blockchain and APIs (application programming interfaces), but where are they in play for corporate payments? Certainly there are many blockchain scenarios being discussed and in test-mode, whereas APIs create easier integration between systems. We will discuss how these solutions are manifesting themselves.

Here Mercator categorizes the payments companies and the emerging solutions or capabilities. We consider the role of banks, which continue to deliver corporate payments services. Although some underlying bank tech systems were internally developed, more commonly they are vendor-provided, customized solutions that are branded by the bank. We mention only a sampling of vendors in corporate payments because the trend will be for banks to develop less and partner more while potentially acquiring selected fintechs over time.[i]

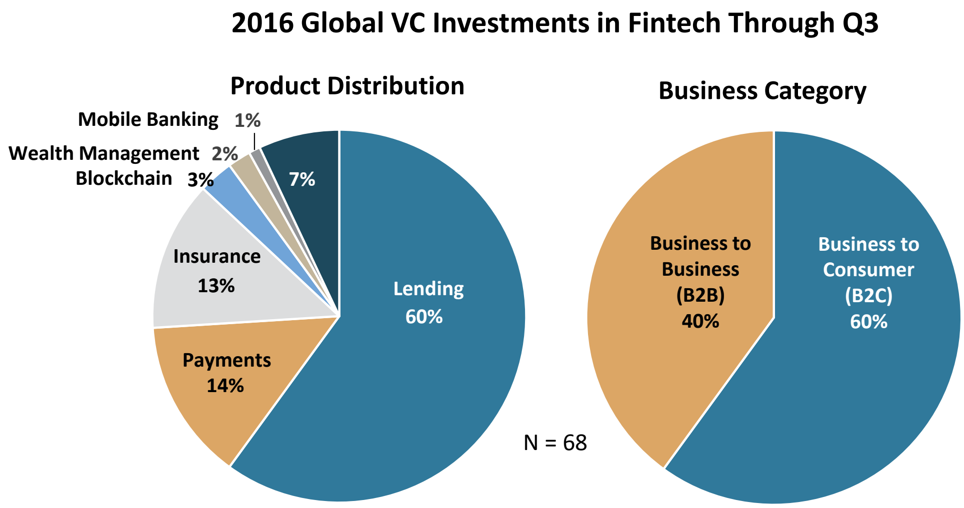
The analysis begins with a review of some recent startup funding efforts to determine where venture capitalists see the next trend and whether the corporate space is truly in play. We also segregate and discuss the various corporate payment technology segments, consciously keeping this segmentation relatively simple in a very complex space. Each of these categories has some emerging trends. Finally we consider the timeframe over which the emerging technologies and approaches may be scalable and have some measurable impact.

Emerging or Not?

VC-Backed "Payments" Startups?

Comparing the new fintech firms with more mature technology companies (both public and private) that serve the payments industry across all sectors and payments types we see that investment in startups remains very active. Although private investment in fintech startups in 2016 declined from the prior year, it was still a robust $24.7 billion according to one report.[ii] A separate study focusing on just venture capital (VC) firms' investment in fintech found, based on a review of largest deals through Q3 2016, that the portion directed to payments-related companies is about 14%.[iii] The same study indicates that only about 40% of VC money invested in fintech goes to business-to-business (B2B) models and products, while the majority of funding is for consumer and small business applications (Figure 1). The numbers would be higher if the study included Q4 data, since several more payments funding deals were concluded then.

Figure 1: No Clear B2B Payments Disrupters Have Emerged From Among Recent Venture Capital-Backed Fintechs



Source: Citi GPS, Digital Disruption Revisited, January 2017

It is worth taking a look at the types of payments companies and business products that have most recently attracted private investment money to determine if any may be emerging disruptors in corporate payments. Below are some of the top funding deals by amount with a brief description of the type of solutions(s) involved (all of these companies happen to be U.S. based).

Payoneer ($180 million) provides international payments capabilities for companies that do business with multiple small vendors (e.g., freelancers) or marketplaces (e.g., Airbnb) operating globally. The beneficiary simply opens a Payoneer account and retrieves the money in the currency preferred via a card number or bank account transfer. This service can replace expensive wire transfers, slow checks, and more expensive money transfer services.

Stripe ($150 million) provides e-commerce merchant payment services through open API development, allowing website design, gateway, and card acceptance capability. Valuation has grown to several billion dollars. The solution is an online equivalent to the miniature mobile terminal device Square, but the firm also competes with firms like Braintree (PayPal) and Cybersource (Visa) as a gateway and payments enabler.

PaySimple ($115 million) provides automatic billing, e-invoicing, and payment acceptance services, including a device add-on to accept card payments. The company also allows API development for building an online store. In effect it competes with other merchant gateway and services providers.

Stone Eagle Services ($76 million) is a spinoff company with a B2B turnkey payment platform (VPay) that automates payables and specializes in the insurance claims industry.

Ripple ($55 million) has developed a permissioned blockchain value transfer system to be used as a cross-border real-time payments exchange directly between banks, utilizing a cryptocurrency in the process. Disruption potential is in replacing current B2B cross-border methods, which primarily involve expensive wire transfers and correspondent bank intermediaries.

Investment activity in this market space has been ongoing for several years, and there are a number of smaller deals and more recent startups in addition to the large deals cited above. Improved and easily adaptable merchant services platforms using APIs are innovative and help to capture the younger generation of entrepreneurs. Automated payables solutions are nothing new but can be more easily integrated and utilized than before. And cross-border disruption is certainly a necessary advancement. Mercator Advisory Group sees these investments more as improvements than disruptors, since existing rails continue to be used to exchange value between parties, and pricing is dependent upon those rails and how they are used. Obviously anything involving cryptocurrency has higher disruption potential, but it also suffers from banks' reluctance to venture too far into the unknown, especially with central bankers and regulators remaining skeptical.

Related Concerns

If you find this piece of interest and would like to explore this issue further, possible proprietary project work could be done to examine questions like these:

Which consumer-facing technologies, such as mobile payments, will soon find their way to commercial payments?

Which commercial payments organizations are leading the introduction of fintech innovations?

How will tech innovations affect the delivery and economics of the legacy commercial card products?

How will security solutions evolve to safeguard new commercial payment technologies?

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Categories and Trends

Note that mobile is a given for emerging corporate payments, more or less table stakes since the demand is taken for granted in corporate payments. An exception is mobile point of sale (m-POS), addressed separately below. The following section describes these trends by payment and vendor category. Table 1 summarizes the discussion.

Accounts Payable Automation Specialists

There are mature fintech companies in the accounts payable automation category that have been around for decades, and of course many more recent entrants with cloud-based offerings. In general, this group of solution providers offers payables systems targeted for smaller and midsized companies, often integrated with installed enterprise resource planning (ERP) systems or accounting software. Typically the legacy versions have predominantly contained checks and ACH file formatting logic, sometimes wires as well, which companies then use to execute payments through proprietary bank services or separately managed check processing delivery. The more recent fintechs entering this space are cloud-based solutions that can be accessed as a stand-alone service for one or more types of payments. Often these firms will also execute the payments on the back end, providing status information to the payer.

Technology in the emerging part of this market space involves three separate delivery trends. First is that legacy providers are launching separate product streams (often through partnerships) to offer cloud-based options so they can compete with the more recent startups. Second is the addition of virtual card payments capabilities, through either a direct front-end system or connected sponsored partner entities. Third is electronic-invoicing capabilities, through either a portal or digital imaging, facilitating an end-to-end automated work stream, increasing the use of e-payments instead of checks. One could also point to firms that have card-issuing DNA but are transitioning to broader payables capabilities.

Enterprise Payments and Hub Providers

This is a complex category because it involves mature fintechs that for decades have been delivering corporate payments and related capabilities (and in some cases many other corporate banking related services) to both banks and in some cases corporates directly, generally in mid/large market and global segments. They continue to evolve and grow through proprietary development, partnerships, and acquisitions. So for example, if one looked at some of the true “payments hub” infrastructure vendors from a few years back, you would find that several have been acquired and are now offered through one of these tech vendors. (For example, FIS acquired Clear-to-Pay and CGI acquired Logica.)

There are also various sizes and key business model differences for the companies occupying the enterprise payments and hub space. Thus, ACI is a complex payments vendor across various global markets with solutions that satisfy consumer, merchant, and corporate markets, while in contrast, Misys or CGI are institutional client specialists that offer broader corporate banking software, including traditional trade and supply chain solutions.

Emerging trends in this category include a continued transition to cloud delivery, creation of connections to all existing and expected faster payments systems, and an ability to offer APIs for clients to create experiences relevant to their product direction, especially mobile delivery and merchant services.

Commercial Cards

Mercator Advisory Group has deep coverage in the commercial cards space with research in various reports available in our Commercial and Enterprise Payments Advisory Service, including the recent research reports *The U.S. Commercial Card Market: A Growing Virtual Reality* and *Supplier Enablement of Cards in B2B E-Payments Requires Persistence, Data, and Technology*.

Growth in commercial cards is essentially being fueled by B2B invoiced payments, spearheaded by virtual cards. The emerging technology in the commercial cards space includes several items. The virtual card account experience will evolve from a predominantly pull payment experience (supplier-initiated) to a push version, which is called buyer-initiated payments (BIP). BIP removes direct merchant/supplier involvement in the actual card transaction. This is surely an area where smaller businesses will be able to take advantages of emerging capabilities.[iv]

Another emerging trend in the commercial card space is the expansion of payment and merchant service providers (PSPs and MSPs) into sponsored issuing entities, enabling direct involvement in card revenue streams as opposed to deriving revenues from software-related fees. Some will include some of the previously mentioned payables specialists.

The card networks recognize a window of opportunity and see broader distribution potential in order to break further into the B2B spend market with cards, which have historically taken roughly less than 2% of overall share. As a result banks will of course see some additional competition here, but the key is gaining greater overall market share as opposed to bickering over the heretofore <2% share.

We also see a more competitive role being played by actual mobile spend capability using corporate travel cards, which has excellent synergies with virtual card technology and may help to drive some organic growth for the product.

Cross-Border Payments

Perhaps no category of payments has a greater customer experience upside than cross-border, which has been historically slow and expensive. Card networks have been really the only global real-time payments system for cross-border transactions, at least from the perspective of authorization and clearing. A corporate traveler can use a card to make a payment anywhere in the world and in a matter of seconds will receive the merchandise or service. A supplier or merchant can run a card transaction for an approved invoice and within a matter of seconds receive an approval essentially guaranteeing payment. The settlement part is a bit more complicated, since it is subject to merchant acquiring contractual terms as well as the existing payment rails (RTGS or NSS) in country. But cross-border B2B card payments has been a fraction of the already small cards share overall.

Emerging in this category is a growing list of new capabilities and potential models. The newly announced SWIFT gpi is one example of an existing, broadly adopted financial services network that is at the early stages of creating same-day funds availability and remittance data for cross-border payments. When this is viewed as an extension of the growing list of domestic faster payments systems (to which SWIFT access is available), one can anticipate a

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more compelling new capability within just the next few years. Other vendors have or are developing hybrid distributed ledger models for cross-border payments involving bank consortiums, to create almost real-time experiences. Cross-border also fits well with the sovereign faster payments initiatives we see existing and emerging, since these are domestic real-time systems with a global standard (ISO20022) and once accessed through a newly developed external connection, they effectively create the potential for real-time cross-border payments and settlement.

Table 1: Emerging Corporate Payments Trends

Category	Description	Emerging Trends	Impact Time Frame	Vendors*
Payables Specialists	Automated payables software in the small and midmarket arena, stand-alone, integrated with ERP and/or other systems	• Cloud and facilitation back-end payments • Adding virtual cards capabilities • Incorporating e-invoicing	Continuous over next 3 years	ACOM, AvidXchange Comdata Corcentric Mineral Tree Tipalti
Enterprise Payments and Hub Technology	Software and payments infrastructure for banks and corporates direct	• Faster payment system interaction • Cloud • APIs	Next 5 years	ACI Bottomline CGI D&H Dovetail FIS Fiserv Intellect Design Arena Misys
Commercial Cards	Card-based accounts used for corporate buying needs	• Sponsored issuers • Buyer-initiated payments (BIP) • Mobile	Continuous over next 3 years	Banks Amex Bora Boost CSI Vcard Mastercard Verient Visa Wex
Cross-Border Payments	Networks and providers that create potential same-day settlement at lower costs	• Advanced platforms and networks • Blockchain • Faster payments schemes	Ongoing improvements	Cards Networks Earthport PayCommerce Ripple SWIFT

Source: Mercator Advisory Group

Conclusion

The corporate payments technology space is in the midst of truly unprecedented change, with cloud-based digital solutions, real-time rails, new business models, better network connectivity and more advanced technology being utilized and tested on an ongoing basis. These solutions are sparking excitement and incremental improvements, but not necessarily transformational breakthroughs in the way that corporations do business. One must keep in mind that corporate payments is a more complicated challenge than consumer value transfers, so that change does not keep pace with all the consumer-side advancements. (This is one of the reasons why paper checks remain plentiful in the U.S. B2B space.) When examining recent startup fintech funding activity, it is not clearly apparent that major disruptors are imminent threats to banks or mature fintechs, who dominate the space and continually seek to modernize what they do. Banks must be vigilant, however, and they are adapting through multiple methods, including direct investment in startups as well as sponsorships, partnerships, and innovation labs. The B2B market is large enough to create business opportunities across geographies and all business sizes and segments. We see both opportunities for new businesses and natural consolidation over the next several years as the strong adapt and the weak fade away.

Endnotes

[i] Bloomberg, Big Banks Poised to Scoop up Fintech Startups, https://www.bloomberg.com/news/articles/2017-04-05/big-banks-poised-to-scoop-up-fintech-startups-report-finds

[ii] KPMG, The Pulse of Fintech Q4 2016, https://home.kpmg.com/xx/en/home/insights/2017/02/the-pulse-of-fintech-q4-2016.html

[iii] Citi GPS: Digital Disruption – Revisited, https://www.privatebank.citibank.com/home/fresh-insight/citi-gps-digital-disruption-revisited.html

[iv] Reuters, Brief – Visa and Viewpost to accelerate electronic bill payments for U.S. businesses, http://www.reuters.com/article/brief-visa-and-viewpost-to-accelerate-el-idUSFWN1H50HU

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