

# Payments as a Broken Market

## The Disconnected Payments Business

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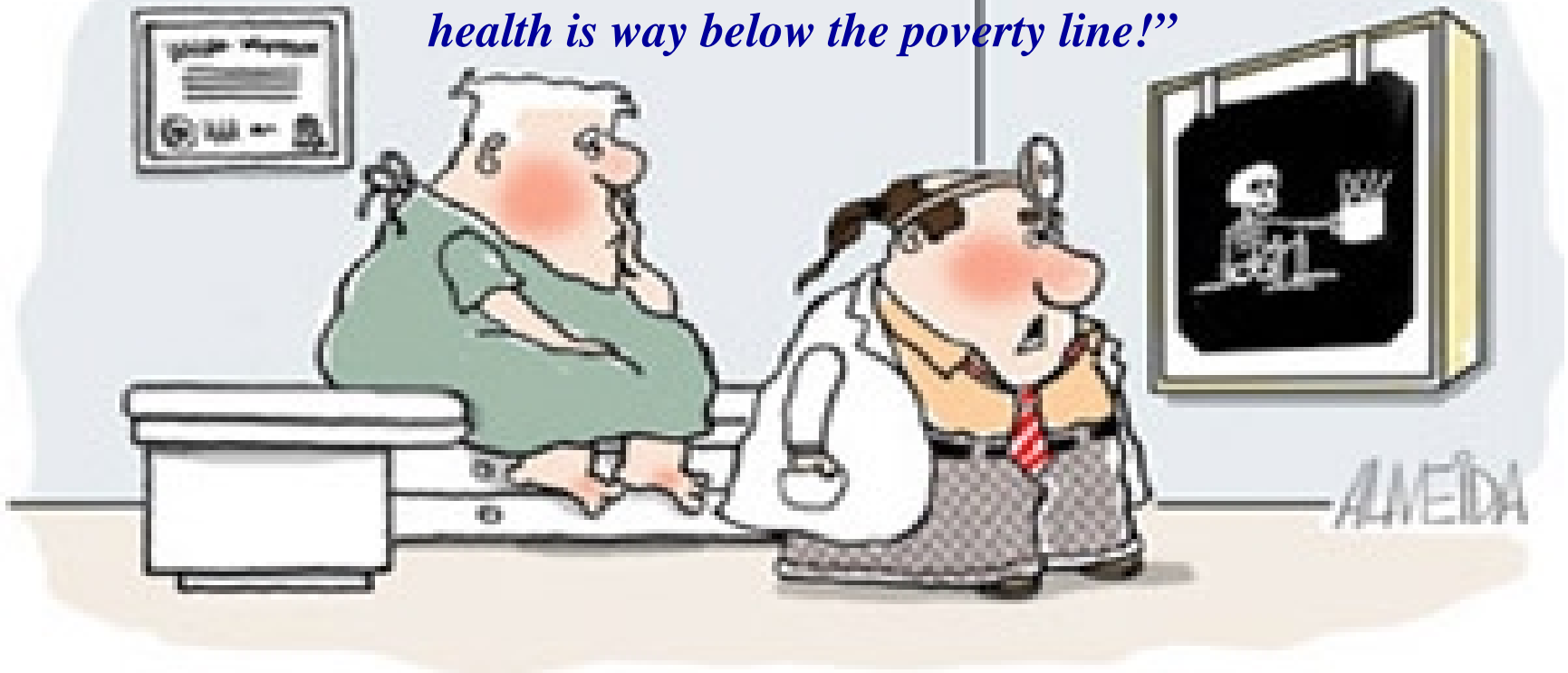


# AGENDA

- Broken Markets  
and Econ 101
- Broader Disconnects
- Is There an Answer?
- Q&A

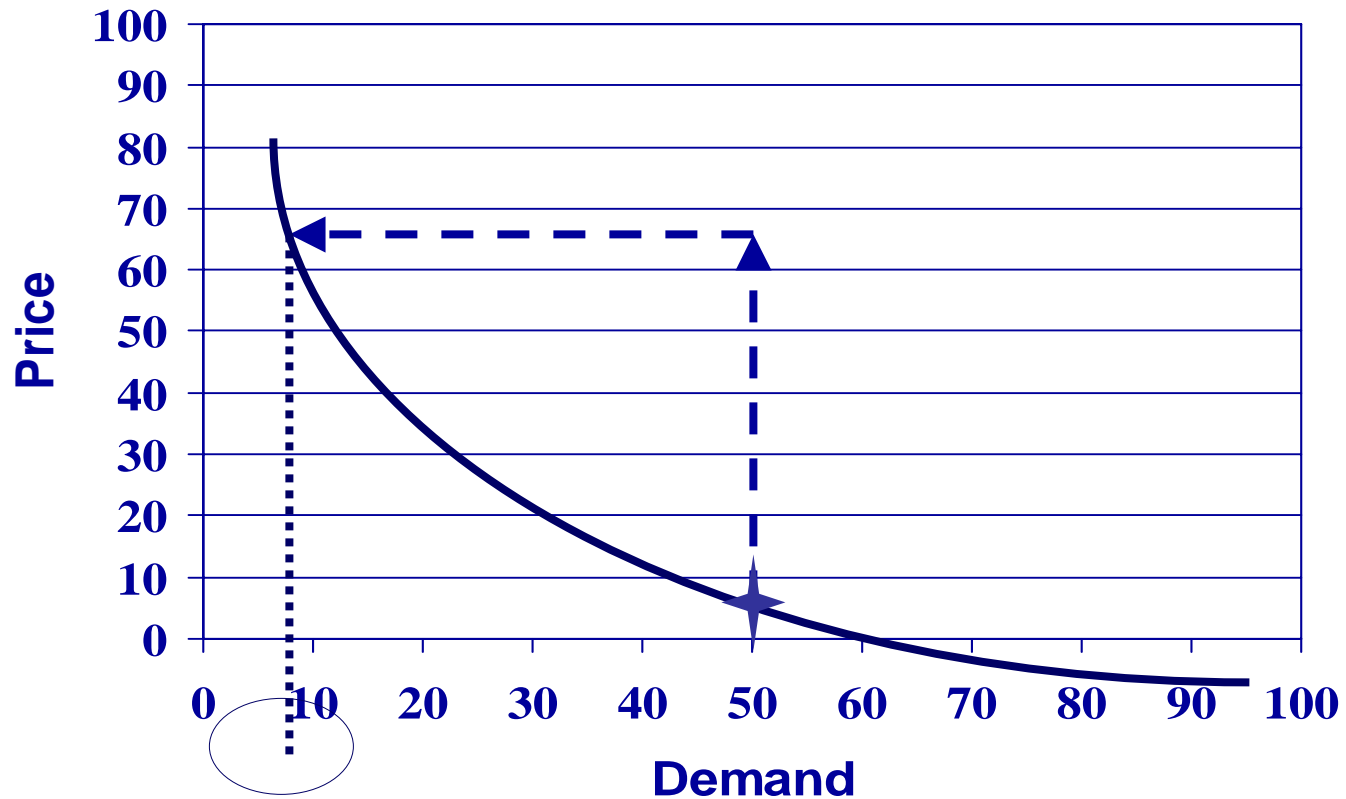
# Why are Payments like Health Care?

*“Judging from these x-rays I’d say that your health is way below the poverty line!”*

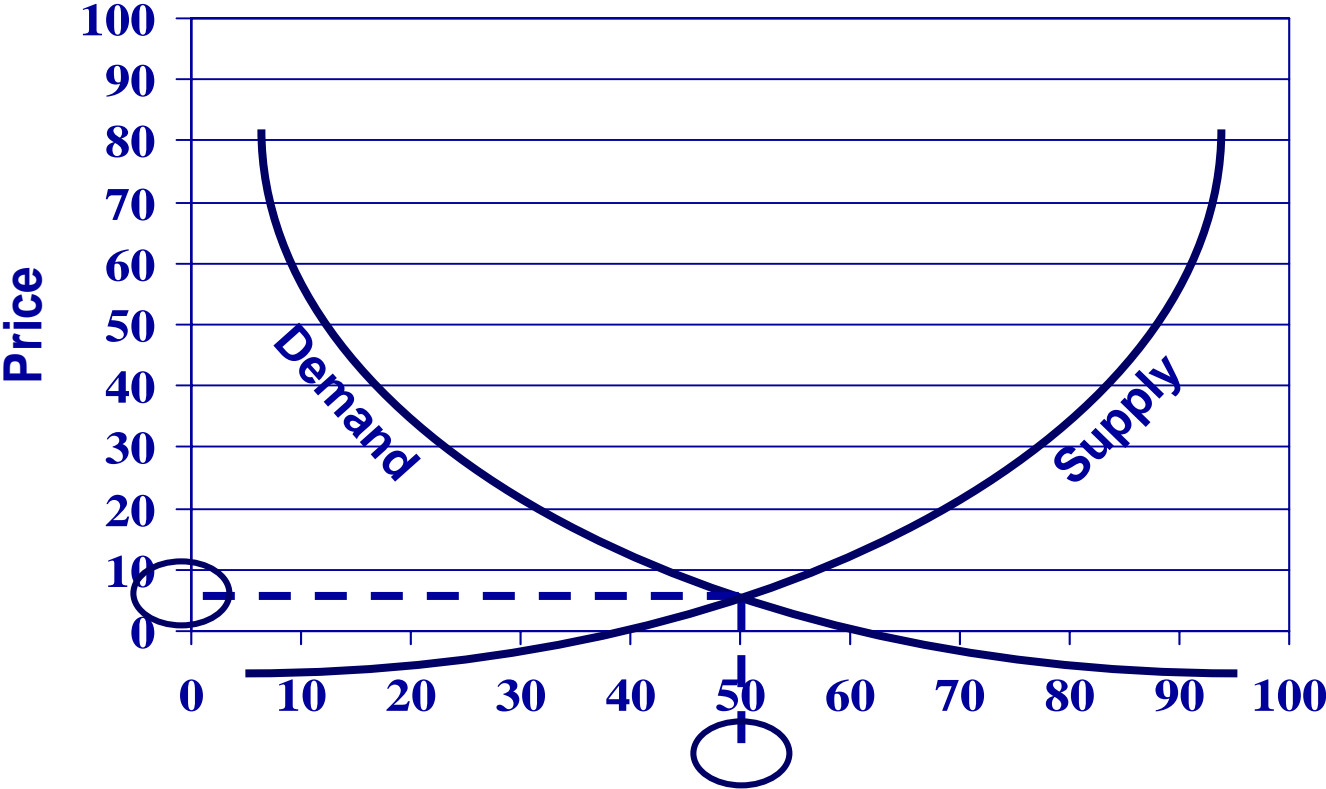


***Both are broken markets!***

# Economics 101



# Normal Market



# Broken Markets



In a broken market the link between price and demand is lost

# Broken Markets

Typically because someone else is paying for it

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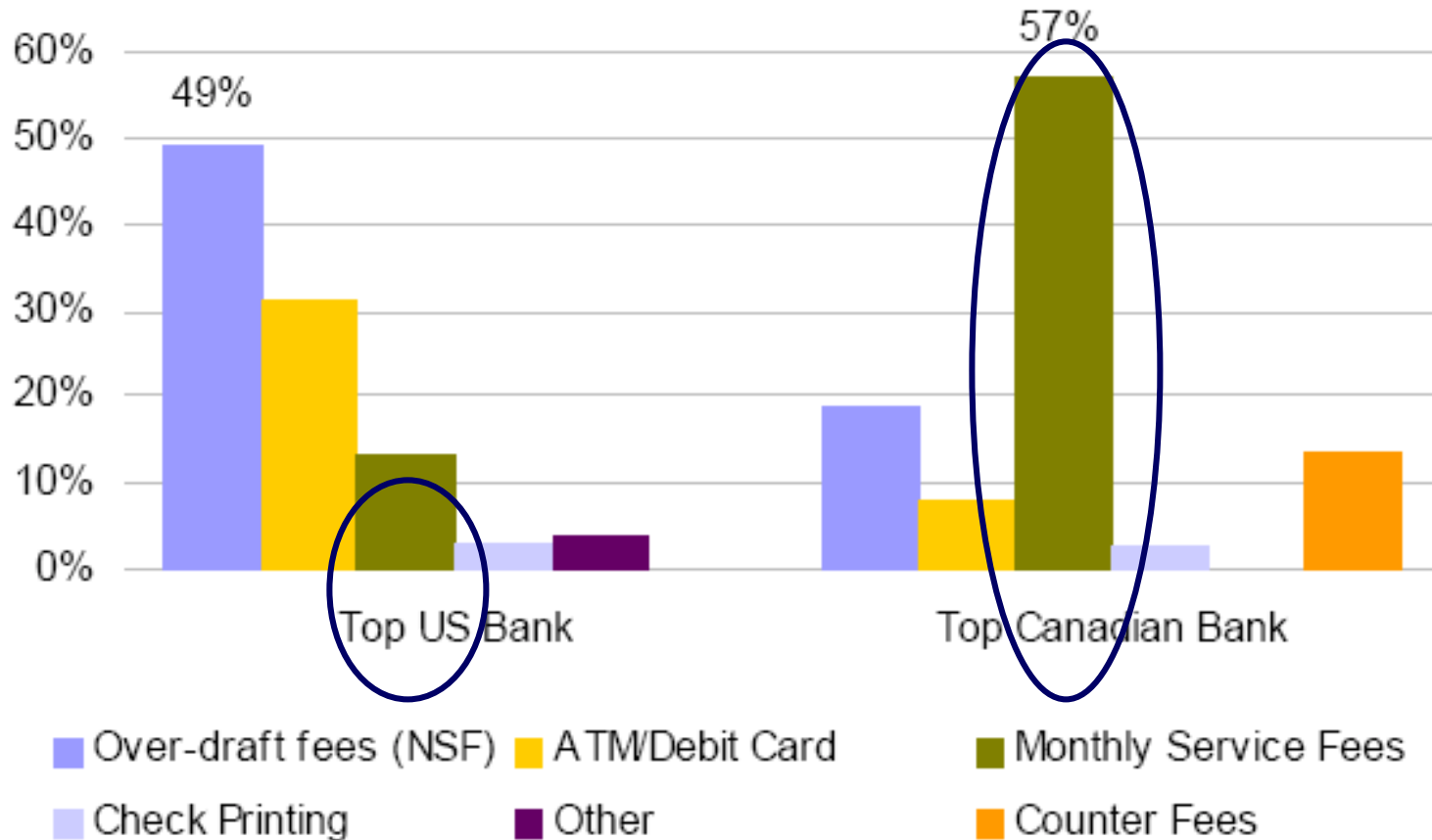
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# “Fees” as a percent of revenue

## Retail Deposit Revenue Mix



Source: Celent

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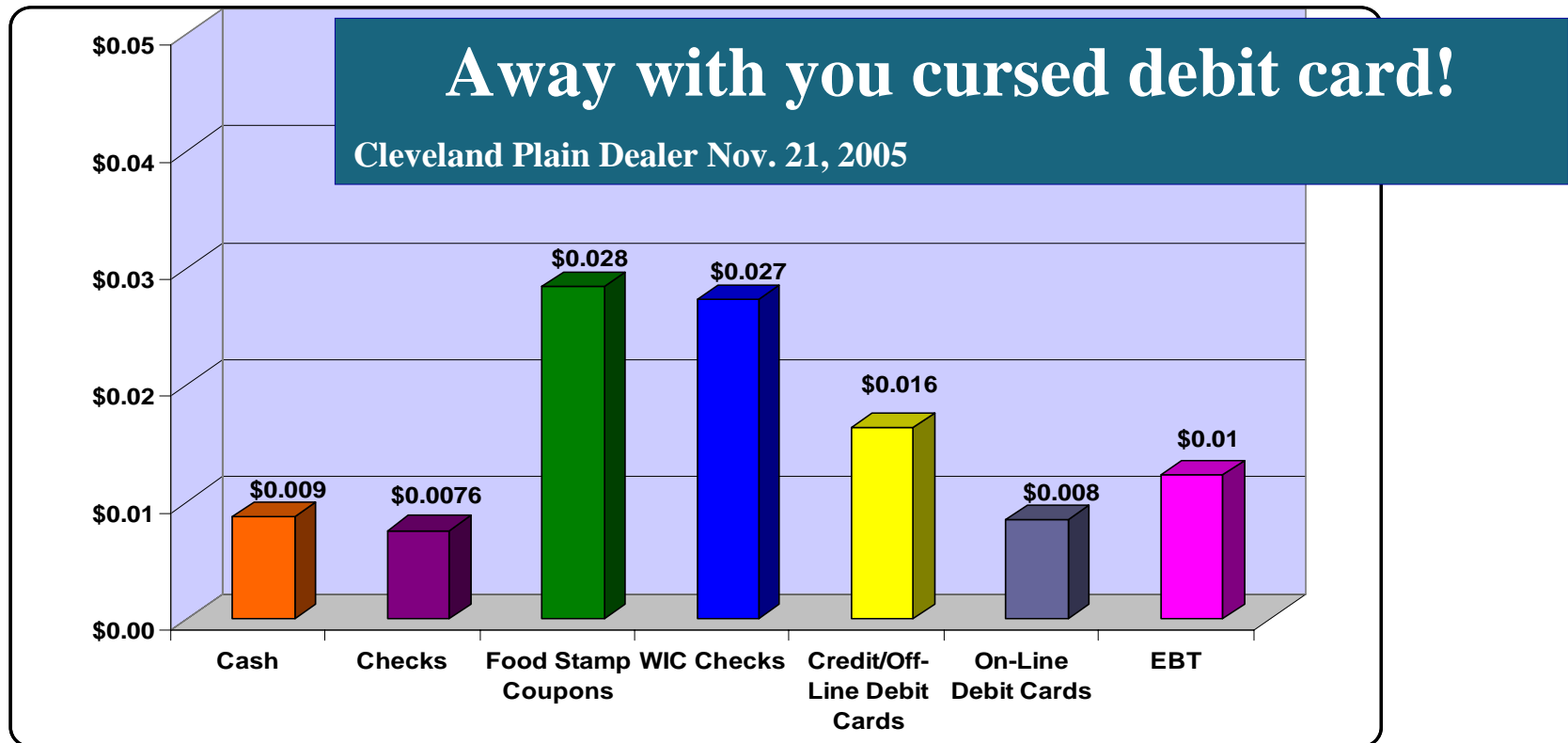
# If cost doesn't matter, what does?

- Speed
- Liquidity
- Safety
- Age

Source: FRB Economics Paper

# So What!

Broken markets lead to seemingly irrational choices and poor allocation of resources.



Source: PwC Consulting Study

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# A Banker's Point of View

- “If you build it they will come” attitude
- Often focus on products and solutions rather than wants and needs
- Tendency to sell based on price rather than benefit
- Need for low cost results in drive towards standardization
- Commoditization of payments leads to greater price pressure

# Today's Environment

- We preach electronics but still focus our attention on paper
- Payment products are still highly siloed
- Investments are frequently based on past history rather than future expectations

# A Corporate Treasurer's Point of View

- Wants convenience and efficiency
- But is more concerned about safety and security
- Understands the potential efficiency of electronic payments
- But is worried about the security of debits and the efficiency of split/dual systems
- Total cost is more important than penny price
- Wishes the banks would deal with "their" problem and let me focus on my business

# The Corporate Point of View

*“Just let me make and receive all my payments securely, conveniently and quickly; whether they’re paper, electronic, or card based.”*

# The Corporate Point of View

*“Just let me make and receive all my payments securely, conveniently and quickly; whether they’re paper, electronic, or card based.”*

*Oh, and let me have them all for the same price, as long as that’s no more than the lowest price you charge me today for checks!*

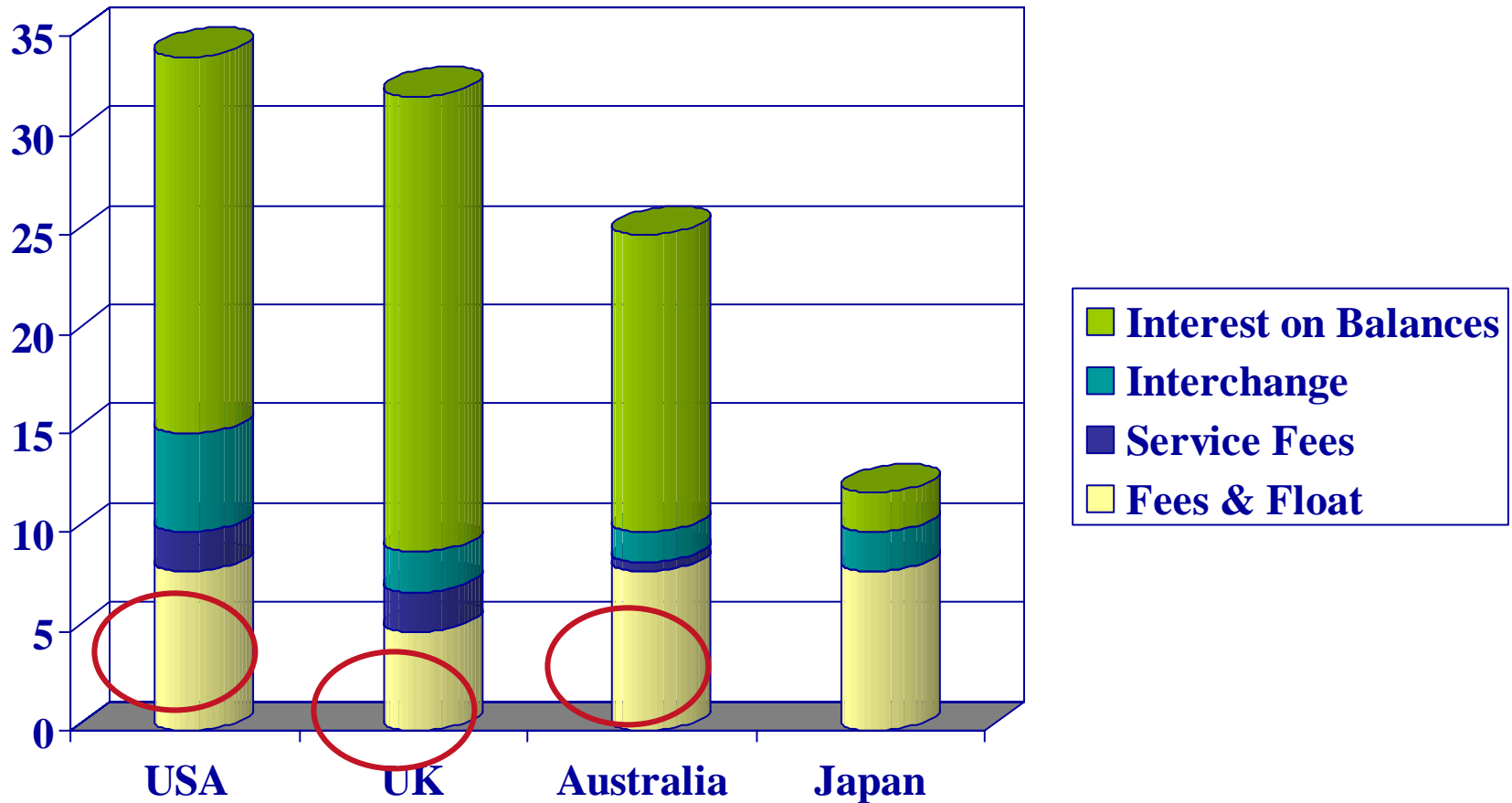
# A Consumer's Point of View

- Concerned about safety and security
- But really cares about personal convenience
- As long as its free
- Wishes “the banks” would deal with the problem as long as merchants will accept any payment type
- Typically doesn't understand the cost impact of alternate payment methods

# Payments as a broken market

- Efficient markets assume access to information  
... and a direct connection between buyer and seller!
- Payments, like today's health services market, has become a multi-sided market without direct connection between price and demand
- The decision maker is not paying for the service or doesn't realize what they are actually paying for it!
- And all parties to the transaction have seemingly different goals!

# Payments as % of total bank revenues



Source: BCG

# AGENDA

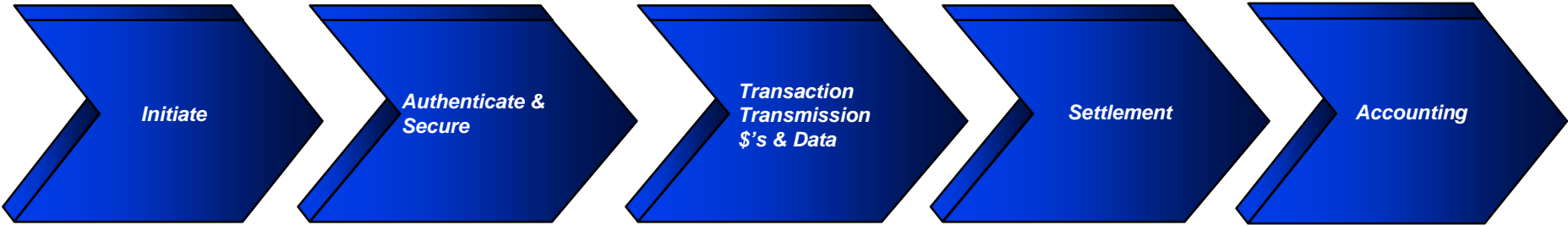
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# Back to Reality

- More pressure on margins
- Continued concern about risk and safety
- Possible Regulatory intervention
- Competition from traditional and non-traditional sources
- Further consolidation in the industry

# Where now?

- Communicate and educate
- Manage payments and the related information as a business
- Address security issues
- Stress relationships not commodities
- Focus on the value “chain” not just settlement



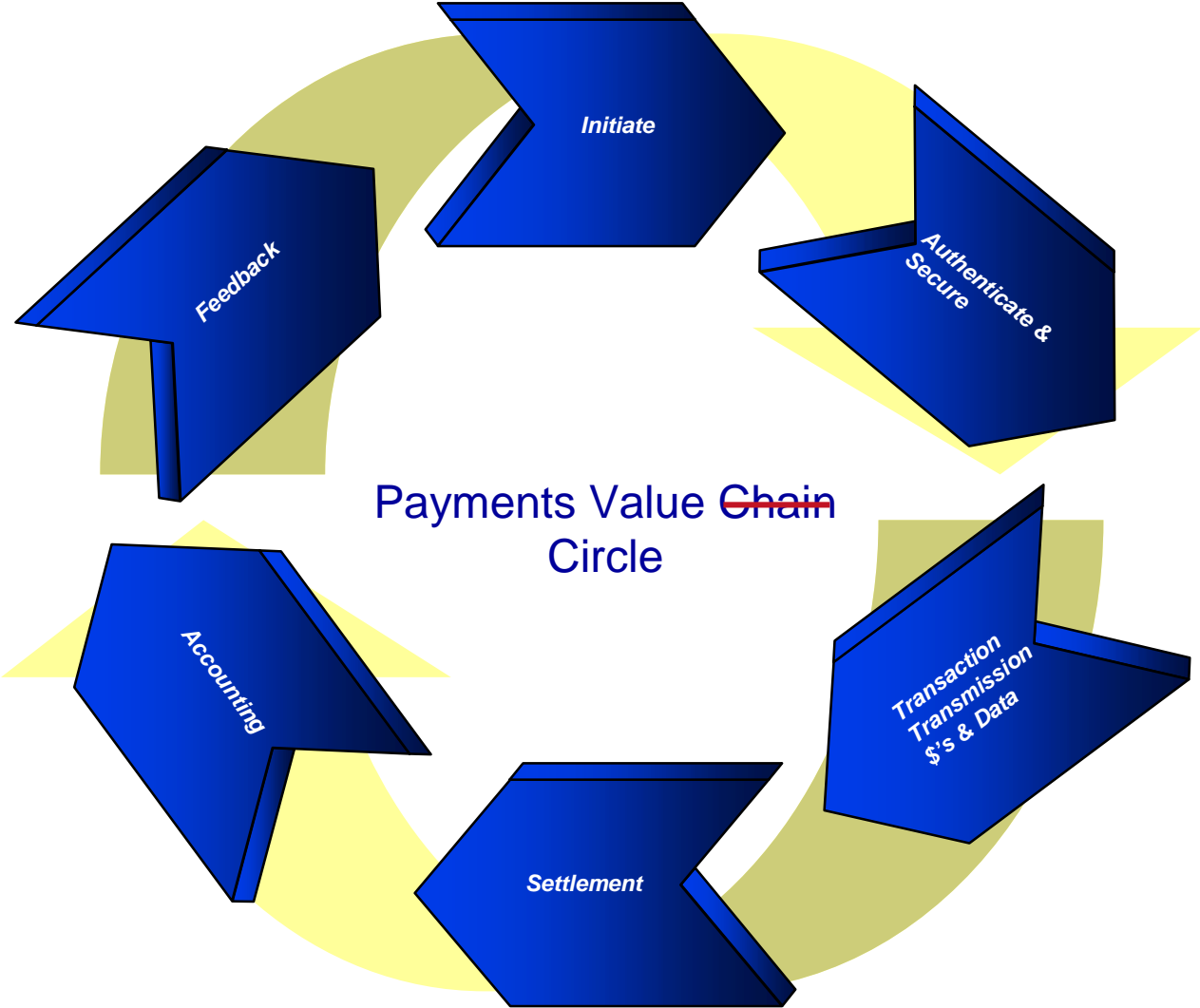
Payments Value Chain



# Manage payments as a business

- Understand - *and manage* - cross subsidiaries
- Price based on value and risk
- Manage customer/client expectations
- Implement factory model for payments processing
- Operations independent of channel
- Capitalize on the value of underlying information

# Where now?



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