



FST Payments Roundtable

If there is no cash, then what are banks for? Our panel discuss the future of payments and gaze into the crystal ball to predict the ways in which traditional banking will change as customers seek new payments methods

ME The first credit card was used in the UK in 1964, the first ATM in 1967, the first online transaction was 1983, and mobile payments – nobody seems to know! What types of innovation are we seeing in the industry now?

DH I'm going to wave my iPhone in the air. From a payments perspective we need to consider what consumers and corporates want, and this for me is an example of a key innovation at the moment.

AS I tend to agree the iPhone, as an application or as a means of connecting us to a bank, has all the potential to replace a brick and mortar branch.

JW Is the iPhone the key innovation? I think it is because it supports all of the different online models that are currently out there.

MF And also you can take into account that at the moment only about 80 per cent of consumers actually do internet banking, but almost all consumers have mobile 'phones.

AS If you look at the developing economies mobile penetration is significantly higher than Internet, for example in India, mobile penetration is at least four times more than Internet.

MF And the same with Africa.

DH Everywhere you go in the world payments and mobile are synonymous.

MM We're agreeing that the mobile brings benefits to consumers, but what we now need to address is who's going to seize those opportunities. If we're not careful the banks may miss out on this business opportunity as has been the case in Kenya where a mobile operator has stolen the market.

MS If you've got that scenario, the banks are going to have to align with the mobile 'phone companies.

DH Why is Tesco offering iPhones in its mobile space, because it's part of the grand strategy being played out around a core model of trust and convenience. As to the point you were making about the banks wanting to partner with telcos, why would telcos want to partner with banks? Do they actually need them?

JW I think the thing that is so often overlooked when we talk about mobile payments is the clearing and settlement that sits behind it, and until you've got that clearing and settlement controlled then all you have is a channel. As banks we are specialists in handling settlement risk, and I wonder whether many mobile companies would want to

be using their balance sheets to manage the associated settlement risk?

DG I believe that the outlook for white labelling is bright.

DH In a previous life I remember we were looking at the strategy for multi-application smart cards and the long and detailed debates about labelling and of card hosting – even down to how did you get the right logos on a card and which would have precedence. That whole question is now being writ large again: who owns the customers? Who owns multi-channel and how do you partner with the right people to ensure that you keep, and in some cases rebuild, your relationship with customers?

AS I think what we want to do here is build an ecosystem where a bank works with a telco, works with people like Google and Paypal, works with software providers and works with hardware providers like a Nokia or Apple. Where the ecosystem is partly self-regulated, but there is some regulation around it in terms of risk management. I think that is what is needed for this to get to the next level.

MS One of the tensions I think that's going to come out is that quite often the mobile 'phone companies aren't regulated.

AS In fact, the central bank in India and a few other countries have already come out with a set of mobile banking regulations clearly defining the boundaries within which mobile payments can function. These guidelines state amount threshold, risk management mechanisms, KYC regulations etc. More and more if you

Attendees:

Mark Evans – publisher, FST Magazine (ME) (Chairman)

Marie Fallowfield – global payments, Barclays (MF)

David Gaselee – vice president, product manager core cash, JP Morgan (DG)

David Hannam – managing consultant, financial services, Fujitsu (DH)

Mark McMurtrie – marketing director, S1 Corporation (MM)

Mark Silverstein – deputy head legal-global transaction services, Citibank (MS)

Anupam Sinha – director and head payments market management, Citibank (AS)

Jonathan Williams – director of strategic development, Experian Payments (JW)



look at terrorist financing, it is the small ticket item that ends up there, so the central bank has to be very, very vigilant on this.

DH So do you think they are ahead of the curve or behind the curve depending on where the banking system was at the time?

AS I think at this point in time it's ahead of the curve because India is moving directly from paper to PIN solutions like mobile. So it just jumped from one position to another position and that's where it needed some risk management framework and it's come up with this mobile banking regulation.

ME What surprises me is that nobody's mentioned a branch network as a differentiator – Tesco has a lot of bricks and mortar around the country. Where are you going to go to take your money out? If we think there is life in the ATM?

MS Well, as long as there's cash...

DG One of the interesting statistics I've seen is that people are using ATMs more frequently, but often taking out smaller amounts of cash,

MM Well there has been fundamental change in the ATM networks, not least the fact that the majority of ATMs in the UK are no longer placed by banks, and secondly that the ATM is no longer only offering a cash withdrawal services. In essence the ATM has become a self-service device which can offer multiple financial services, although cash withdrawal remains the most widely used.

AS Do we think that ATMs will still remain a combination of a self-service device and the means of withdrawing cash? I think with the iPhone possibly the only reason why you would go to an ATM would be to withdraw cash, and how long will cash still be used?

MF I don't think the demand for cash will ever go away, but I do agree with you that as technology evolves to give people more access through apps that they will use the ATMs less for additional services and just for actually withdrawing cash.

DG What is potentially being offered by these ATMs is something that you can do on the internet anyway – but the one thing you cannot do on the internet is get cash out of the screen or off the printer. Cash is one of the few things that doesn't have a barcode. So I think that ATM is still going to be important and as the branch network becomes more of an advisory selling space, rather than a transactional space, it's going to become more important. ATM usage is not going to fall off quite as much as we think.

JW I think there's an interesting parallel if we look at BT's problem with payphones: they had a huge payphone network which has seen a tremendous decrease of usage over the last 10 to 15 years because everyone has mobile 'phones. So the challenge for BT is probably what else can we do with the payphones or should we retire them and sell them off as historical gimmicks to small villages in the Cotswolds. So the question is with the ATM, are we going to get to the same stage where the ATM is sitting in this wonderful historical museum on the high street?

MF Well it's always going to take time because look at how long it's taking to phase out cheques. I think it's only planned to be done by 2018! Customers like to hold on to their known or preferred method of payment.

AS And if you look at any payment instrument it needs a generation to fade.

DH Culture is all about how comfortable people are making and accepting changes, and each generation

will have early adopters and some people from each generation will catch up, but if you go to other countries and look at how they use ATMs there are some very interesting differences. In Spain, one of our customers has 200 different functions ranging from selling tickets for football games through to theatre. They are pushing back office services out to the high street and cutting costs.

JW That ATM hardware is very secure and the bank can trust what's running on it whereas potentially on the iPhone or on the PC at home you have much less control over the hardware. The question is then: if the ATM is a secure platform, then will there always be things we need to get right and run on it? It goes back to the trust between the bank and its customer; if we stop listening we will lose that direct connection when we're just dealing with iPhones.

MM What we've found from working with many banks from around the world is that content relevance is the key factor. It's relevance to the service, to the place, to the time, and to the channel. You may have similar content offered on an online banking systems and mobile banking service, but what you need on the move and what do you need when you're at your desk or at home are very different. The most popular mobile banking functions are used for checking account balances; an ATM locator; and directions to the nearest bank branch.

AS It's also the banks that aren't very sure about the security of the entire chain at the moment and would you want a £10,000 value transaction through a mobile? I want to see how things work; see what a hacker can do and see if there are people who may misuse the technology. When the security of the entire mobile initiation device improves then it will increase the value of the transaction.



MM If you're saying that it's about managing the risk, perhaps that's one factor in the slow adoption rates for contactless cards.

DG I think that sometimes, as payments professionals, we get excited by all the supposed choice, but actually you're guided by the transactions that you're making, and what your counterparty will accept. Additional payment methods generally mean greater costs to your supplier. So when I look at my bank account the vast majority of payments are either pull payments [Direct Debits], or card transactions. We need to remember that there is always another underlying transaction and we should not see payments as the means to an end. We must be anchored in the real world, understanding our customers' needs.

ME We've spoken a lot actually about consumers here and what's the alternative for consumers, but what about the corporate customers?

MS One tension is going to be that corporates are going to be keen on becoming more efficient, centralising things, and getting better systems in place to manage their money, but that costs money, and are they going to want to spend the money now to do that if they're in a recession?

MM The corporate banking client appears to have a much higher priority at the moment. In order for banks to retain their best corporate clients they are needing to ensure their payment systems supply the services expected and are easy to use.

MS But are the corporates actually spending money upgrading their systems? Any new cash management arrangement with a bank will require system integration work between the corporate and their bank and that does cost money. You have to invest quite a lot of money for that integration work

to make it happen and therefore it is critical that the corporate believes they are getting good value for that investment.

AS But what we're seeing is a lot of these corporates are not investing because they're getting better pricing from a bank. What they're looking at is more risk management; so for example, if they're centralising they've got a standardised process across multiple countries. So it's more around risk management, more around centralising the processes and standardising it which is key in the corporates' minds.

JW I think that's absolutely right. I think the problem we've had in the boom years is that everyone's focussed on generating more revenue; how can we make this money work better for us, whereas now it's slightly leaner. We're willing to go and spend, but we need to see a return on the investment within the first year and that's the challenge for the corporate treasurer.

ME And so to security....

MM What has changed is that criminals are getting more sophisticated every year. The risk is growing and there is an ongoing issue to always stay one step ahead of the criminal rather than treating security as a one-time IT project.

JW Absolutely! I was at an industry online security seminar a few months ago and one of the assumptions was if you're dealing with a PC or a phone you have to assume it's been compromised.

ME Now you have the ubiquitous platform, by sheer mathematics you're going to have more people studying how to hack things and therefore more potential fraudsters. Asking for a universal platform is great in one respect; on the other hand you are asking for more problems.

DG One of the broader challenges for the industry is that service providers offer such a broad range of channels to customers. I think there's going to be a lot of change in UK retail banking over the next 24 months, and we might see some institutions emerge who do not have the legacy channels and who can focus on securing the limited number of channels that they do offer in a more cost-effective manner.

DH And the thing that we need to do as organisations and groups working together is the back office integration of all those channels to provide the oversight and the integration and the security.

DG The problem is that, as an industry, we have just got legacy systems layered everywhere! However JP Morgan now offers a service which facilitates access to over 40 local ACH systems through a single platform.

MM It's almost impossible to bolt on security afterwards. Security has to be built-in at the beginning, and so perhaps a lot of things need to be rethought and refreshed in this new multi-channel always-on world.

MF Unfortunately security built into systems cannot prevent the consumer from volunteering information on internet applications like Facebook.

MM There are three arms to security: you've got technology, you've got process and you've got people. Process and people are always the two weaker links.

ME Shall we move on to regulation? How do organisations respond to the challenges, and how many more are there going to be?

MS Well I think in terms of SEPA and the PSD, a lot of work has been done. PSD has been more or less in place since 1 November, but I think there



will be some bedding down, leaving aside the fact the various countries haven't implemented it. In terms of the impact it depends on the type of bank – if you look at primarily a retail bank I think the impact has been very big in terms of documentation, transparency, processes, liability. If you are mainly a corporate bank the impact is still there, but it hasn't been as great.

DH I think it's also an economics thing for the banks – can you actually afford to carry on what you were doing as it is now costing you to do a payment on behalf of the customer.

MS In certain markets in certain places that's probably right.

DH So there will be people looking how the heck do I get out of this and, crikey, what does that actually mean for me as an organisation? Am I still a bank if I don't do SEPA payments?

MM This comes back to a fundamental question banks needs to determine: what's the core service they provide, what needs to be done in-house and what can be outsourced to a service provider.

MS It's interesting because when MiFID came in there was certainly a lot of talk that this is going to change the market and there's going to be more banks outsourcing their processes to other banks that are compliant, but I don't think that has really happened. I do wonder whether it will happen with the PSD.

JW I suppose the question is will we know in the next two or three years what the PSD really means for each of the jurisdictions, or do we need to see the court cases before we actually really know?

DG We've seen different interpretations of the PSD at different institutions and in different countries,

especially in relation to bank charging practices. We are currently working with the banking industry to drive towards a common interpretation and help develop market practice.

AS I think that's starting to happen in the sense that banks are talking about the various charge codes used between banks. I think it's the ongoing that will take us to the next level.

DG We do need to remember that the vast majority of payments are domestic, and this is unlikely to change in the short term. This is particularly relevant to the UK which is a Euro 'out country'. Therefore I believe that the interbank implementation of SEPA needs to focus much more on insulating clients from unnecessary change. However, for many corporate customers, SEPA offers many opportunities.

MS I do think that with SEPA that the only individuals who this is going to be of interest to are the people that have holiday homes in Spain and want to have their bank account in the UK.

AS I'm not sure about that Mark and, coming back to your push point there, I think the reason why SEPA's not touched consumers or individuals like us is because a Telefónica in Spain would collect locally. When we start seeing these people centralising in to a single payment account structure over the next few years, where you've got a lot of companies who are operating across multiple countries they will see the benefit of having a single account in a single country, then possibly we might be paying our Direct Debit over to a SEPA direct debit.

DG The thing is that's the pull payment isn't it? What I'm saying is who is the person making the choice as to how I make my payment?

AS For example, I'm not set up on

Direct Debit for my O2 payment. I need to just make a payment when I get the bill and if that account is a Telefónica account out of Madrid, then I'm making the decision of making a payment from the UK to Madrid.

DG Until we see full reach in the Eurozone, many potential originators are going to be reluctant to migrate their Direct Debits from domestic schemes to SEPA. Eurozone banks are mandated to be reachable by 1 November 2010, so assuming that it is successful, there ought to be a single Direct Debit scheme that works in 32 countries.

MM This takes us back to our original discussion around mobile – and about the need for a banking licence.

DH Indeed and if you've got that situation you've suddenly got a whole new bunch of people playing as financial institutions and you start saying, well, crikey, the iPhone is now the new merchant terminal. Suddenly any corporate can be a financial institution.

MM And I predict that most of the major telcos across Europe will have a banking licence within ten years. The same will apply to all the retail groups as well.

MS And do you think it will be a banking licence as opposed to becoming a payment institution?

MM Probably they'll take the payment institution route as this is easier to achieve.

DH And I would ask whether making monetary payments is actually the issue; it's actually the ability to move money around and to collect money from your customers – back to trust and convenience – that makes these people want to take advantage of the new systems and regulations.



MM Or is it not just to get closer and have more control over a customer?

AS I think that is the point. In fact I was reading an analysis which was done as to why telcos are getting in to the payment space and primarily more than the revenue that it brings; it is the reduction in the churn that makes it attractive for mobile operators to enter this space.

DG So it's stickiness!

ME Not just that, it's also about getting the information.

MM This is why Tesco has been so successful in retail because it understood the value of the CRM system so much so it ended up buying out the supplier providing it. That is why it believes with that knowledge and the insight into its customers it can make a very strong push in to the financial services sector.

ME Can banks use information in the same way?

MS No, the culture's different. Banks have always had an obligation to treat their client's information as confidential. That to me is the tradition, I know individual's attitudes toward information and its use is changing, but that's where banks have started off from.

MM Well wouldn't a customer prefer their bank to know about them, relate to them and tailor its offer to them?

MF I think that depends on the customer and the choice should be given to them. Some customers are more security conscious than others and the right to be protected should be respected.

MM One of the leading banks in the Middle East uses that customer knowledge to push offers specifically

to that person via the ATM network. This content is tailored by gender, by their age profile, by their location wherever the ATM is, and the time; and the success rate is phenomenal.

MS It is interesting because I must admit, while I'm quite happy for someone to know what brand of baked beans I buy, in terms of my financial information, I wouldn't particularly want that to be known.

ME But the banks already know!

DG I think it also comes back to the ability to use that data. That's the really important thing. The industry as a whole has found it difficult because so many institutions have a plethora of legacy systems.

DH The Bank of England and the FSA focus on the Deposit Guarantee Scheme and producing a single view of that customer's deposits with you. It's a phenomenal challenge, but what a great opportunity to address the legacy systems issue and turn a compliance cost into a business benefit... unlocking the power of the data in your enterprise.

DG Yes, and the challenge will be to build a solution that does more than just meet the compliance requirement, but which can be used for other purposes as well.

Summary

ME We'll go round the table and just very quickly summarise your thoughts on this evening.

MM There are so many opportunities, and technology has a huge role to play, but investment in systems will be required to achieve these benefits.

DG I'd agree, and we must spend more time focussing on what it is customers want and how they're paying, and

remember that payments flow as part of a wider transaction.

DH I started with the iPhone and I'll end with the iPhone. I hope the banks wake up and recognise that they need to be on the ball and that it is customers, both private and corporate, that will drive the agenda.

AS I'll agree with David. I think the iPhone and similar instruments will become your *de facto* bank interface, replacing branches in time to come. The other things are that client needs are of paramount importance and we should look at how regulatory changes can be leveraged to derive further efficiency for our clients.

MS Carrying on with the regulatory theme, I do think that the wild card is what the regulatory landscape is going to look like in a year or two's time. Not so much from a pure payments perspective, but on the broader things like liquidity.

MF In addition to that I think there's an opportunity for banks to meet up with mobile companies and the retailers of the world and see how they can work together at making payments easier for customers. That said we have to ensure that all usage of data is done within the boundaries of data privacy laws.

JW In pretty much all the points we've talked about this evening, data is actually the key, whether that's the identity of the individual or whether it is information on fraud prevention. But at the moment we are dealing with a number of silos of different information. I think pooling that information will get a better picture of each of the customers and we, as an industry, will be in a much better position to make our payments more efficient.

ME Thank you.