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ATFS Bulletin April 2022
Payment Strategy & Rising Interest Rates

Payment Strategy

We continue to see change within the payments world which means reviewing your payment strategy can improve several areas of the payment journey. The payment experience online, maximising payment conversions, saving administration time and offering the full suite of payment methods needed by the students. As options and competition in online payments especially increases it is important to be selecting the best payment partners to improve costs, maintain a secure payment network and offer the best technology.

We look in more depth below at the different methods to take payments and some recent updates we have seen:

Online Payments

Competition continues to be strong for online payments with providers offering a wide range of options. What used to be heavily managed by card payments, we are now seeing changes to international payments, alternative payment methods and bank to bank transfers all growing recently. Offering your students the correct method they want to pay with can often impact positively on administration time and query management during busy periods for the Universities.

Online payments continue to gain a lot of investment and an area we have seen change in our sector over the last couple of years. It is important to be making the right options that fit in with your payment strategy, each University will have different requirements to make the payment journey starting when the payment begins until it has been reconciled will all slightly differ. Reviewing the payment methods you currently have in place will be worth completing every 2/3 years to make sure your strategy is still the most efficient for the University.

On Campus Payments

During the last couple of years many of us have been used to switching from cash payments to cards and this has given a better chance than ever to create a true “Cashless Campus” if not done already. Till systems has been an area growing in competition with different payment options available depending on the provider. We have seen an increase with the use of QR codes to instigate payments and this continues to be used especially in catering and bars.

Payment methods face to face are still heavily linked to card transactions, but we are starting to see some new options being brought to the market. Bank to bank payments continue to increase with online payments and we should see these come available through payment terminals soon. E-Wallets continue to be fast growing especially with the age range of Students, these again have normally been led by card being the payment method. As transactions volumes continue to increase alternative payment methods will be added to wallets, this could include bank to bank payments which will positively impact card acquiring charges.

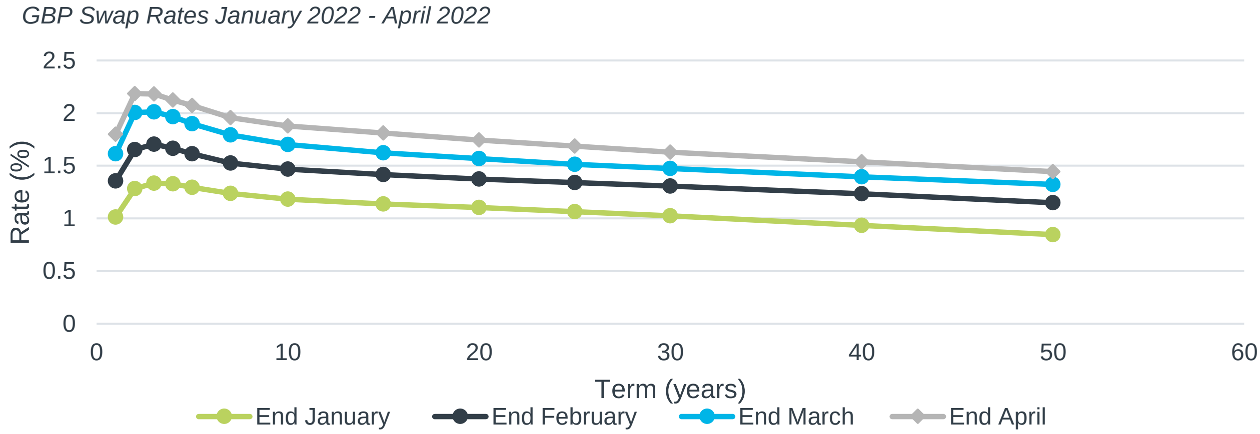
It is important that the card terminals you use give as many of the payment options you need as possible, while making the most of technology like QR codes or payment apps. This can not only create savings but also improve the experience for students making the payments.

MOTO/Phone Payments

An area that has not yet been impacted by the SCA change last month, but still an area of concern for card companies as a lot of fraud is MOTO (Mail Order Telephone Order) based. The improvements to Pay By Link services take a lot of the risk away from the traditional Virtual Terminals or manual entering details on a card machine. The Pay By Link service creates an additional layer of security by effectively making the payment the same as an online payment and using 3DSecure or SCA security.

The Ying & Yang of Rising Interest Rates

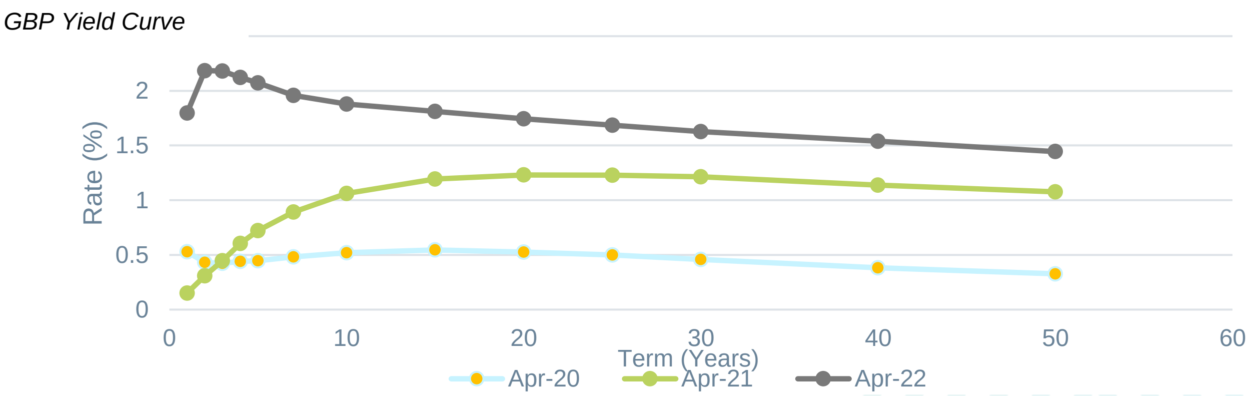
Interest rates have moved significantly over the past six months with the upward trend being the first movement in this direction in over a decade. Though Base Rate has only moved back to its pre-pandemic level, expectations in the market are for rates to continue to rise. The expectation is for a spike in rates over the next couple of years as central banks seek to combat inflationary pressure. The SWAP curve below illustrates how expectations have gradually increased since the beginning of the year.



Borrowers that have maintained floating rate debt are now looking at their options for fixing rates. Typically, this will either be through an imbedded fixed rate loan, or a stand-alone derivative. The derivative route allows for a wider range of options that can be constructed bespoke to the borrower's debt profile.

On the other side of the fixing rates decision, there is the impact on existing fixed rate debt, in particular break costs. Long term loans that were utilised heavily in the late 2000's were typically provided on a fixed rate basis. At the time fixed rate costs in the market were between 4% and 5%. Borrowers quickly found themselves with significant break costs as rates plummeted in 2009/2010.

Where rates are now rising, the difference between the legacy fixed rate and the prevailing market rate has reduced, thus reducing break costs. The graph below illustrates how rates have moved over the past three years, with the variance being particularly high up to 10 years along the curve.



This may present opportunity to refinance or repay loans as break cost levels become more palatable. Refinance isn't likely to yield significant gains as it is effectively a zero-sum game, where rates climbing decrease the break cost, any new finance is subject to the increased cost of funds whether it be compounded SONIA or Base Rate. However, refinance may present intangible benefits such as reworking financial covenants or the security suite. The current interest rate environment therefore gives many borrowers and lenders alike an opportunity to explore restructuring opportunities with a degree of optimism, for the first time in over a decade.

For further information, please contact:

Richard Leighton
Director, Financial Services
M: 07557 367622
E: richard.leighton@atfsltd.co.uk

Carl Fleet
Director Financial Services
M: 07502 485678
E: carl.fleet@atfsltd.co.uk