Great Expectations

The FST Payments Roundtable, chaired by Charles Bryant, considers the development of technology, and the future role information will play in payments in light of SEPA and the UK Faster Payments Scheme

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The Logic Group manages information and transactions securely for large and medium sized businesses across its European home market. www.the-logic-group.com

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Albany is a respected member of the European Banking Association, the European Software Association, and the Payments Council, and has been developing software to transform the delivery of documents, data and funds, providing a portfolio of integrated software solutions to meet the needs of businesses.

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Now a part of Fidelity National Information Services, EFD is a payments solutions company that provides business advice to make better new account decisions, improve fraud detection and management and streamline payment processing.

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CB: As a start could I suggest we stand back and talk about the customer value propositions in today's payments market.

RW: One of the key issues at the moment is that banks seem to be struggling to find new ways of achieving revenue returns out of a business that is under attack - sometimes externally, and sometimes internally. Underlying everything we are talking about is the fact that banking is moving away from being a transaction business to being an information business, because it is out of that information that you can find new revenue sources.

CB: Do you really think that a focus on pure transactions delivery has gone away then?

RW: No, but the focus of the actual business and the business model is the data.

GP: I agree, and you are probably going to say that we are rather preoccupied with engineering the core capability. So maybe you are highlighting the discrepancy between where the demand lies and what the industry is focussed on.

IG: I think it is the 'person on the street' who is going to have power, because ultimately he decides who he trusts, and who he gives that information to. If you are basing yourself on a model of 'information is key' rather than a transaction itself, then the question is how do you build an element of trust with that consumer, and your merchant, and then how are you going to use that to give added advantage to the bank?

CB: But you could put a counter argument that the transaction requirement of corporates and individual customers - what people want - is efficient, timely and effective services. And some of these more esoteric information-based concepts are actually a struggle for an increased value, only because of a perception of an erosion of original transaction value.

IG: It just depends on where you think the competitive advantage is going to be - and a faster more efficient transaction profile gets you to the base line, but then how do you compete with the other banks, and other rivals, to provide that information back to your consumer, which might be a merchant or the guy in the street, to make him loyal?

DC: The point is who actually needs the information? And then the question becomes 'do I trust the merchant?' Do I trust Tesco to do the transaction? The fact that they have a bank behind them is not a relationship that I have. So the bank becomes the mover of the transaction, but if it has that added advantage of more information that I can use to make my business better, then that gives you a value proposition: if you (the bank) can give me more information in the transaction than others can, then that's why I moved my business in your direction.

GP: And are you viewing the bank in that model as a packager essentially?

DC: Yes.

RM: My view is that there are two distinct client segments here. One is the consumer, and then there are the corporates, and the requirement for information is far more complex on the corporate side. As consumers, how often do we really go into an internet portal to check whether a payment has gone through? That is a trust I have in my bank to make that payment on my behalf and that I am not hit with any late payment fees. When it comes to treasurers that is where information starts becoming king. Corporate banking does not allow you to make a lot of money by just making a payment or a collection on behalf of the corporate client. A lot more value is locked in the information provision. I personally would not be surprised if in 15 years time we stop calling ourselves cash management and we start calling ourselves information management. No surprise whatsoever.

GP: Agreed

RM: And we are seeing that happening even today. A lot of customers, the most innovative customers who lead the way, we see them coming and asking us for richer information streams.

RW: It comes back to the issue of focussing on the transaction, and I think the problem is that there is a tendency for banks to fall back into their old ways, and I say that as an ex-banker. They talk about straight through processing; a lot of that is straight to paper, another piece of it is straight through processing from their front door to their back door ignoring that 85 to 90 per cent of that transaction is outside the bank. You need visibility, the end-to-end business process, and I say that even at the consumer level, because if you go and order a book from Amazon you can track delivery of your goods, and you expect that visibility of that transaction. That has become an expectation. So if the banks are seen to be holding that response up, it doesn't do them any good.

CP: We can see that banks are able to trade our shares on an exchange in milliseconds, and yet somehow it takes days to process a payment. Now we can't understand really why there is this break in an STP chain where all of a sudden we are using one measure for something that has risk, is international and takes technology and has problems, and the unit of measure is days for a simple payment.

CB: Wouldn't that sway toward the argument that until some of these transaction processes are more perfected, the treasurer might turn 'round and say "I don't need this information, until you can make these processes work a little more effectively"?

CP: I think it's a little more than that, it's taken so many years to get to the point where we are measuring it in days rather than weeks so there is a question of the will of the banks to do it. If as a corporate you put minimum value on the ability to actually process a transaction because it is not being done effectively, then clearly a bank has to look at something else that does add value to the customer, which has to come from the information side, which again is something that corporates are not particularly well served with.

ASJ: I think they go hand-in-hand: the transaction is the core of this and the information from that transaction is essential, and the faster we get at moving those transactions around, the more important that information is.

RW: Because essentially a transaction is a package of information.

Expectations

RW: Can I just mention something else? We have mentioned trust. Isn't general trust in the banking sector under threat? People don't trust banks to do what they expect them to do. I never expected to see a TV advert from a UK High Street bank actually focussing on selling trust as a piece of its brand - as a lifetime banker I never expected to see a bank having to respond in that way.

GP: But there are two kinds of trust aren't there? There's trust as in what the client is expecting when they pay their money in, and there's trust in terms of the risk management component. I don't think people have lost trust in our ability to execute our core business.

RW: No, but there is a discomfort that some of the expectation of about the level of service that comes off the back of that transaction is not being delivered, and also there is the lack of trust that banks are keeping the customer's requirements in mind when they make changes.

RM: When it comes to SEPA the expectation of a corporate is that if the European banking industry is introducing this brand new all singing, all dancing scheme, then why can't it be like some very efficient countries, such as the Nordics, with same day settlement? In some ways the answer to that is that it is not one, three or ten banks sitting around a table to create a scheme like SEPA, it's a huge membership with differing cultures and differing market practices, and we are looking at very different market practices that vary from five to seven day clearing cycles in Southern Europe and same day two hourly clearing in Northern Europe. The banks are coming in to agree on a scheme that is workable to start with for all of the banking industry, and just like Faster Payments that comes with limitations, but that will change. I guess what is happening here is that the pace of change may not be to the corporate's expectation.

CP: I think that because there is an increasing awareness of technology across the whole market, from the retail customer to the corporate, there is an expectation that routine things 'just work' and payments are treated as routine things. The reason why processes take such a long time has never been adequately clear to corporate treasurers. For example, if I am sitting on the beach in the South of France and take my mobile phone out, and type a number into it I can talk to someone in the UK instantaneously. If the mobile phone company said "thank you for calling, we will ring you back in three days and you can talk to the party you want to talk to" then things would change extremely quickly. And I think we're going back to the word "trust", because people don't understand why there is a delay.

CB: I'd just like to make some observations: Of course, when we talk about information that does lose the point that there is value passing and I think that if you do say that payments is becoming an information business you are running a huge risk of forgetting the fact that there is a value transfer, and therefore it is not like a phone call, and I have spent three years in front of the European Commission Internal Market Division explaining this.

CP: But if you take a value transfer concept for example, when I'm sat in the South of France using my telephone to ring home, there is value transfer from my account with SFR Téléphone through to BT Mobile, there is an instantaneous transfer of accounting information.

CB: Let's be very clear, the SEPA schemes do not proscribe value dates. So if someone wants to pick up that rule book and make a payment within an hour that is within the rules of the scheme, and no community I know of is planning to regress timeliness when they migrate from current domestic payments into SEPA. It's just wrong to suggest that the SEPA scheme will slow up the payments, and on top of that the Payment Services Directive has given all the banks until 2012 to bring it down to one day.

DC: There's a difference between the rulebook and what's happening out in the market. In terms of the systems that are actually in place, they are not instantaneous. Technology can make them instantaneous, but there doesn't seem to be that appetite to make it pan-European.

PL: You are making it instantaneous within membership.

IG: Doesn't the basis of SEPA seek to make a truly competitive environment by creating a level playingfield? As improvements come in; Faster Payments and perhaps understanding information that has value and that is contained in the transaction; then the better the chance you have of retaining business.

TM: I think we have all been dancing on the edges, there is a cultural expectation that things will happen in real time, and there are an increasing number of examples that everyone can

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point to where you can get instant gratification, you can go to iTunes and get your downloads immediately. When people match those expectations against what they see in their banking space, then they say 'there's something wrong here'. Faster Payments is revolutionary in the UK market, and on top of that there will be convergence between these types of real time payment systems and the other technologies, so you will see real time payments going onto mobile telephones.

IG: Coming back to the trust element of this, when you breed trust with your client or consumer, you actually breed loyalty, and Generation Y are using mobile devices as the interface for that loyalty. That's interesting in how it shifts the dynamic between the merchant, the bank and the man on the street.

Connectivity

ASJ: I think connectivity is something we should raise at this point. The banking industry is putting lots of pieces in place, but unfortunately we seem to be missing a very big trick in connecting people to them. Large corporates can get connectivity, but smaller or mid range corporates want to make transactions, they want to take advantage of the technology, and there is no consistent way to do this.

PL: Whether the industry is moving in the right direction will vary massively depending upon who you speak to. The average man on the street who wants to make instant payments and get instant gratification has created alternatives alongside banking in order to do that with things like PayPal. When you get into an agency bank arena or small to medium enterprises there is abundant ignorance of both what is coming or how to do anything about it.

CB: What is being suggested here, both from a connectivity and a propositional point of view, is that at the high end quite a lot is going on because the big customers have the leverage, and at the bottom end the consumer gets a reasonable deal, but in the middle there is a gulf. Is that right?

RM: Concepts that catch fire with large corporates slowly start percolating to the mid-market corporates. A lot of stuff spoken about ten or six years back, such as payment factories and shared service centres, which were a given for the FTSE 500 clients segment, we are now beginning to see happening with our mid-market clients. On the consumer side there is a lot of innovation; a lot of regulation starts bottom up, and starts with the consumer. So I see a huge convergence in terms of banking services offered to the customer, whether it is connectivity, information or formats.

ASJ: But why is that? The high end corporate has quite a lot of power to drive down costs, so not a lot of money is to be made there. A lot of consumers expect everything for free. My question is whether the small to medium sized sector is a good place to be for banks?

RW: We have had some discussions, it is inappropriate to mention with whom, but in the SME space cash management and payments is not something they do as their mainstream - for them even Sage looks a bit like SAP. Perhaps Microsoft should be here to help the SME user base get the value out of the things we are talking about?

GP: It's a bit about standardisation. The large corporate has a menu, you pick what you want, at the consumer end you have a choice model - I'll choose the standard I like. In the middle you need a standard to make it work.

CB: Is standardisation the key? Because this is an area where banks are generally very protective of their value proposition and see connectivity as a part of that.

GP: And the point there is that banks need to differentiate themselves in a competitive and consolidating industry.

CB: Surely it's the price, the relationship, the service and the products rather than the connectivity itself?

GP: Well I'm not purely thinking about the connectivity itself but the processes that lie beyond that, and how corporates standardise how they use what you give them. So it's not easy for them to change - there is a stickiness in that which might be unintentional, but it's there and we can all see that.

PL: All the SMEs have the same process issues, and connectivity is not a major inhibitor, it will become commoditised, it's the process that makes things sticky.

KW: The regulator has said that we must have transparency, we must have equality across all markets, and, looking at this from a marketing point of view, that gives us a great opportunity. If as a consequence we have some degree of standardisation, then the banks can then offer value propositions as a step to the next level up, to the people that fell between two stools in the past.

Developments

CB: Now let's come back to some developments; SEPA, mobile and retail developments and so on and ask if these can address some of the issues we have been uncovering? Are they the drivers of change towards the banks' propositions and offering to the customer?

RM: I think it's a big yes. Whether it is the new schemes we are looking at or the new service provisions. As a bank, we would not be investing in this unless we were absolutely convinced that we would be able to sell this to our customers, and that our customers would see an enhanced value in buying these services from us. In terms of the schemes we are like the first model of a car: you buy the first version and you rather think you should have bought the third version. All these schemes we are talking about here were talked about from around 2000, and I think it may not appear immediately promising to start with, but if we were having this roundtable in 2017 we would see how it has changed the landscape.

DC: Don't you think these schemes are opening the market up to non-banks? We talked about trust, I trust my bank with my deposit, but when it comes to the transaction side anyone in this room could give me a credit card and I'd use it. I, Tesco, have the trust of my customer base, and the ability to change the whole market dynamic. You are trusted by holding the funds, because you are the bank of choice, but the actual transaction bit - I don't really care who does that as long as it happens.

GP: But aren't you describing branding? And you are not doing a transaction, you are branding a transaction.

DC: I'm going to whoever gives me the best connectivity into Faster Payments to initiate a transaction - it comes down to pure cost.

Expectation

CB: Let's come back to this from where we started, the customer expectation, will these schemes - Faster Payments and SEPA, help you meet customers' needs more effectively?

GP: Well, they are positive in the sense that we have started out on a rather long journey. I don't think these are the endpoints, they are the starting points.

TM: They are important components, but in a sense they are hygiene factors when it comes to the competitiveness of a particular bank.

CB: In a network industry they are essential building blocks, but they don't tell you the whole story. So are banks going to be able to create, on the back of Faster Payments or SEPA, compelling products when coupled with their own capabilities?

TM: Absolutely. We did not enter Faster Payments because of the OFT, we were not under that regulatory pressure, we entered as direct members to create innovation. So one example of a proposition is mobile Faster Payments, the ability to be able to text someone money within 15 seconds, that proposition will be live in the UK next year, no doubt about it. So Faster Payments is a great enabler, you layer mobile technology on top of Faster Payments and you get a very compelling consumer proposition. Another example is iDeal in the Netherlands which in a very short space of time has taken a very high proportion of online payments, Faster Payments will lead to exactly the same phenomena in the UK market, so Faster Payments is transformative.

CB: In order to make iDeal happen, which was amongst a relatively small group of banks, they had to build a scheme on top of a scheme. Once the UK Faster Payments infrastructure scheme is in place, is there is an intention to allow web shopping? Will I be able to just get a bank portal to open up, and I launch my payment, without cards or details?

TM: One area is in terms of cheque substitution. Rather than paying a tradesman with a cheque you will do a mobile Faster Payment, so they will have the money in 15 seconds. So that's another example of how one of these kinds of elevations could move into the SME market.

RW: This is the issue of exploiting available and appropriate technology: everyone carries around a mobile phone, which gives them a means of communication and a means of identification.

KW: And available markets too.

CP: I think people now have a much closer and more meaningful relationship with their mobile phone operator than their bank. Is the mobile simply a channel where you can leverage the existing infrastructure or is this a different infrastructure?

DC: I think you are seeing that today, a payment is payment, they are all coming together on the same infrastructure. Those sorts of mechanisms mean you get the channel that suits the person best. Mobile phones are probably not the next technology to come on - you look at the iPhone most of the calls that are on that will be Wifi calls, internet voice over IP.

RW: This is why people like Intel are now spending a hell of a lot of money looking at how they embed mobile technology into chips which can then be put into anything.

DC: I think we are in that great space of real consumer change in how we interact with our banking organisations.

Co-opetition

CB: Is there evidence that banks are working together to create customer-centric propositions or are they confining themselves to traditional inter-bank schemes?

TM: I see it happening, and I see no ideological reason that it shouldn't. All of the banks live in this state of what they call 'co-opetition'.

CP: In a situation where the banks got together to build an infrastructure, is there also a situation where other infrastructures could provide a service for everyone? We are launching Secure Mail - could a bank say it's not worth us doing it ourselves? Because today there is that feeling that every bank wants to do the same thing but in its own way.

TM: There are lots of places where banks think they are generating competitive advantage where they might not be; secure mail might be an example, electronic banking is another. It's a kind of madness that every bank has its own electronic banking platforms.

CP: Something banks have said to me is that 'we have already sunk money into a solution of our own, we don't want to spend more money to get a more efficient solution'.

RW: An interesting use of words there, you were talking about an efficient solution. You can do the wrong thing very efficiently, and get satisfaction, but what we are looking for is new effective solutions. Isn't that the challenge?

RM: Banks are probably more open to partnerships now than they were ten years back, and when I talk of partnerships I don't mean between two banks, it could be between a bank and another bank, a bank and a non-bank within the financial sector (like ACH), or a bank and an IT vendor. As banks if we find that, for example, BT's Secure Mail has a value that we can offer to our customers without needing a hundred people to develop it for us, then we'll do it.

GP: Exactly, and the other issue is that the proposition now requires multiple core competencies, which generally cannot be housed in one institution. So you have to get all the expertise together and you have to cooperate.

RM: And just one thing I would add to that is that it is almost like a whole ecosystem which grew around the iPod - Apple did a very smart thing by letting all the downstream vendors and service providers develop the speakers, the FM transmitters, and you name it. Banks are getting there.

CB: And what about branding issues?

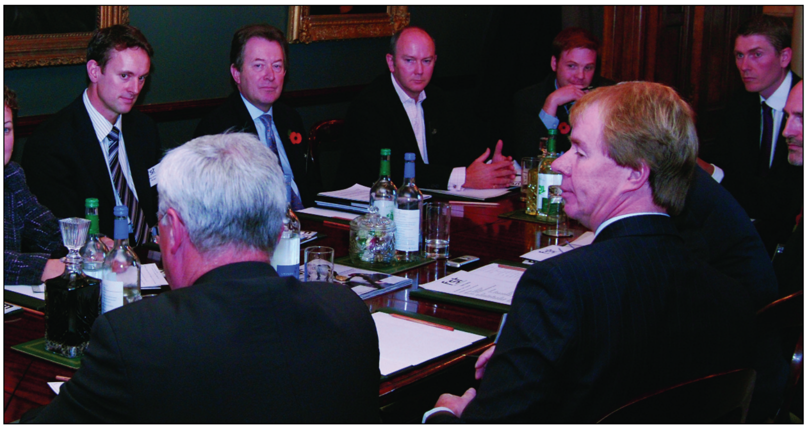
GP: I think most banks look at it from the perspective of the brand risk, and so there isn't a rule; some things you may feel more comfortable with and some things less comfortable with.

CB: iDeal again was a very good example.

TM: It's actually in competition with other facilities that the banks developed collaboratively. We come at some of these infrastructure developments from a geographical perspective, but the clients that we are plugged into are driven by glob- alisation. What sense does it make to talk about a UK company when they have a factory in China? Business is becoming global, becoming virtual, and these region initiatives are nice but very much steppingstones into a bigger picture, which is the need to transact business in a real time on a global basis.

DC: If we look back five years could we really imagine a 160 Gb iPod sat in our pocket with streaming video on it? As a payments industry we are at the stage similar to the introduction of the Walkman. It's a goodtime to be in this industry at the moment.

CB: Thank you all very much for sharing your thoughts on payment developments.



Information on schemes mentioned in the article

iDeal is a recent Dutch real-time banking payment method. When a consumer places an order on a merchant's website, they may select their participating bank and then is redirected to their familiar banking website. The consumer is then asked to follow a few steps in order to authorise the payment. The payment is processed in real-time, and then the consumer is returned back to the merchant website for final confirmation of a successful payment. The banks involved are ABN AMRO, Rabobank, SNS Bank and Postbank. iDeal is now used more often than credit cards for online-payments in the Dutch market.

UK Faster Payments is the ongoing plan to develop a new infrastructure to speed up internet, phone and standing order payments. The new system enables customers to make a payment that will reach the recipient's bank account within a few hours.