



Fintech Promises To Bring Payments Into The Future

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Hotel and travel distributor payments can be outdated, costly and time-consuming. But a wave of innovation offers fresh solutions. *Can the financial technology – or fintech – revolution cut your costs and boost your efficiency, or merely create new challenges?*

WHY IT'S TIME FOR A PAYMENTS REVOLUTION

Fintech is one of the biggest buzzwords in the business world. It describes a blizzard of startups that have swept in a digital revolution to replace the increasingly outdated technologies that have supported payments for decades.

Nowhere is this more evident than in hotel payments. Most businesses threw away their fax machines shortly after the new millennium. But many hotels still rely on them daily to receive credit card details for “cardholder not present” transactions from travel sellers, a process increasingly fraught with issues and frustrations for companies and travelers alike, including:

- Inefficiency for distributors: Travel management companies and others have to go through a time-consuming, manual process to fax card details.
- Inefficiency for hotels: Someone at the hotel has to key the details into their system.
- Poor security: Too many people in the hotel office gain visibility to customers’ card numbers, creating a fraud risk.
- Errors: Faxes can go missing, leading to guests checking in and finding their rooms haven’t been reserved.

Faxes are just one of the more obvious examples of how hotel payments lag behind the times. Even taking a card from guests at check-in and then again at check-out is time-consuming. So, too, is the way hotel chains then forward payments to individual properties.

There is one other major disadvantage: Payment solutions are expensive. It can easily cost hotels 2 to 3 percent of room night revenue to accept a credit card. It's no surprise they would like to reduce that cost.

Here are some new technologies that might improve payment processes for hotels and travel distributors alike. But be warned: these solutions might have challenges of their own.

MOBILE PAYMENTS

Mobile payments have been around for nearly six years. Use of the technology has been growing rapidly since 2014 when Apple, Samsung and Google all entered the market. The research firm BI Intelligence estimates U.S. consumers will use their phones to make \$75 billion in “cardholder not present” payments in 2016, and the company estimates these types of remote payments will grow 80 percent a year until 2020.

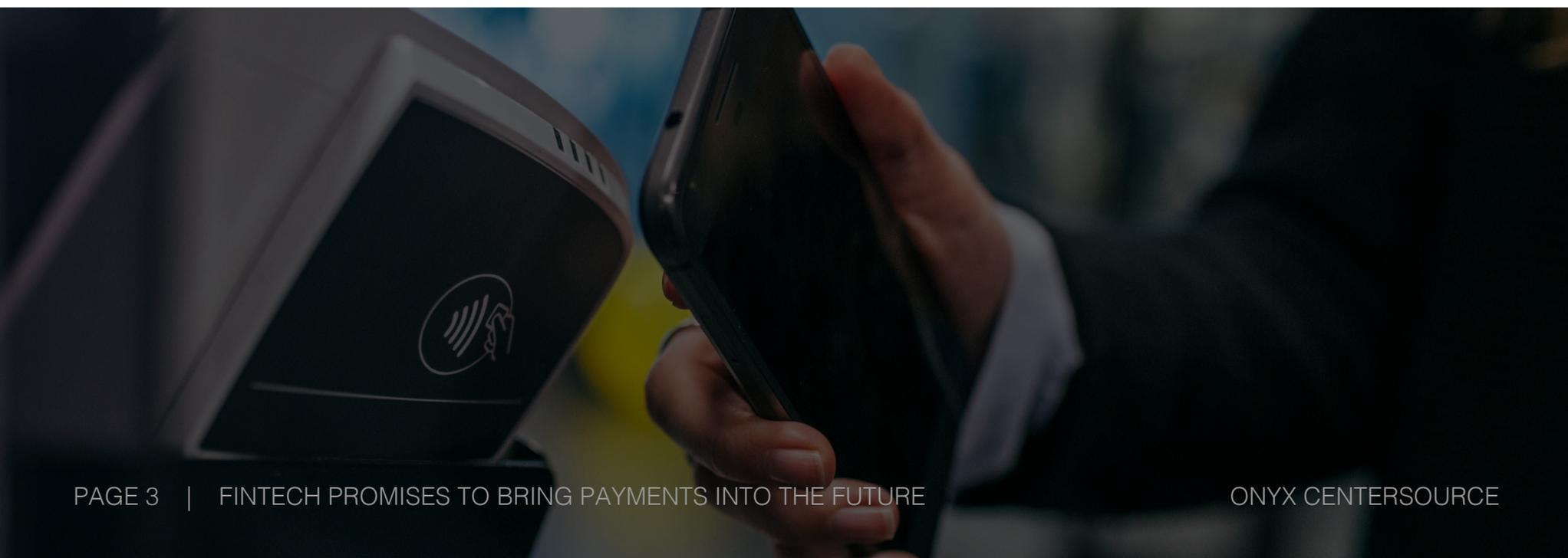


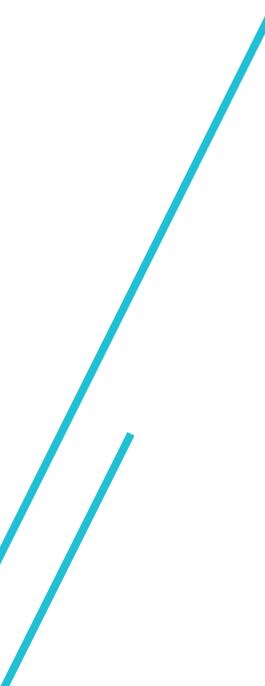
Users store their debit or credit card number electronically in a “wallet” on their phones, then make payments by waving their phones over a near-field communication reader, confirming either with a personal identification number, or PIN, or a touch sensor, like a fingerprint. Mobile applications can also generate a virtual credit card number for payment. (A virtual credit card, or VCC, is a 16-digit card number that can be generated at point of sale.)

Mobile payments offer great promise. Specific benefits for hotels are that they can be tied directly to loyalty program accounts, and the payment can flow directly into their point-of-sale systems. However, today mobile payments are not typically applicable for business-to-business and large batch transactions.

MOBILE PAYMENT CHALLENGES

Even with consumer tech giants entering the market, adoption has been slower than expected. Consumers still love their plastic cards, and there are fears about fraud, some justified and some not. But mobile payments are very popular in Asia, especially China. A survey by Hotels.com found 59 percent of Chinese tourists consider the ability to pay by mobile at a hotel second in importance only to wireless availability.



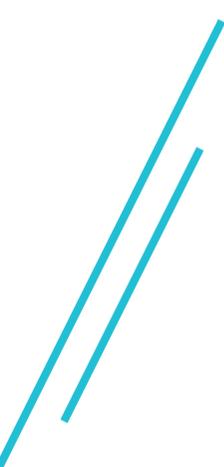


PAYPAL

PayPal now operates in 202 countries with 21 currencies and is used by 173 million people daily, mainly to shop online. Its benefits for consumers include being free and secure because there is no need to enter a credit card number. Many OTAs now accept payment by PayPal for pre-paid bookings

PAYPAL CHALLENGES

Although PayPal is free for consumers, the service does charge for business accounts. While an OTA may take money from travelers through PayPal, it still has to have a secure, dependable way to get the payments to the hotel. Additionally, when guests check into a hotel, they are often asked to provide their credit cards for extras.



VIRTUAL CREDIT CARD

A virtual credit card is used for a single payment only and then discarded. An accompanying virtual card verification value, or CVV security number, can be generated at the same time.

VCCs reduce fraud because they are used only for a single transaction, and the amount spent can be precisely controlled. They also eliminate the need to reconcile booked and billed data for corporate clients and their travel management companies. Online travel agencies, or OTAs,



use VCCs, too, mainly to settle increasingly popular prepaid bookings. An OTA accepts payment from the customer's plastic credit or debit card, then generates a VCC for the same amount and forwards it to the hotel as a "cardholder not present" transaction, with the date of payment specified for either the day of check-in or check-out.

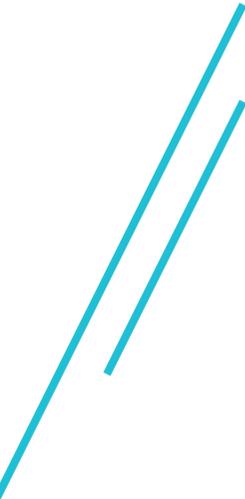
The hotel benefits because payment is guaranteed. The OTA benefits by being able to hold customers' cash until they arrive at the hotel and may also receive a portion of the interchange fee paid by the merchant.

VIRTUAL CREDIT CARD CHALLENGES

Although VCCs are great in theory, they may not work in practice, mainly because hotels haven't updated their systems to recognize the new technology. Many hotels still insist on receiving VCC details by fax and authorization for the card number to be signed and returned on their own forms.

As a result, guests may arrive to find their booking was never confirmed or that the VCC isn't accepted as valid payment upon checkout.

VCCs also carry interchange fees, which can be as high as traditional credit card processing fees.



BLOCKCHAIN TECHNOLOGY & CRYPTOCURRENCES

A handful of hotels and a small number of OTAs, including Expedia, now accept payment by Bitcoin. Bitcoin is a virtual or cryptocurrency that is supported by blockchain technology, which generates cryptographic, decentralized records of each step of every transaction. Blockchain, like VCCs, are unique transactions; therefore nothing can be stolen.

Digital currency systems have the potential to revolutionize payments for suppliers, distributors and customers alike by disintermediating banks, processors, exchanges and clearinghouses that take a cut of the payment.

ALTERNATIVE CURRENCY CHALLENGES

For most people, alternative currencies are still too futuristic a concept. Therefore, the exchange rate between Bitcoin and real-world currencies remains highly volatile, and fears remain that the entire system could collapse, leaving Bitcoin users with worthless currency.

Watch out for other ideas involving alternative currencies. One startup in the corporate world is ECO Capacity Exchange, which helps businesses convert unused capacity into units of exchange for other companies' products and services – essentially a 21st Century barter system.

Travel is one of eight sectors in which ECO looks to facilitate trades, potentially allowing hotels one day to trade unsold rooms for other travel expenses, like flights, or everyday purchases, including gas and electricity.

Onyx closely is monitoring distributed ledgers (a secure system of digital data shared across institutions around the world) that use blockchain technology as an area for future applications.

ONYX'S OWN FINTECH SOLUTION: **PAYROUTE**

Onyx CenterSource is a fintech company, too. In addition to facilitating commission payments between hotels and travel distributors, we offer other payment distribution options. Our [PayRoute™](#) service is an effective payment distribution alternative for all kinds of business-to-business payments and can be used by travel distributors and hotels alike to make payments to anyone, at anytime, anywhere in the world.

PayRoute is an alternative to paying suppliers on a transaction-by-transaction basis using checks, real or virtual credit cards or wire transfers. You just outsource the process to Onyx. We settle electronically with each of your suppliers weekly and, in turn, invoice you for your total outgoing payments in one transaction.

Key benefits include:

- Lower costs than other forms of payment.
- A high level of security, efficiency and transparency.
- Reduced administration allows your staff to focus on core business activities.

Examples of how PayRoute can be used:

- Hotel chains: Forward payment for pre-paid bookings to your individual properties.
- OTAs: Forward payment for prepaid bookings to the hotel.
- Travel management companies, or TMCs: Settle up with service providers, such as destination management companies and ground transportation vendors.

The digital payments revolution has begun but still has a long way to go. Some technologies being touted today may not last, and many other new innovations are sure to come. Our advice: Keep watching developments and look for the right place to jump in. The potential to improve your business by cutting costs and automating processes is enormous.

Onyx CenterSource is the world's leading provider of hospitality technology for commission payments, reconciliation and recovery solutions for hotels and travel distributors.

For more information visit onyxcentersource.com.

