

ATFS Bulletin December 2020 – Alternative Student Payment Methods

At ATFS, we have seen an increasing focus in 2020 from our University clients on the processes and costs surrounding fee and accommodation payments, particularly for international students. Why is this? Principally, it's down to cost, but also the desire of Universities to provide alternative and local payment methods to their students, so that payments can be made by a method they are familiar with and in their local currency. The sector focus on this has also resulted in the specialist providers increasing their marketing efforts by varying degrees of aggressiveness.

Card acquiring has dominated

For many of the eighteen years ATFS (nee Finalysis) has working in the sector, card acquiring has been the dominant method of international fee and accommodation payments, complimented by random international bank transfers. Increasingly, online payments have dominated, with a very large proportion of the sector using WPM Education as the payment gateway of choice. The last few years have seen Capita, whose software is extensively used by Local Authorities, enter the education sector, but their impact has been limited. At the same time WPM has developed from just a payment gateway into a partner for the sector offering a consultancy-based service benefitting the whole sector.

Card costs have increased in recent years

The fact that ATFS has completed around 100 pricing reviews/negotiations or tenders for the sector illustrates the importance attached to managing these costs. The last five years have seen wide ranging changes to card acquiring pricing, starting with interchange becoming ad valorem based, through the imposition of EU interchange caps, the Visa & Mastercard cost cap removal, the movement away from blended pricing towards interchange plus plus and, over the past few years, the rapid rise in scheme fees for international cards in the cardholder not present environment. Recent press articles have highlighted these scheme fee increases have wiped out all benefit derived from the EU consumer card interchange caps.

But so has Dynamic Currency Conversion

We have always held the view that Universities should enable DCC through its terminals and especially online; the University benefits from lower overall card acquiring costs, whilst allowing the payer (student) to pay in their own currency. Thanks in part to the competitive environment created by regular tenders in the sector, we have seen the DCC rebate offered by acquirers increase and the range of currencies it can be applied to, widen. Throughout this, the hit-rate, or proportion of cardholders choosing the DCC option has remained in the 40% to 50% range, but despite this, DCC should be worth over £100,000 for the larger institution.

The Specialist Payment Providers

Although used by some in the sector for some time, the last five years has seen these providers widen their reach into higher education. Flywire and Western Union Business Solutions have been the dominant players with Transfermate (Pay to Study) also grabbing share. This year has seen the emergence of a fourth provider, the Canadian bank, Canadian Imperial Bank of Commerce.

- CIBC have entered the UK market as a provider of Student Payment Services and won a recent tender ATFS managed for a North West Russell Group University. CIBC's International Student Pay (ISP) program is part of CIBC's Capital Markets business.
- Flywire (formerly peerTransfer) was founded in 2011 by former international student Iker Marcaide. To date Flywire has processed over \$16 billion in total payments volume for over 2,000 clients around the world. The company is headquartered in Boston, USA and has offices around the world.
- TransferMate is a B2B payments technology company founded in 2010 and headquartered in Kilkenny, Ireland, with other offices in San Francisco, New York and Sydney. According to the company, as of late 2017, over \$11bn had been transferred through TransferMate's Technology.

- WUBS is a business division of the Western Union Company which provides services in the UK through Western Union International Bank GmbH. WUBS offers many services to the HE sector. Its student payment solution is called GlobalPay for Students and is used by many UK institutions.

What do these Specialist Providers offer?

- A bespoke payment platform for each institution, with cultural adaptability
- Multiple payment options in many of the countries in which they operate
- The ability to take card payment
- Screening for sanctioned countries and individuals and compliance with Chinese SAFE restrictions
- Integration with key University systems, including SITS
- Full payment refund service, including tracking
- Revenue sharing, in some cases

How to proceed with a Specialist Provider

Universities will be dealing with a salesperson whose job is to sign clients as quickly as possible; their platform will be the best thing since sliced bread and the answer to all your problems. However, appointing one of these providers does include a contract, so they should be treated like any other supplier. At the very least, the University should undertake due diligence of the provider and/or a comparative exercise between two or more.

The University should perhaps consider a full tender process to find the specialist that fits their own circumstances.

As the cost of the payment will be borne by the payer, any due diligence should involve an understanding of these costs. In the current environment, the last thing a University needs is students complaining via social media that they are being overcharged; it is the University they will complain about, not the provider.

Should we allow card payments?

The University will need to consider whether to 'switch on' card payments through the provider. There are several considerations. Most importantly, the University must satisfy itself that the provider is fully adhering to the second Payment Service Directive in terms of possible surcharging.

Secondly, the University needs be comfortable with the knowledge it is passing on the cost of the card payment to the payer, as opposed to accepting the acquiring cost itself. Is it happy to do this, or does it feel the level of the fee or accommodation payment is cost enough already?

Of course, the University could have both options, leaving the payer to choose which way to pay; there will be a difference in their own currency due to the different exchange rates applied.

Of the four tenders we have been involved with this year, three institutions have taken the cautious approach and excluded card payments but noted that cards might be added in the future.

Final thought

Alternative payment methods are essential in giving students and other payers greater choice in dealing with their fee and accommodation obligations. The next few years will see rapid advances in the payment landscape, with acquirers developing open banking (Pay by Bank, Payit, etc.) and expanding their own alternative payment capability. Technical enhancements and greater payment variety may well occur at WPM as well. Careful consideration therefore needs to be given to any contract length, as a University could find itself locked into a provider that is falling behind their competitors.

For further information please contact either:

Tim Wilding
Director, Education
M: 07721 410279
E: tim.wilding@atfsltd.co.uk

James Flynn
Senior Consultant, Education
M: 07752 921527
E: james.flynn@atfsltd.co.uk

Aquila Treasury and Finance Solutions Ltd

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