Payments as a Service

A New Concept Set To Revolutionize Payment Processing

Table of Contents

Executive Summary

Software as a Service (SaaS) has taken over traditional methods of software licensing and delivery, and now that ideology is being used to connect payment systems.

In an industry once dominated by banks and large financial institutions, when implementing and maintaining payment systems was a slow and arduous process, a new evolution is happening.

Payments as a Service (PaaS) uses the SaaS model to simplify payments for the end customer, whether it be an Integrated Software Vendor (ISV) or merchant.

For a customer, using PaaS means a simplified fee structure, with no surprises, and no transactional costs eating away at profits. Instead, customers are rewarded for increasing their transactional volume, as the goal of PaaS providers is now on how to retain clients so that they will stay with their service, rather than figuring out how to profit off of them.

PaaS is not just changing the ISV and merchant landscape; banks are recognizing that the rise in PaaS is an opportunity to provide a reliable option for their customers that can rival the competition. New regulations as a result of the 2008 financial crisis have only strengthened the case for banks to adopt a new solution that can be brought in-house rather than constructing an entirely new model. Integrating PaaS ideology into their practice, banks are realizing the potential to offer a solution that is scalable, secure, and can process higher transaction volumes at lower costs.

Part 1:
The Unique Features of Payments as a Service (PaaS)

Payments as a Service adds value to customers in ways that surpass traditional payment systems in both functionality and scalability.

Payments is not the centerpiece in the ever-evolving Independent Software Vendor landscape anymore. Payments now more than ever must be seamless and simple—from functionality to economics.

Four things set PaaS apart from traditional payment systems; the value of one provider, flexible technology, full-service support, and a more cohesive payment ecosystem. These four things enable ISVs, banks, and merchants the opportunity to deliver services that have never been available before.

Value of One Provider

Software providers traditionally had to integrate and support connections to e-commerce, mobile, point-of-sale, reporting, and reconciliation platforms.

When you partner with a PaaS provider, there is only one platform, one integration, and one billing service. There is no longer a need to integrate to multiple platforms or multiple providers. PaaS providers offer simple fee structures that align with the software providers existing pricing model.

PaaS has created an adaptive solution set to adhere to market changes and niche vertical needs for any business. The technology offered by providers needs to be flexible and easy to implement.

Flexible Technology

The FinTech industry is centered around innovating existing technology to make complex payment processes comprehensible and straightforward for users. The move from traditional on-premise, physical servers to cloud-based software solutions reduces operating costs and allows for payment providers to get their products to market faster.

This evolution has allowed new technology like omnichannel solutions and digital wallets to reach customers faster than ever before.

Omnichannel is an approach to shopping that enables the customer to seamlessly shop online, in-store, or in-app thereby making the experience both enjoyable and effortless.

Digital wallets can be an online service or on a mobile device that allows for the user to make electronic transactions without the hassle of entering card data.

A Full Service Team

Customer support has gone from reactive inbound support to a proactive service, focusing more on the success of the customer journey. The FinTech industry is shifting away from automated messaging and large call centers with exceedingly long wait times. While chatbots and pop-up windows continue to dominate the SaaS space, a real, personalized, and reachable, multi-channel service team is becoming more and more in demand.

An ecosystem as complex as payments deserves a full service team. From integration support, account management, and a team dedicated to the customer experience, the service provided is now a substantial differentiator when deciding on a payment provider.

A More Cohesive Payment Ecosystem

It might be hard to believe that payments could be bringing people closer together, but through technology, PaaS is developing a community where everyone playing can benefit. The solutions built by Financial Institutions (FI), Card Networks, Payment Processors, and Integrated Software Vendors all directly benefit the end user: the customer.

When the ISV or merchant works with a payment provider, they have access to all the features that FI, and Card Networks, have to offer, without having to integrate separately into all of them. A more open ecosystem is a win for all involved players.

Trust in the ecosystem and players is critical as new technologies emerge. It doesn’t matter how much you innovate, if no one trusts your offering.

With the PaaS model, the payment provider builds deep relationships with FI and Card Networks, to service consumers. Payment data is even more sensitive and merchants are quick to review untrustworthy providers. Building trust in the payment ecosystem and existing relationships is critical to the success of all players.

Part 2:
Re-thinking Payments with the Customer in Mind

PaaS is cutting out the confusion for customers with easy-to-understand pricing models, updated security, evolving payment methods, simple onboarding, and opportunities for global expansion.

Simple Pricing Models

The goal for previous payment models was to profit off of the success of customers; the higher the transaction volume, the more a provider could take. PaaS is re-thinking payments with the customer in mind. Rather than profiting off of the ISV or merchant success through excessive or hidden fees, providers have found a way that the two can grow together.

The PaaS pricing model is simplified so that it fits into a typical SaaS model. Rates are flat (percentage based off of volume) or bundled (combining pricing from multiple vendors) so customers get one easy to digest bill. There are no more hidden fees or confusing acronyms. The emphasis is on a structure that allows for a customer to easily understand their statement, making fee reconciliation a breeze.

Updated Security

As payment volumes increase globally and new technology speeds up the payment lifecycle, security becomes more imperative.

The traditional tokenization or vault solutions designed to reduce the storage of sensitive card data can now be used to not only enhance security, but deliver value to the customer. As PaaS solutions become more savvy, security should always be top of mind.

PCI was set as the first standard to specify the compliance requirements payment providers must go through to process payments. Now, PSD2 and GDPR have emerged as the latest guidelines to protect and share sensitive credit card information.

As the new guidelines have created a market for increased security, PaaS providers can now offer products that surpass the legacy security methods. The added benefits of security and simplicity integrating with PaaS lets the ISV and merchant set their sights on creating a customer-focused experience.

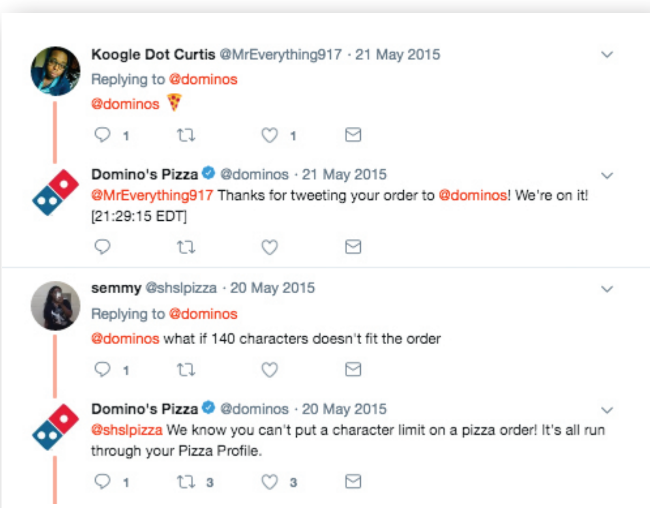
> ISVs can use secure payment fields that are embedded into the software users interface, to capture sensitive card data without it touching their own servers or disrupting the customer experience.

Evolving Methods of Payments

It is the consumer behaviour that drives the card brands to create new payment types, and ISVs and merchants in turn need to respond to consumer demands.

The rise in online payment methods such as digital wallets in addition to credit cards means vendors need to offer these options for their customers, or risk being left behind. For PaaS providers, the big question is: How can we make it easier for the seller to sell? The answer lies in the latest payment trends, specifically omnichannel.

With an omnichannel presence, vendors can innovate new ways to capture a customer's attention at any point of their shopping journey, while offering the payment types that their customers want. Domino's pioneered the "pay by emoji" method, which allowed for customers to order a pizza simply by tweeting a pizza emoji after they registered their Twitter handle with Domino's Pizza Profile. With Domino's omnichannel experience, customers can pay online, in-app, in-store, and now just by tweeting an emoji.



The vendor innovates; they listen to the customer and build an experience just for them. The card brands break down payment barriers by offering new payment methods such as wallets. PaaS acts as the doorway between the vendor and the card brands, giving each of them the availability to innovate and create. The end result is a seamless customer experience.

Onboarding & Reporting

The ease of onboarding and integrating into a PaaS platform also makes switching to a payment platform more desirable. Traditional merchant applications were a complicated and time-consuming process, not to mention costly to manage. Using PaaS, customers can get onboarded in a matter of minutes, with a step-by-step walkthrough of integrating the payments platform into their service. The gap between onboarding and processing their first transaction is decreasing dramatically with the flexible technology that PaaS can offer.

There is plenty of competition in the payments space, so providers need ways to differentiate themselves. Customers need to be able to easily reconcile their accounts, but also monitor them for any suspicious behaviour so they can detect fraud before it happens. Fraud such as chargebacks costs the average merchant 1.47% of their annual revenue, a substantial amount. Allowing customers to easily monitor and reconcile their account greatly reduces their risk of chargebacks.

Creating New Avenues of Recurring Revenue

For any size business, an opportunity to include a new stream of revenue is always a great way to add value to the company. Options such as revenue sharing or IC+ pricing can be enticing perks when making a selection. Not all PaaS providers offer services like revenue sharing, so it is important customers shop around before selecting a partner.

Global Reach

All these elements identified by PaaS tie back to the emerging need to acknowledge the rise of global payments. With an estimated 940 million shoppers spending $1 trillion in cross-border e-commerce by 2020, the need for ISVs and merchants to go global is greater than ever before. To bring their business to an international scale, ISVs and merchants need an option that addresses the costs associated with cross-border transactions. The network of gateways, acquirers, and providers that PaaS offers has given their customers the option to find the optimal mix for their business.

With 80% of merchants saying they would switch suppliers to reduce costs, there is an opportunity for PaaS providers to stand out and offer the best service in the payments space, which directly benefits the end customer.

PaaS providers also have the opportunity to allow for their customers to use the same payment platform when doing business in international markets. The value of one provider creates a seamless payment experience across borders, and the ease of reporting and reconciliation makes settling in different currencies easier than ever. One platform, one integration, one billing service.

940 million shoppers spending **$1 trillion** in cross-border e-commerce by **2020**

Revenue sharing shares a portion of the profits among partners for referring business to a company.

IC+ pricing is a custom pricing scheme for those who process over a certain amount of transactions.

Part 3:

How PaaS and Banks Can Work Together

The rise of PaaS is an option that banks cannot ignore, and those that are quicker to adopt this service are the ones that will succeed.

The conventional thinking of banks was to keep all their services controlled internally; migrating operations to a cloud-based software offered by a third party did not fit the mold. For banks, the change in attitudes towards SaaS did not happen until a few years ago, when new regulations drastically changed the payment space as a result of the 2008 financial crisis. Banks now need to provide an option that promotes performance through scalability and security, while also reducing transaction costs for higher processing volumes.

The case for adopting the PaaS solutions for banks has never been stronger, yet most of the technology budget for banks is saved to maintain the current in-house infrastructure. There is little room for constructing a new model that is scalable, compliant, and can process higher transaction volume at a lower cost. The top three reasons banks give for wanting to adopt PaaS are the ability to offer flexible capacity (68%), faster provisioning (63%), and reducing ownership costs (57%).

Banks that are willing to invest and adopt PaaS solutions can realize measurable benefits in two distinct ways:

- **Reduced costs**
  From a bank perspective, PaaS can reduce costs because the payment provider is the owner of the hardware and software; the bank does not have to employ its own technology specialist teams. Processing higher volumes of transactions would not affect the overall profits of the bank; in fact, it would be quite the opposite, the higher volume would mean more savings in interchange rates. By using the PaaS method, one European bank estimated they would be able to save 60% in transaction costs.

- **Improved performance and scalability**
  Arguably the biggest way PaaS adds value is its ability to scale its customers. The PaaS business model is meant to grow with the customer, meaning that as their profits grow, they don't suffer from increased transaction costs. In addition, using the cloud-based payment software allows updates to be made immediately and seamlessly, responding to the fluctuation of daily payments in a more effective manner.

Future Proofing Banks With PaaS

Banks that are early adopters of PaaS stand a better chance of solidifying their place as a leader in the industry. By using PaaS, banks will be able to direct all their payment flows through one platform, a platform that is adaptable for new and emerging technologies such as real-time payments and blockchain. Although these technologies are already in practice, they are still in the early stages, and the impact they will have on payments is not fully realized yet.

The cloud-based approach used by PaaS relieves the constraints on the banks internal IT teams, providing banks with the latest innovations without the laborious effort and development delays.

The speed and ability which banks can enter new markets or compete with ISVs and merchants in existing markets are elevated with PaaS. One of the main concerns for banks is to stay relevant in a rapidly changing environment. Although faced with increasing competition, it is safe to say banks aren't going anywhere. Integrating PaaS will only strengthen the presence banks have in the market, allowing them to develop without any constraints based on their legacy systems. Once implemented banks will be able to uphold their place as viable contenders in the marketplace.

Conclusion: PaaS is Constantly Evolving

PaaS is changing the way the world processes payments.

The advantages and opportunities of PaaS are becoming known on a global scale; the need for a new payments service has never been stronger as faith in the legacy payment system is dwindling. In 2015, Bambora emerged to regain the consumers' trust in the financial system with the value of having one provider.

For Bambora, convenience and a user-friendly environment are paramount when it comes to processing e-commerce transactions. Bambora flipped the script on traditional payments, becoming more customer-focused and ensuring everyone benefits from the success of one another. Bambora is continuously innovating to make payments more accessible to the end customer. Currently, Bambora and Ingenico are constructing groundbreaking solutions to deliver a unified payments experience for ISVs and the customers.

With Bambora, banks that are willing to invest in switching their infrastructure over to cloud technology will be able to direct all their payment flows through one platform.

Banks that partner with Bambora will realize their potential to adapt and seamlessly integrate new technology, paving the way for the rest of the banking industry.

At the forefront of PaaS, Bambora has carved out a niche as a leader in payment processing, and this service will only strengthen as Bambora continues to build the most customer-focused payment experience in the world.

About the Author

Justin Passalaqua is Head of Sales for Bambora within North America where he leads all sales initiatives and is the number one champion of the customer. With over ten years of payment experience, he makes payments as easy as possible to understand so the customer can focus on their product and passion.

About Bambora

Founded in 2015, Bambora is a collection of companies with decades of experience in the payments industry. Now a global presence, with over 600 employees in 64 markets, Bambora processes over $47 billion USD per year.

Bambora North America is responsible for processing 30% of all e-commerce in Canada and has equally ambitious goals for the US market. Bambora helps all businesses grow, with simple and secure payment tools.

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