

Accepting payments your way

Helping banks to unlock additional customer value




Elavon®

Always in **front**



Introduction

Elavon has longstanding and mutually valuable payments partnerships within banks and financial institutions across Europe and North America, operating through a range of business models and commercial structures.

We're proud that more than 550 financial institutions around the world trust Elavon to provide payments for their customers and we're committed to delivering the solutions and services such powerful brands require.

In this paper, we'll talk about how payments can be an important value-add for banks, helping to increase customer loyalty and generate new revenue streams, especially after the impact of Covid-19.

Author Chris Shotton is Head of Commercial Partnerships at Elavon. Chris has over a decade of experience in banking, payments and financial services, including roles at Santander and Citi, before joining Elavon in 2019. He brings unique and balanced experience and insight, having sourced and managed merchant services for a retail bank, and also provided these services to banks as an expert payments partner.

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Unlocking customer value from payments

It won't have escaped your notice, in either your personal or professional life, that the way we pay is changing faster than ever before.

As the Covid-19 pandemic forced businesses to diversify into eCommerce and alternative delivery models, to reach customers who could no longer visit them in person, digital payments including cards, wallets and contactless quickly became the preferred, sometimes only, way to pay.

Elavon research from June 2021 showed **more than nine out of ten (91%)** UK adults who started or increased their use of contactless payment methods plan to continue using them, with similar trends across other European markets.

Such card- and digital payment-based methods have become critical enablers of everyday life and commerce. Businesses have responded to this change in consumer behaviour by adding new or more payment types to their websites and into their stores. They are looking towards banks, as trusted service providers, for the payments expertise, guidance and solutions they need. Once a by-product of a bank's lending relationship, payments have quickly become a primary product and a leading differentiator and value driver.

Banks have been at the heart of the global Covid-19 recovery, supporting businesses and consumers to manage their money whatever their situation – through hardship, uncertainty but also opportunity.

By acting as a principal gateway to government schemes, banks have introduced payment holidays, granted bounce-back loans and cashflow-boosting funding, provided advice and support, and fast-tracked remote and digital services – while all the time carefully assessing and managing shifts in risk exposure and profitability.

To protect your customer relationships from competitor exposure and threat, and to create new streams of revenue and value, it's important to find simple and relevant ways to offer payments meeting their needs.

Businesses recognise the changing demands of consumers and want to enable their customers to pay with many different payment types, across multiple channels, quickly and safely and at a fair price. As payments journeys adapt post Covid-19, businesses will seek out payments partners who are innovating to meet these changing needs.

That's why now is the time for you to identify the best payments strategy for your business customers, to best position yourself as their ultimate partner of choice.



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Change is nothing new in banking, but the current pace has never been seen before

Covid-19 is a recent catalyst for change but, for banks, change is a permanent state. Whether prompted by regulatory changes such as GDPR and PSD2 or political uncertainty, like Brexit, there's endless pressure to comply and stay ahead.

Open banking regulations have made it easier for non-bank financial institutions to offer competitive and innovative financial services, but the regulatory burden on banks themselves is as heavy as ever. And with complex legacy infrastructure, mass customer impact and layered processes to unpick every time a new development is on the table, it's a challenge for even the most established banks to stay front-footed and agile.

Competition for retail and business banking customers has never been greater, with the market blown wide open by digital-only providers like Starling Bank, Revolut and Alior Bank. 2020 data suggested that in the UK, 14 million people had opened a digital-only bank

account, with a further **5.7 million intending to do so in 2021.**

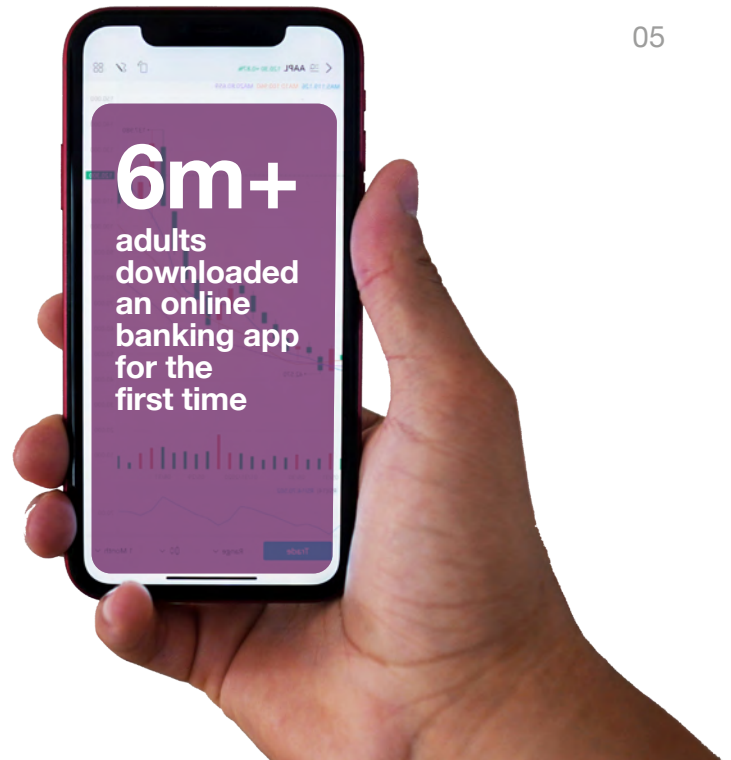
Retail banks have responded by ramping up their own innovation, replicating many of the crowd-friendly account features which are winning over young customers, in particular. The growth of cloud-based technology and digital focus is creating an environment in which banks are able to embrace fintech thinking to reinvent banking solutions, fuelled by the advantages of powerful customer reach and deep pockets.

Digital-only banks may still have work to do before claiming account primacy but, as well as new functionality and dazzling experiences, they offer access to digital marketplaces where a wealth of products and services are promoted by equally innovative partners. This convenient way for businesses to find and apply for financial and professional services is appealing to many segments and throws down a challenge to the cross-selling ambitions of more established providers.

Regardless of size and brand, it's important that all serious banking players stay open to innovation and collaboration, focusing on and prioritising investments towards smart customer problem-solving and particularly those that move at pace.

Incredible rates of digital adoption across Europe, largely in response to Covid-19 restrictions around the way we live, work and travel, mean all demographics have increased their familiarity and comfort with digital tools.

The pandemic's boost to ecommerce has been well documented, reaching year-on-year growth of 30% across the EU. It's estimated that in the UK, some six million adults [downloaded an online banking app for the first time](#).

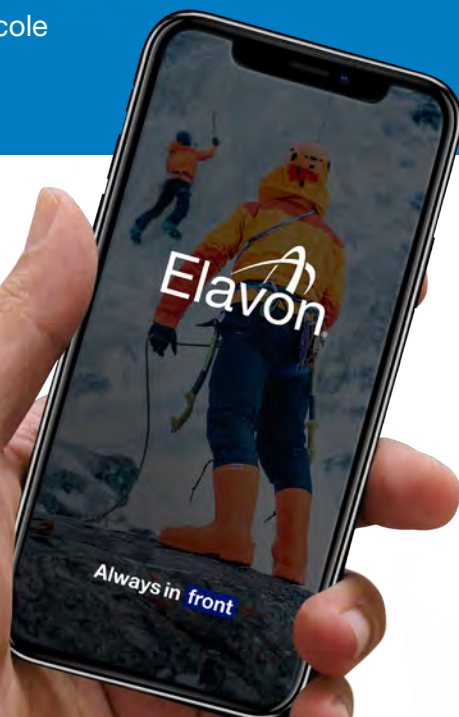


“COVID-19 has accelerated digital transformation in our bank. From the very beginning of the pandemic, we have enabled our customers to use all of our systems without the need to visit branches.

Together with the Polish Development Fund we implemented a digital process for applying for subsidies from the government financial shield. In Spring 2020, we launched a mobile application for our customers to open a business account, with great success.

Digital transformation has become a very important pillar of our strategy.”

- Crédit Agricole



Banks are racing to improve digital delivery, optimise channels and launch new products and services to keep existing customers, as well as attract new ones.

And with digital payments acceptance fast becoming a key need for their customers, banks must make sure to meet that need, so customers don't choose to open up their businesses and their revenues to other providers.

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The important role of merchant services in meeting banks' strategic objectives

If Covid-19 has shown us anything, it's that those businesses most able to adapt to change are likely to enjoy continued success. For years, banks have been reliant on interest income from lending and debt as a primary revenue source with little contingency – especially in the B2B space.

Lending levels throughout the pandemic have inflated that revenue bubble, and there is a clear, immediate need for banks to diversify revenue by finding new, sustainable sources of income not linked to lending.

Revenue from payments meets that brief. Income earned from a robust payment acceptance offering, either in-house or together with a partner provider, represents a return on healthy, positive business performance rather than borrowing. It builds a firm base for balanced and long-standing partnerships with customers, generating fair and repeatable mutual income.

Payments acceptance ticks many boxes for banks, helping to meet customers' changing needs, delivering on new sources of revenue and integrating with the digital channel transformation that's central to every bank strategy.





Evolving bank customer needs

- Businesses investing in online and remote sales channels
- Customers expect a wider range of services/partners from banks
- Expectations around greater agility and better use of technology



Bank revenue streams

- Over-reliance on debt and lending revenue driver
- Pivot towards non-interest income including foreign exchange and payments
- Growth in value-added services and packaged solutions to increase revenue



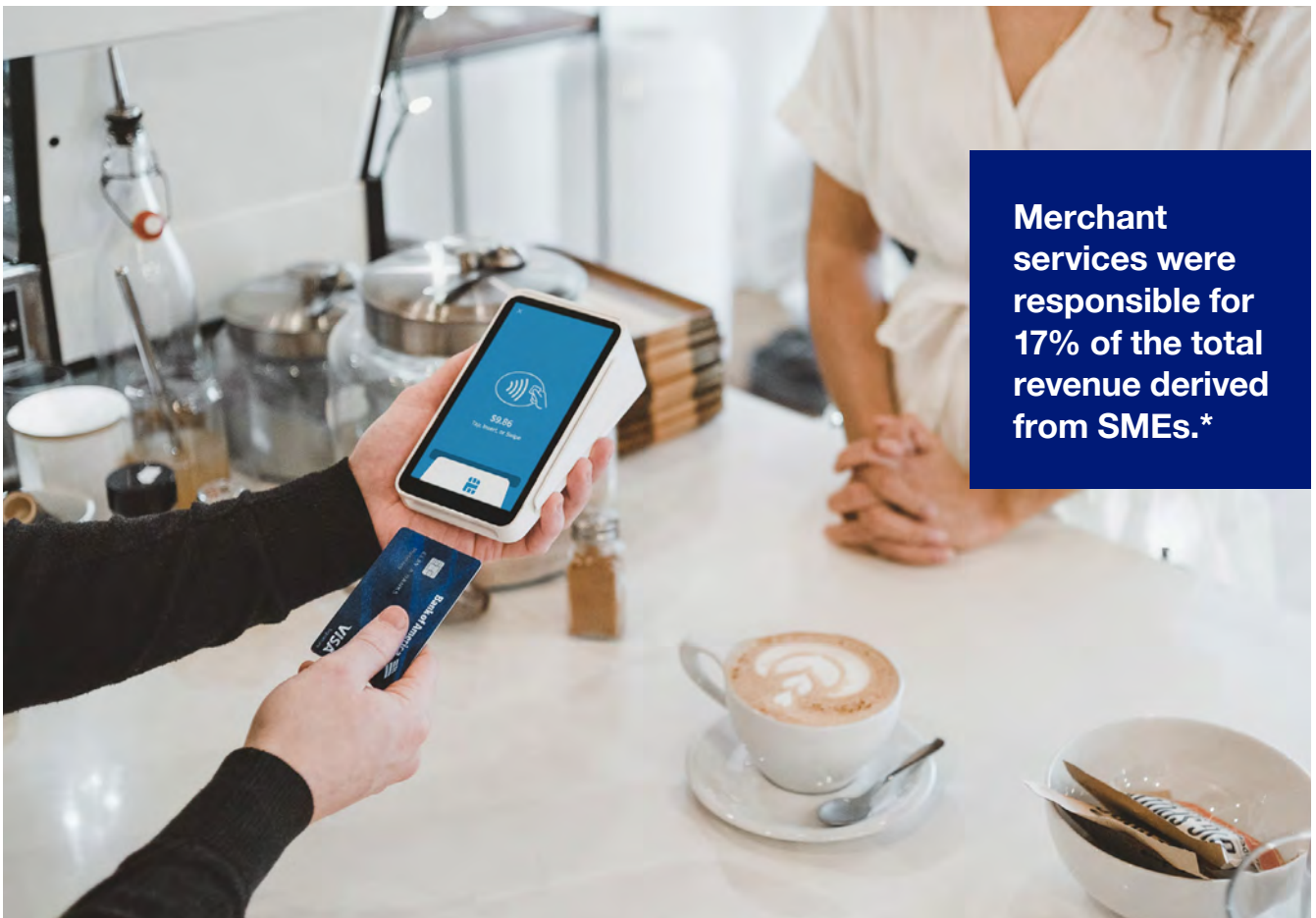
Channel transformation

- Branch closures and shift towards digital and telephony sales and services
- Increase in digital solutions – onboarding, credit risk, instant third-party service
- Growth in digital banks offering superior app-based functionality

In addition, adding payments to a business customer's product portfolio increases 'stickiness' and augments other indirect income from the customer relationship. Global research from The Strawhecker Group showed some impressive figures to substantiate this, with an incremental revenue of \$100-200 each month generated from SMEs, across all sectors, who use merchant services provided by their bank.

The same customers are 8% more likely to hold additional products and have a relationship tenure which is 10% longer than other customers of a similar profile.

In a world where brand and reputation are powerful commercial assets, offering payments can launch banks into the technology and innovation fast lane. And, by association with tech innovators, create a brand halo elevating the way they're perceived.



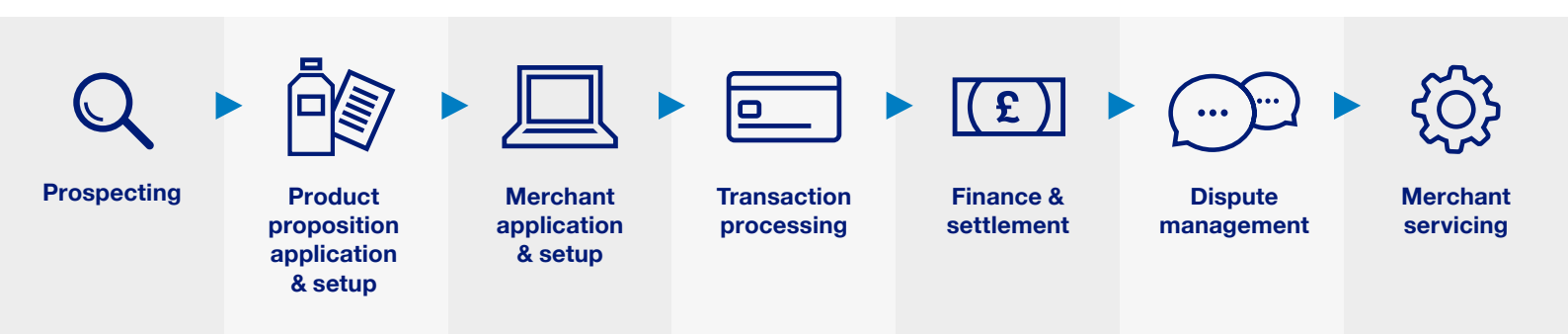
Merchant services were responsible for 17% of the total revenue derived from SMEs.*

* <https://www.fisglobal.com/-/media/fisglobal/files/PDF/white-paper/Benefits-of-Merchant-Services-Whitepaper>

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Building out your merchant services – do it yourself or do it together?

While the end-to-end value chain stays broadly the same, there are many different ways a bank can build a merchant services offer for customers.



- A **simple referral model** sees the bank owning the prospecting stage – using its sales and marketing channels to generate leads for an established and expert payments provider. This includes data and targeting, campaign management and lead engagement.
- An **independent sales organisation (ISO)** is licensed by an existing payments provider to sell their products. In addition to prospecting, ISOs tend to manage merchant application and setup, including credit and risk, device management and activation.
- In a **marketplace model**, the bank owns the contract and builds basic payments but chooses to work with third parties to plug gaps in capability.
- **Full white-label** involves the bank obtaining an acquiring licence and managing almost every stage of the value chain, but usually selling products and propositions provided by their payments partner.

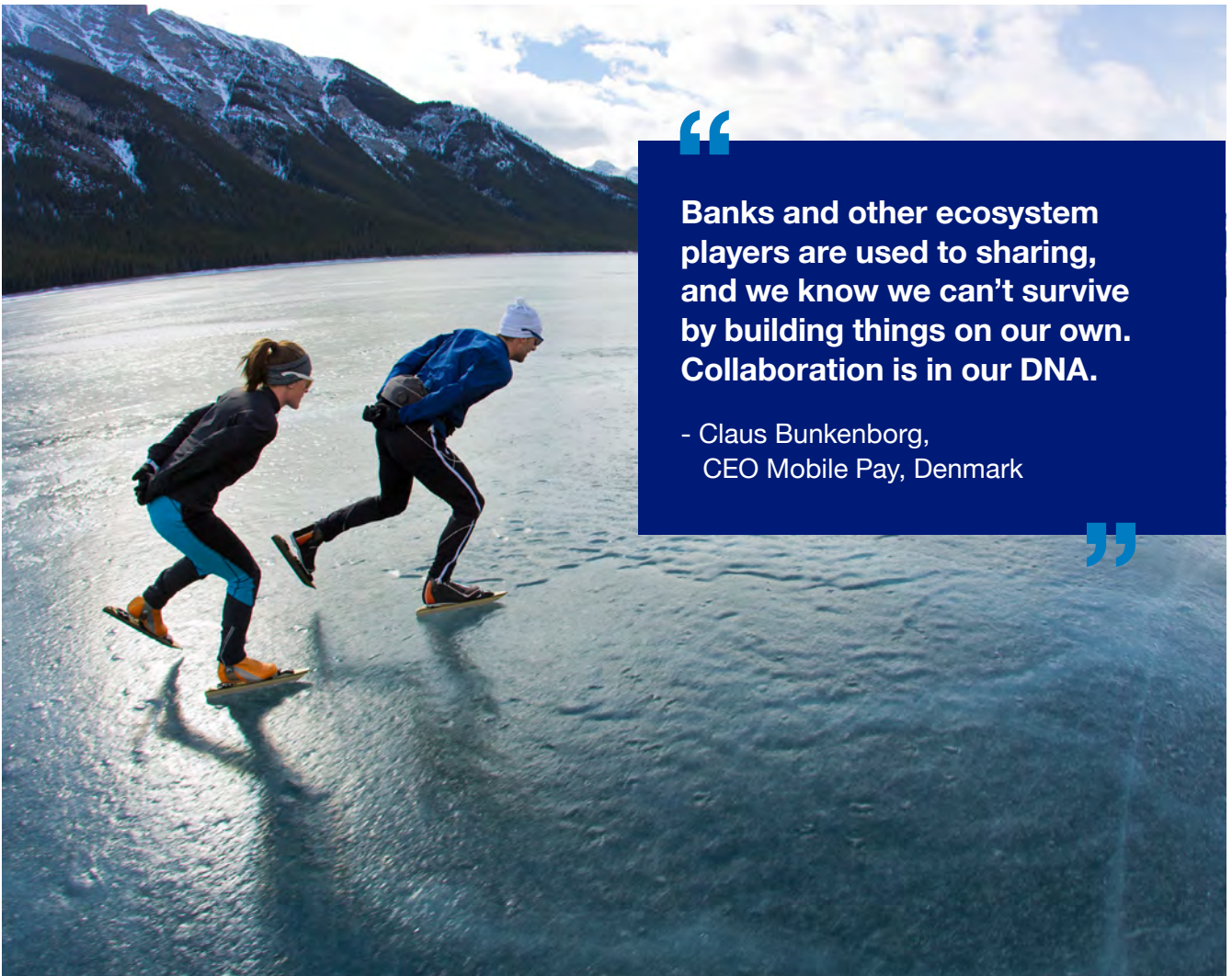
Increasingly, we’re seeing hybrids of these models as businesses recognise their internal strengths and weaknesses, evaluate their customer opportunity, and source partner expertise and technology where it’s needed, to complete their end-to-end payments value chain.

When working out which model best suits your organisation, you'll need to explore the balance of investment and obligations that's right. It's important to take small steps and test the needs, demands and reactions of your business customers. With the right approach and framework, you could phase your merchant services programme by focusing first on specific customer groups and tactical opportunities, before evolving a wider suite of payments products and channels.

What's for certain is that there is no need for any bank to feel pressured to deliver an in-house, proprietary solution, alone. Payments can be complex to design and maintain, so working with an expert industry partner will provide you with confidence that you're delivering for your customers and meeting your compliance responsibilities, while also future-proofing your offer, so you won't be left behind by technology and regulatory change.

Even better is if your expert partner can connect you to technology and software providers, who offer solutions differentiated by industry. Partnering might be the best way to serve your specific customer base and the challenges it faces. For example, if your customers are retailers with unique multi-channel demands, hotels that need greater international functionality, or transit providers with interoperability requirements.

If you stay focused on your core banking strengths, by maintaining deep and profitable relationships and delivering value to your target customer groups, the right payment partners will complement your efforts by supporting you with relevant and easy to access payment solutions that are designed uniquely to help you, and your customers, to win.



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Banks and other ecosystem players are used to sharing, and we know we can't survive by building things on our own. Collaboration is in our DNA.

- Claus Bunkenborg,
CEO Mobile Pay, Denmark

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There's no right or wrong way: do payments your own way

Banking has always been a complex landscape, but the basic needs of your customers remain surprisingly simple – they want reliable service, helpful products and clear value.

The payments partner and operating model you choose should align with your values and aspirations, reflecting who you are as a bank and a brand. While it's important to understand the choices your customers have when it comes to accepting payments, your merchant services offer should be built to serve the unique needs of your customers. Nothing created by any other provider can be shaped by the insight, understanding and relationship you have.

Your customers will respond best to an authentic value proposition that stays true to your brand – and they won't thank you for trying to be something you're not, so stick to your strategic priorities and overarching values, and focus your efforts on your most important segments.

Working with external advisors and providers could uncover new ideas and support, and may help you discover an angle you hadn't considered. Our industry is full of super-smart and agile technology providers and software developers who specialise in solutions for single verticals. Connecting and collaborating with tech partners can help you to truly differentiate

your payments propositions – especially if your model has a heavy vertical dominance, like hospitality or healthcare, with very exacting customer needs.

Overnight success isn't realistic; it takes time to reach a compelling proposition for even one audience segment. It's likely that only after much work and attention, your solution will be right and ready to connect and resonate with your customers.

Experts in using failure to evolve, Amazon's opportunity to commercialise its customer payments has been through several iterations before arriving at Amazon Pay. Patrick Gauthier, a payments expert hired in from PayPal, summarises this beautifully.

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What people never realise or truly understand about Amazon is that part of the recipe for success is daring to try things you have no idea whether will succeed or not. And, if you think that you have a notion of how to succeed... you try again.

- Patrick Gauthier, Amazon Pay

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Digital is no longer a buzzword: it is here to stay

That businesses operate digital-first now goes without saying and it's inevitable that digital channels will play an increasingly prominent role in bank strategy – across investment, sales, workforce, servicing and operations.

Digital was high on bank priorities before Covid-19, but the pandemic has provided a catalyst that has helped persuade banks to deliver on their digital strategies sooner and more comprehensively than was previously believed possible.

Business executives have completely transformed the way they consider their digital strategy and transformation programmes, now perceiving them as a value-add rather than simply a cost saving.

According to a global study by McKinsey, some 10% of executives now see digital primarily as a way to save money, compared with 48% who believed that back in 2017. Instead, investment in technology and digital solutions is viewed as a core and critical capability to enable competitive advantage.

The research, conducted with 899 companies across a range of regions, sectors and industries, indicates that companies acted 20 to 25 times faster than expected, in adopting digital practices during Covid-19. In the case of remote working, respondents claim their companies moved 40 times more quickly than they thought possible before the pandemic.

It took an average of 11 days for organisations to implement a workable remote-working solution, which is an incredible acceleration that surprised everyone, even those responsible for planning and implementation.

For banks, the growth in the digital demands of customers makes transformation an even greater priority, with some claiming that success in digitising at pace during the pandemic has encouraged them to review other parts of their product and business strategy through the same, fast-moving digital lens.



“As digital payments adoption accelerates, it's important that banks adapt quickly so they can help their customers to meet the fast-changing payments needs of consumers.

Businesses are looking for innovative, flexible payment solutions, and they increasingly expect access and service to be digital-first. This has been particularly relevant for internationally trading businesses, where digital solutions are key to their operational swiftness.

Digital payments acceptance capability is clearly valued by our customers and they demonstrate this by showing enhanced loyalty and primacy.”

- Santander Bank



Your business customers are looking to you for support as they embrace ecommerce and digital trading, sometimes for the first time, and especially during the digital boom caused by Covid-19. This provides a unique opportunity to increase engagement, loyalty and revenue and we've seen great examples of this in practice, such as offering support for retailers shifting sales from stores to websites or helping restaurants to set up delivery models. As demand for digital services grows, you need to think hard about how you prioritise development resources to deliver the greatest impact.

For digital to be embedded in a merchant services strategy, it needs to align with wider

bank strategy. If your bank is short on digital strength, it would be inauthentic to create an entirely online merchant services proposition. Similarly, if your customers are used to accessing your services by app, it would be out of place to launch a merchant services solution that doesn't offer digital interaction.

That's not to say you need your merchant services offer to be 100% digital and, let's be honest, no bank or merchant acquirer has entirely mastered the seamless, end-to-end digital customer experience. Understand which parts of your merchant services strategy can be, or need to be, digital and focus on making those elements as compelling as they can be.

Think about:



Sales

How can prospects apply online or using mobile? What's their boarding journey?



Servicing

Is there a role for live chat or online call-booking functionality to support existing and new customers? Can servicing be accessed through your banking apps?



Communication

Which channels do customers use and what kinds of digital tools and content will they value? Where does payments fit into your mix of messages?



Data and insights

How can machine learning and artificial intelligence (AI) help you to analyse merchant behaviour, identifying risks and opportunities? How can the digital insight you provide to your customers support their business growth?

Consumers may be used to the convenience of digital services, but banks are not always designed to deliver that way. Product systems, channels and departments operate separately in many traditional bank structures and the investment cost and time to fix don't always match the rewards on offer.

Ask yourself how integrated and innovative does a technology platform need to be in order to win with your customers? Take time to think about and research their expectations and set achievable goals around experience. Be honest and real about your aspirations and how they fit with your wider organisational digital capability.

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Banks' important role in operating with social and environmental responsibility

Banks have always played a pivotal part in our communities and the importance of this role has been magnified during the pandemic. Banks have provided a channel to government support, to business funding and to expertise and advice, which has proven invaluable to businesses operating under huge pressure and uncertainty, helping to improve customer trust and loyalty.

The timing of this goodwill revival for banks shouldn't be underplayed. Increasingly, data shows that your customers want to work with suppliers they trust, who share their values and do the right thing, and they will actively seek out businesses who deliver.

This isn't unique to banking – today, disposable fast fashion and high environmental impact food production are both frowned upon and even the most mass of high street brands are working hard to deliver value while doing the right thing. 75% of consumers surveyed by Zurich Insurance expect organisations to help them be greener, through the purchases they make and through their general business choices. An even larger majority (83%) believe businesses should be doing more to be environmentally sustainable.*

Research from Ernst and Young shows that only one in five (19%) of consumers say they completely trust financial services firms, in spite of the pivotal role played by banks during the pandemic in sustaining business finances. This presents real opportunity for banks to highlight the work you are doing in our communities to [improve trust in the sector](#).

We have a collective responsibility, as an industry, to ensure we embrace positive change and adopt measures supporting sustainability. From lending to sustainable businesses and projects and committing to carbon-emission targets, such as switching production of debit and credit cards to recyclable materials and making paper statements obsolete, banks can take a leading role in protecting our environment in ways that would be visible in every business and household.

Unity Trust Bank and TSB are already attributing demonstrable business growth and reputation gain to non-financial aspects of their operations.

* <https://www.zurich.co.uk/news-and-insight/shoppers-want-brands-to-help-them-be-greener>

Almost every bank promises to have a positive impact on communities – and the same principles should apply to merchant services.

You should choose to partner with others who support those environmental and community minded commitments – ranging from point-of-sale terminals and components made from recyclable plastic, to recyclable paper for till receipts or, even better, embracing every option to remove paper completely.

Investment into payments propositions and pricing to support social enterprises and charitable businesses will help to validate your bank’s social commitments. We need to do more than offer the best tech at the lowest price, as consumers and businesses are increasingly influenced by organisational ethics and will vote with their wallets and loyalty.



At Unity Trust Bank, we believe that finance should have a positive role in society. This means supporting businesses to be more sustainable, allowing them to grow and contribute to positive economic, social and environmental change.

It's important that the partners we work with share our ethics and values, and one of many reasons we chose to work with Elavon is that it's a business that takes seriously its responsibilities to community and environment.”

- Deborah Hazell, CEO Unity Trust Bank



We're at the beginning of a proud payments partnership with Unity Trust Bank, which gives us a fantastic opportunity to demonstrate the importance of social responsibility, authenticity and brand within proposition. We're working closely together to protect and amplify their unique and powerful brand story around community, support and sustainability.

As pioneers of a sustainable and inclusive digital economy, payments giant Mastercard coined the term 'doing well by doing good'. It's an ethos that big-brand businesses, including banks and financial institutions, would be wise to adopt in order to reaffirm their existing relationships and build trust with new customers.

Covid-19 has provided us with a generational opportunity to redefine our relationship with our customers and our communities. We have a choice: to go back to the way things were before, or to build a more dynamic, ethical, resilient way of working together, which benefits everyone.

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Find out more

The right merchant services programme, delivered through the right expert partner, can add meaningful value to your bottom line while helping to secure long and profitable relationships with your customers.

Experience is key to payments success. For over 25 years, we've partnered with more than 550 financial institutions to bring hundreds of merchant services portfolios into our network.

At Elavon, ours is a collaborative approach to planning with regular programme reporting, sales, marketing, training support and service from a highly-skilled client relationship team. We're a proven, safe pair of hands that you can trust to deliver on your promises and to look after your customers.

We occupy a unique position in our industry, as a leading acquirer with strategic focus on banking partnerships, while structurally forming part of one of the world's largest retail banks.

Wearing both hats gives us an unobstructed view of the market and an unmatched understanding of the needs and challenges of banks and financial institutions.

To find out more about how Elavon can help you to shape a profitable and value-driving merchant services partnership, visit our website Elavon.co.uk/partners or contact us at Fpartnerseurope@elavon.com.



Chris Shotton

Head of Commercial Partnerships, Elavon