

Weathering the Storm: Benefits of a Third Party Processing Alliance

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The current economic turmoil has made banks question their core business. Third-party processors can share revenue with financial institutions through an alliance relationship that delivers indirect, organic financial growth for banks.

Fuelled by a weak global economy, accelerating inflation and sinking confidence, recession talks and global economic woes abound. For the first time, the global economy is experiencing a financial crisis that involves the failure of what were once considered invulnerable pillars of strength among international financial communities.

As the US economy settles into a correctional phase from major cracks in their economic infrastructure, ripple effects will resonate around the world.

While the banking and finance industries in Europe are cushioned from the US lending crisis, an unstable global economy provides opportunities to assess the strengths and weaknesses within your organisation, nonetheless. Consider the industries' inherent dependency on interest income: in an economically-stressed environment with sky-rocketing fuel prices, and an ever-increasing cost of living, income quickly becomes outflow. Diminishing deposits hamper opportunities to draw interest.

Alternately, fee income can serve new purposes in an economic downturn and help fuel opportunistic growth in often overlooked and undervalued market segments. Merchant processing is a fee income generator in any kind of economy. However, building a secure, reliable and technologically capable merchant acquiring platform comes with hefty operational and financial consequence - a reality that cannot be ignored.

Survival in a tumultuous global economy requires a commitment to core competencies and reliance on trusted partners for specialised services that can add fee-based income. Merchant acquiring is not a core competency for banks, and the industry has an historic reluctance to invest in it.

Therein is the value of a third-party processor: by providing banks with a previously overlooked revenue generating investment, third-party processors can share revenue with financial institutions through an alliance relationship that delivers indirect, organic financial growth for banks. At the same time, such an alliance translates to realised savings by insuring a secure end-to-end processing platform, card scheme compliance, technological innovation, and customer service to merchants without the associated operational or financial overhead.

The Perfect Storm

Compliance, e-commerce, fraud, interchange, security, the single euro payments area (SEPA) - like names of record-breaking hurricanes spinning across the Atlantic. Fuelled by an international economic crisis, these issues are stirring the increasing complexity of the payments landscape across Europe. As one issue spurs another, the perfect payments storm takes aim at the banking industry.

Far too many technological obstacles, millions of euros in upgrades and prohibitive time constraints make the payments road impassable for all but those whose core competencies exclusively address the payments industry. Only the economies of scale that large processors can support can truly affect the elements of the storm.

European banks trying to 'ride out the storm' will have to decide whether the capital outlay requirement to build and maintain infrastructure that supports a secure merchant processing environment makes financial sense.

Compliance and security

Ensuring compliance is more burdensome than ever. Global acquirers devote entire teams of personnel around the world to this issue so banks don't have to. They monitor card association rules, compliance requirements, new updates and point-of-sale solution mandates. They communicate changes and requirements to merchants, supply contacts for assessments and provide merchant training and information on security related issues.

E-commerce

The global economic environment was in part fuelled by the rapid growth of online shopping. Card payments are the most common payment choice for online purchases, but they also generate the largest amount of fraudulent activity when used online. Yet, merchants want and need to leverage the purchasing power of the international community to boost the domestic economy.

Merchants need the online payment solutions that multi-million dollar processing platforms provide, backed by fully compliant, secured technology in order to avoid the credit squeeze and take advantage of the international stage.

Interchange

Interchange regulations have made card issuing even less attractive for banks invested in what has lost much of its fee-based proposition. Plus, monitoring the changes in interchange and maintaining updated processing systems is time consuming. Consider how a third-party relationship can enhance a bank's position in that situation.

SEPA

Over the course of this year, Europe has become a major player in the global opportunities payments market because of SEPA. Breaking down the market barrier and de-fragmenting the market across Europe has created systemic opportunity for established acquiring organisations with the built-in scale and efficiencies that can adapt to SEPA rules. Quick to leverage their knowledge, technology and financial investments in the European marketplace, third-party processors can easily buy into the varied markets across Europe and become instant cross-border payments players, for example.

As acquirers race to develop the technology to operationally and financially acquire across multiple countries, the efficiencies within their models expand. Funding that kind of technological development isn't an option for most banks, but SEPA is driving acquirers from across the pond to Europe in droves, offering a multitude of choices for a third-party relationship.

Circumnavigating the Storm

An alliance relationship can keep banks out of the storm altogether. The alliance model structure eliminates upfront investments in a payments platform and sidesteps maintenance and upgrade expenses. As well, a third-party processing alliance organically drives fee revenues - from referral business to enabling cross-selling advantages across the banking organisation. In turn, customers are protected by the latest compliance and security standards, provided with a multitude of innovative payment solutions and benefit from the breadth and depth of an industry-focused organisation - all within the confines of the bank brand they trust, the brand they count on to ride out the storm.gtnews –