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FUTURE of PAYMENTS

How will the UK pay and go?

It is a milestone year for the payments industry as customers seek greater flexibility over how they spend their money and various forms of payment compete for supremacy

◆ OVERVIEW

● NIC FILDES

It was the best of times, it was the worst of times... this quote from Charles Dickens could sum up the payments market in 2015.

On one hand, consumers appear to be warming to alternative forms of payment with wave-and-pay and mobile wallet services starting to gain ground in the UK. On the other, some of the emerging names in the sector – notably Weve and Monitise – have skidded in the rush to become the de facto standard for mobile payments. PayPal has parted company with eBay and Visa Europe looks set to be swallowed up by Visa, its American sister company, which could usher in a period of uncertainty if some of the banks that own the European company attempt to stymie a deal.

All of which paints a tough backdrop for any company hoping to tap into the future world of payments. Questions about security, consumer behaviour and the pace of change at the technical level are surmountable, but picking the right horse looks more difficult than it did a year ago. With Apple and Samsung set to join the long list of companies offering payment systems, placing the right bet may never be harder.

Deloitte has predicted that 2015 will be a turning point for near-field communications (NFC) technology, something of a white elephant in the mobile phone industry. NFC, the technology used for Oyster cards on London's underground and buses, has been embedded in smartphones for years, but it was miles ahead of consumer behaviour. Only 2.5 million people with a NFC-enabled phone used it to make a payment in 2014. Deloitte believes the number will boom to 30 million a month this year.

Add to this the prospect of wearable technology such as the Apple Watch being used to wrist-swipe payments at the till and the picture gets even muddier.

> “The evidence is mounting that consumers are voting with their feet when it comes to traditional payment methods

Nevertheless, 2015 is still shaping up to be a defining year for the payments industry as consumers and businesses not only seek more flexibility, but also more control in terms of security and transparency. Statistics may mislead, but the evidence is mounting that consumers are voting with their feet when it comes to traditional payment methods. More than two million Danes, for example, use an application called Mobile Pay, a Danske Bank app, that enables peer-to-peer money transfers and mobile purchases. This is more than a third of the population, prompting to the claim that Denmark is leading the way to becoming a cashless society.

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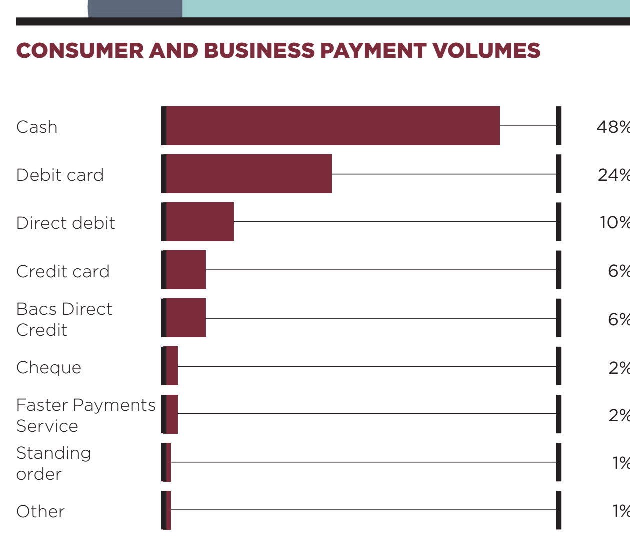
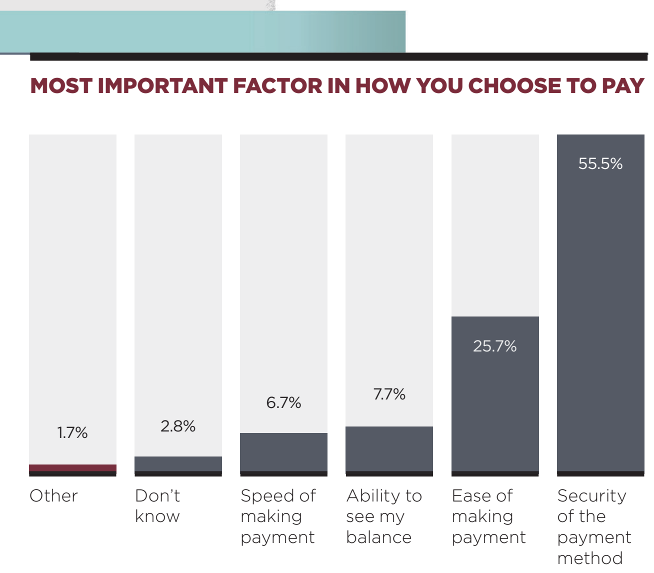


Source: Payments Council, May 2015



Source: YouGov/Centre for Economics and Business Research

That presents an opportunity, as well as a challenge, for any company. Lee Perkins, managing director of Sage UK, says: “The world of business has learnt a huge amount from the consumer payments landscape. Pioneers such as Apple Pay have accelerated the pace for the payments sector and agile businesses will soon follow suit.”

Sage is responsible for paying more than one in four people in the UK, but is having to pivot its accounting software into the cloud to keep up with innovations in the consumer market. If a small-business owner can use an iPhone to make personal payments or buy items, it is a natural next step to want to pay employees and suppliers using a similarly convenient method.

Payment technology should open up huge opportunities for small businesses, but significant challenges remain. Simon Black, chief executive of PPRO Group, says payment systems and technology can prove to be a hindrance to exports despite the relative ease with which a company can set up a website to sell their goods. He notes that half of all online transactions are paid for using iDEAL, not Visa or PayPal, meaning many alternative payment types are essential for merchants to grow conversion rates.

“Looking ahead, the plastic format of a payment card will ultimately be replaced by mobile devices, both smartphones and smartwatches. While that future scenario is still some years away, what we will see over the next 12 months is the early adoption of using smartphones to pay, in particular through the launch of Apple Pay,” Mr Black says.

Yet while Apple Pay will undoubtedly dominate the headlines, more humdrum concerns about how the payments industry is evolving are likely to be just as significant. For small businesses, just managing their payments from an increasing number of platforms and sources can cause a huge headache.

URICA chief executive Lindsay Whitelaw comments: “When choosing a payment provider there are certain questions small and medium-sized enterprises need to consider. Such as what is the contract term? How quickly will I receive funds from my sales? Is the method of payment safe, secure and stable? What is the ‘real’ monthly cost? Are there any hidden fees or additional services that require me to pay to third-party providers, such as acquiring banks, security certificate issuers, payment processors?”

That might sound like a huge checklist and it is. URICA, a government-backed early-payments platform, has been set up to ensure suppliers get paid after invoicing to avoid a backlog of much-needed cash welling up in the system. It is used by the likes of Norton Motorcycles to keep money flowing through the system, something even more important at a time when the number of ways to get paid expands every day.

Payments is one of the most rapidly evolving sectors in the world and, in a global economy, choosing the right approach to payments infrastructure could prove to be a matter of life or death for British businesses. You only have to look at the payments companies themselves to see that.

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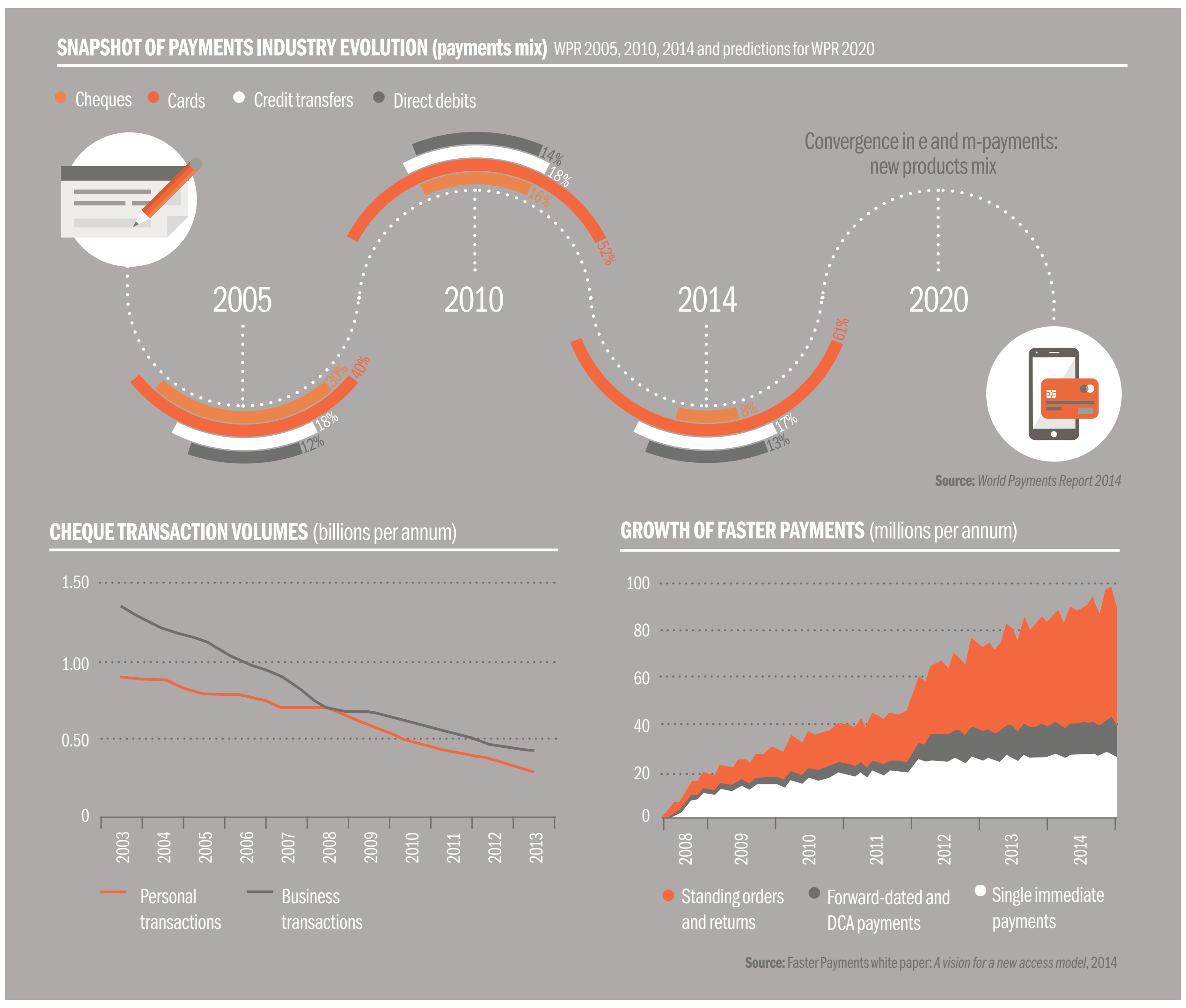


THE FUTURE OF UK PAYMENTS IS HERE

The UK's payment ecosystem is changing rapidly with the evolution of the Faster Payments Service and introduction of Remote Deposit Capture presenting opportunities for financial institutions and challenger banks

Travers Clarke-Walker
Chief marketing officer
International group, Fiserv

fiserv.

FASTER PAYMENTS

The Faster Payments Service (FPS), which was introduced in the UK in 2008, is now gaining momentum with customers, making five-day clearance periods a thing of the past for many.

The UK market has been restricted by the fact that only the 11 most established high street banks are able to make use of the system. This limits access by other payment ecosystem players, such as challenger banks and financial technology companies, which have to gain access to the scheme via current members, and service is not always in real time.

Regulators are working to address this and the Payment Systems Regulator has announced a new access model while working with different payment service providers to help clear all access hurdles.

"This new model should alleviate some of the bottlenecks within the system, whether around greater transparency in how solutions and gateways get certified for Faster Payments transactions or the costs associated with supporting those transactions," says Travers Clarke-Walker, chief marketing officer in the international group at financial technology firm Fiserv.

Most significantly, the new access model will allow other players to have access to FPS, helping them to compete on a more level playing field. This is especially important for the so-called challenger banks that have emerged over recent years as an alternative to the traditional institutions. "It will allow challenger banks to focus on differentiating themselves from those high street banks through customer service and product design, versus being limited due to lack of direct connectivity with FPS," says Mr Clarke-Walker.

Many banks, including traditional players, challenger banks and building societies, are now working with Fiserv and taking advantage of the new access model to get a direct connection to the Faster Payments network, he says. "We are seeing a high level of appetite for alternative access to the Faster Payments Service among financial institutions, especially challenger banks, since we launched our Agiliti solution," he says. "Agiliti provides comprehensive software and infrastructure designed to address the evolving UK banking and regulatory environment. Its value proposition supports core bank processing plus many of the surrounding needs to support existing retail or challenger banks."

Agiliti will also include a Faster Payments connection which allows banks not already on the network to gain access. "This development allows challenger banks a number of options," says Mr Clarke-Walker. "If the bank had an existing relationship with an agency bank, they can continue or they can connect directly and put the cost-savings against other priorities to make them more competitive.

"The high street banks clearly acknowledge the increased level of competition that is coming with this new access model, and are actively thinking and experimenting with a variety of digital solutions to defend their position in the marketplace," he says.

REMOTE DEPOSIT CAPTURE

One way in which financial institutions can help drive greater utilisation of Faster Payments and electronic payments in general, is by providing greater utility to the growing legion of mobile banking users. The ubiquity of mobile devices globally is changing the way people interact with businesses, banks and each other, which is a game-changer in the payments environment.

One payment type gaining traction in the UK that leverages mobile devices in banking is mobile or Remote Deposit Capture (RDC), which is the ability to capture a cheque image and convert it into an electronic payment digitally. "We recently supported a pilot for a bank in the UK and are working with high street banks to set themselves up to accept remote deposit through mobile phones. This is very similar to how we enable banks for RDC in the United States and Australia," says Mr Clarke-Walker.

> Financial institutions need to be ready as these changes will help transform the UK banking landscape

"Cheque capture is a smart way to help bridge the gap between those who want the cheques to be further digitised, so they can be processed in real time as a Faster Payments transaction, and those who still prefer to handle a paper cheque."

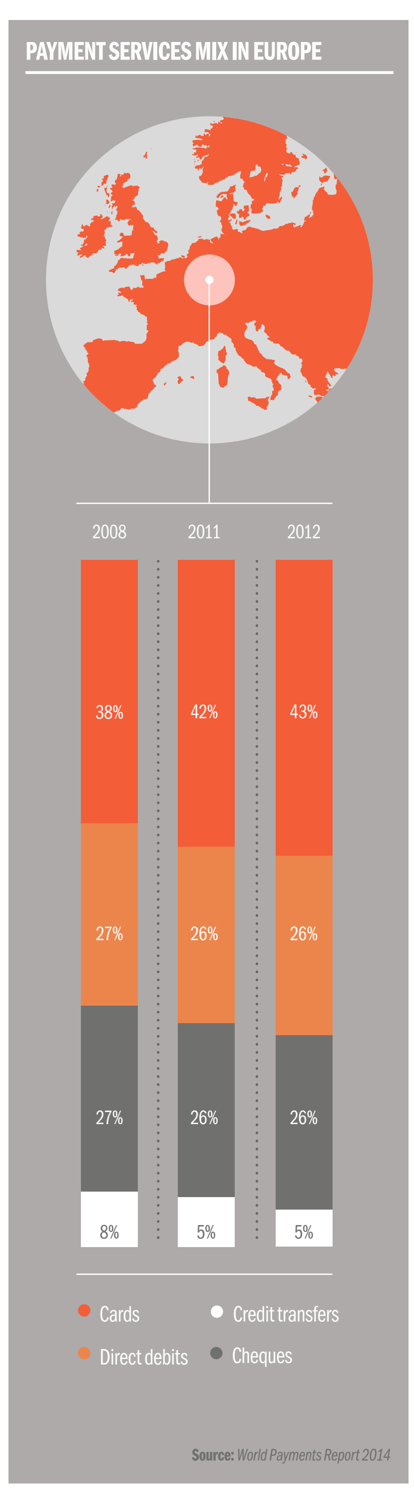
For challenger banks, cheque capture should be part of their standard offering, while the potential exists for existing banks to gain efficiency in operations by the introduction of a remote cheque capture strategy. This technology could contribute to an upsurge in mobile and digital banking, enabling branches to focus on relationship-building rather than acting as cheque post offices. By focusing on delivering solutions for the way customers are already using mobile devices, banks can benefit from increased transactional activity which directly correlates with greater customer loyalty.

In a new cheque clearing model, using the Faster Payments Service and enhanced mobile banking services, credit is transferred between trusted parties. Payers can be advised when cheques are presented for payment and, if a cheque returns unpaid, an enhanced service would enable the payer and payee to communicate and fix the problem quickly, minimising rework and exception processing. Banks are perfectly able to create this new order; they will need to localise best practices in RDC from markets such as the US and Australia, and marry them to their existing Faster Payments workflow.

"The UK is a global leader in the upgrading of payments system infrastructure that is commonly used to move money," says Mr Clarke-Walker. "This will result in greater cost efficiencies and transparency in how money is moved. Financial institutions need to be ready as these changes will help transform the UK banking landscape and they will increase the level of competition from a variety of fintech organisations looking to redefine modern banking practices."

The examples provided by Faster Payments and RDC highlight the changing banking landscape where traditional and challenger banks in the UK must have a comprehensive digital payments strategy to ensure their customers can operate when and where it suits their life.

Fiserv has already delivered real-time payment networks in the US and is currently working with SWIFT to roll out the National Payments Platform in Australia. To find out how Fiserv can help your business, visit www.fiserv.com



Battle for hearts – and minds

The payments sector is fragmented as no one technology has achieved widespread adoption by businesses that may be unaware of the options and how they work

◆ **UBIQUITY**

● **HAZEL DAVIS**

Name a search engine. It's fairly likely Google will spring to mind. Name a place to buy books. And so on. Name a payment provider. Where to stop? The payment tech market is so densely populated that it almost seems impossible for any payment technology to achieve ubiquity.

Moreover, there might be a wealth of information available, but it's often so fragmented and confused that it's hard to see where the consumer would start to understand – or choose a provider – and, moreover, whose job it is to help or educate them.

One of the principal pitfalls is the cost involved in adopting new payment technology. Research from retail IT support organisation Vista Support found that half of UK retailers shun contactless payments. In the poll, 60 per cent said the cash limit for contactless transactions is too low and 50 per cent said they have no plans to install contactless payment technology. The reasons given were cost and disruption of installation. Some 14 per cent said they were put off by the financial burden of maintenance.

Another problem is the sheer range of technology on offer. Twenty per cent said they would install contactless payments, but 73 per cent were planning to install tablet technology. Forty per cent had plans for digital signage and nearly a 32 per cent are opting for in-store wi-fi or mobile phone apps. Deloitte predicts that by the end of 2015, some 5 per cent of the 600-650 million NFC-equipped (near-field communication) phones will be used at least once a month to make contactless in-store payments at retail outlets.

Payments are built on a complex ecosystem requiring the proactive effort of multiple parties. In each transaction there can easily be five or six different parties involved to process the payment, not even including the retailer.

Andy Povey, business development director at Gateway Ticketing Systems UK, which provides ticketing for some of the UK's leading attractions, such as the V&A Museum, Houses of Parliament and Kew Gardens, says the company is rolling out contactless payment technology across its client base.

"We have seen an interesting reluctance in uptake," he concedes. "The challenge comes from knowing who can provide you with the best hardware, installation costs and ongoing fees. There is no one place to compare these providers in the way we are so used to comparing other business and home utilities. Getting the best deal can be daunting.

"The challenge [for customers] is trusting the security behind the payment. Consumers can find it difficult to grasp a new technology and even those who regularly use contactless payments can be suspicious of just how secure the new payment method actually is."

So whose job is it to educate? While payment companies can provide some guidance, the payments themselves are governed by the credit and debit card providers. This means, says Mr Povey, there are a number of sources to contend with for good-quality information. "With different payment providers also comes differing information on hardware, installation information and user fees. This can mean that you only get one point of view from the provider you currently use for regular card payments," he says.

> One of the principal pitfalls is the cost involved in adopting new payment technology

Simon Black, chief executive of the PPRO Group, an integrated solution provider enabling international electronic payment processes, says it's partly about common platforms. "For online shopping we have effectively a global commerce platform – the internet. But we don't have a global payments platform. In North America and the UK, Visa and MasterCard have very high penetration, but then even in Western Europe the picture can be very different. Germany is a good example of this, where the fastest growing online payment method is actually via an invoice."

For in-store payments, where mobile and contactless payments could be used, different countries and regions are at varying stages of development in their card infrastructure alone, says Mr Black.

"For example, to accept a contactless payment requires an up-to-date card terminal. Contactless is the 'missing link' in the virtual wallet's equivalent to the evolution of man. Once you are used to tapping or waving your card, it's a small step to waving your phone or your smartwatch. Beyond the speed and convenience of contactless payments, there will be more benefits to your virtual wallet. No more paper receipts, plus all spending itemised and categorised in one easy-to-use-application," he says.

Mr Black predicts that by 2025 most people in the majority of countries will have a virtual wallet on their phone. "It's simply a case of market evolution before a tipping point is reached in terms of consumer acceptance, the right infrastructure and environment, and the product and pricing being appropriate."

It's possible that the biggest challenge, however, is consumer behaviour. Mr Black adds: "We don't change our habits unless we are forced to – for example, wearing seatbelts – or unless there is a compelling benefit – mobile phones went to full adoption incredibly quickly for such a new technology. Consumers tend to adopt new products or services quickly if they're simple, intuitive and compelling, without needing extensive education. In the case of contactless, in London it required the card-issuing companies to issue contactless cards, retailers to upgrade their terminals, and the card schemes MasterCard and Visa to invest only a relatively modest amount in communication and education.

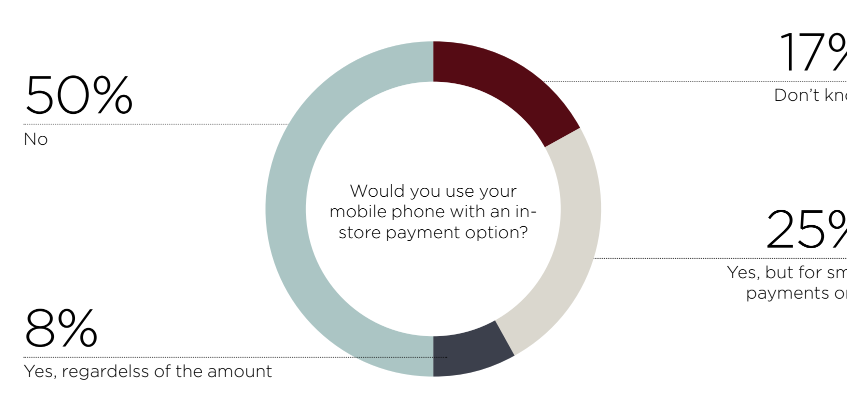
"The biggest driver though was a very clear benefit aimed at the right market. In London, as with any of the world's major cities, there are millions of workers short of time who are making many small, daily purchases, such as coffee or sandwiches, and the notion of tap-and-go is as simple as it gets."

Eric Van der Kleij, head of Level39, Europe's largest tech hub for financial technology, says payment technology companies are growing fast by developing value-added services to transactions which help increase loyalty, improve service and create clever marketing.

"Companies that are more efficient at onboarding customers will be able to win a piece of the pie, but this isn't the whole story," says Mr Van der Kleij, "Things like Alipay and Facebook [which offers free friend-to-friend payments through its Messenger service] have utterly disrupted the business model.

"Facebook could afford to run the equivalent of a new bank for free – that's where you might see a giant emerge."

WILLINGNESS TO USE MOBILE IN-STORE PAYMENT OPTIONS



Source: *Deloitte Global Mobile Consumer Survey*, UK edition, May 2014

93%
of retailers worldwide believe consumers want a broader choice of payment tools
Source: *2015 Ovum Global Payments Survey*

81%
of UK retailers want to keep up to date with online payment options
Source: PRO Financial 2014

It's a controlled mobile explosion

Mobile payments are expected to gain popularity this year, yet the move to paying with a mobile device is likely to take some time to really catch on

◆ MOBILE

● DAN BARNES

Researchers at Deloitte predict the proportion of mobile payments will increase by a staggering 1,100 per cent worldwide in 2015, albeit from a low base. They estimate that 5 per cent of the more than 600 million NFC-equipped (near-field communication) mobile phones globally will be used once a month this year to make a payment, up from 0.5 per cent of the 500 million used in 2014.

The trigger will be a confluence of factors. One is the migration to an improved secure payments infrastructure in the United States. While European countries began migrating to chip-and-PIN payments a decade ago in order to reduce fraud, the US maintained swipe cards. When retail giant Target announced in January 2014 that compromised swipe-card terminals had been used to steal anywhere from 70-100 million customers' credit card details that prompted a rethink.

Paul Lee, a partner at Deloitte, says: "The US market is very influential and the big change there has been the move to chip and PIN which has been catalysed by the move to a liability shift for transaction on to retailers from October this year. That is catalysing a big upgrade of payments systems. As a result we are expecting a big adoption of NFC-enabled terminals."

NFC payments conducted via smartphone generate a token – a unique and one-use code – that is transmitted to the merchant's terminal. This renders the hacking of payment terminals useless to a fraudster, although during the adoption process it is likely both old and new technologies could be used, meaning some payments made using the older model could still be compromised.

Another driver for change has been the ability for smartphones to make a secure transmission of a token with Android and iPhone models launching into the market in the last 12 months that can process transactions when combined with other forms of authentication. But crucially a third driver will stem from functionality and the psychological "me too" impulse that comes from witnessing new technology being used.

"Once people can walk into a hotel, use their phone to pay for a room in a fully automated manner so the room is allocated and the phone can function as the room door key using NFC, then interest will increase," says Mr Lee.

> There is an interface of fast-moving technology and relatively slow-moving consumer behaviour

Relying on a device to deliver such crucial services requires trust in the early stages of adoption. Having strong brand names associated with a device, an app or a payment system can accelerate user adoption to overcome inertia due to perceived risk, for example, says Dan Salmons, managing director, mobile and online at payment specialist PayPoint.

"It is not only whether I understand the risk, it is that I don't know how much effort it will take to understand the risk and the reward for the effort," he says. "We looked into this extensively with consumers at the moment of parking a car and when they do or do not choose to download a mobile payment app."

Over a longer time period of time, the generational effects are expected to make mobile payments a more normal part of everyday life, with the younger generation using mobile devices for many tasks beyond use as a telephone.

Jonathan Vaux, executive director for new digital payments and strategy at Visa Europe, comments: "My son is 13, he had a smartphone before he had a debit card or any financial instrument and so a lot of his learnt intuitive behaviours are driven by interaction with the phone. For people of my generation, a smartphone is comparatively new technology and we have had plastic longer than we have had smartphones. Things like chip and PIN don't feel intrusive to me."

The common theme to successful migration is to make sure that payment is not intrusive, which varies quite dramatically depending on how the consumer is paying and on what device.

"People's behaviour and spending on a mobile phone verses a tablet is quite different," he says. "I am much more likely to be browsing when I am on a tablet, laptop or PC whereas phones tend to be used for more immediate purchases."

Behaviour can change where consumers are presented with trouble-free technology and a clear incentive, such as ease of use. An example of this has been the move from swipe cards to the chip-and-PIN system and then on to contactless payment cards which have been successful in some parts of Europe including the UK.

Zilvinas Bareisis, senior analyst with Celent's banking practice, says: "We have seen good success with contactless cards, particularly in metropolitan areas such as London, where the [contactless Oyster card] transport payments system has contributed to the success. Mobile contactless transactions are very similar to a card and consumers may well ask, 'What does it give me that is extra?'"

That extra may be higher value payments with less risk. The 23.8 million contactless card payments made across the UK in June 2014 had an average value of £7.03 while chip-and-PIN transactions had an average value of £50.06 in the same period, according to the UK Card Association.

If a contactless mobile payment device can use an extra layer of authentication, such as Apple Pay's thumbprint scanner, for higher-value payments, it could well provide that extra feature, particularly, as Mr Lee's hotel example suggests, with additional phone-based services accessible post-transaction.

However, for merchants concerned about which mobile payment scheme to join, there is a lack of certainty. Apple Pay is at present a US-only system, expected to launch in Europe later this year. It has been competing with the Walmart-led Merchant Customer Exchange (MCX), a union of US retailers offering its own mobile payment system called CurrentC, which only uses debit cards. MCX has asked merchants to sign three-year exclusivity agreements which would prevent them from also using Apple Pay.

This lack of standardisation has limited the development of mobile payments in the past as rival banks and telcos fought over ownership of transactions, customer data and relationship, and how data can be used.

Mr Vaux says: "Everyone was fighting for control – the financial institution, the handset provider, the network provider – and as a result it wasn't the technology that was [inhibiting mobile payments], it was the commercial model."

He likens the challenge to that faced by the music industry where big players with access to both portable music players and relationships with the artists failed to launch digital musical services that gained widespread adoption.

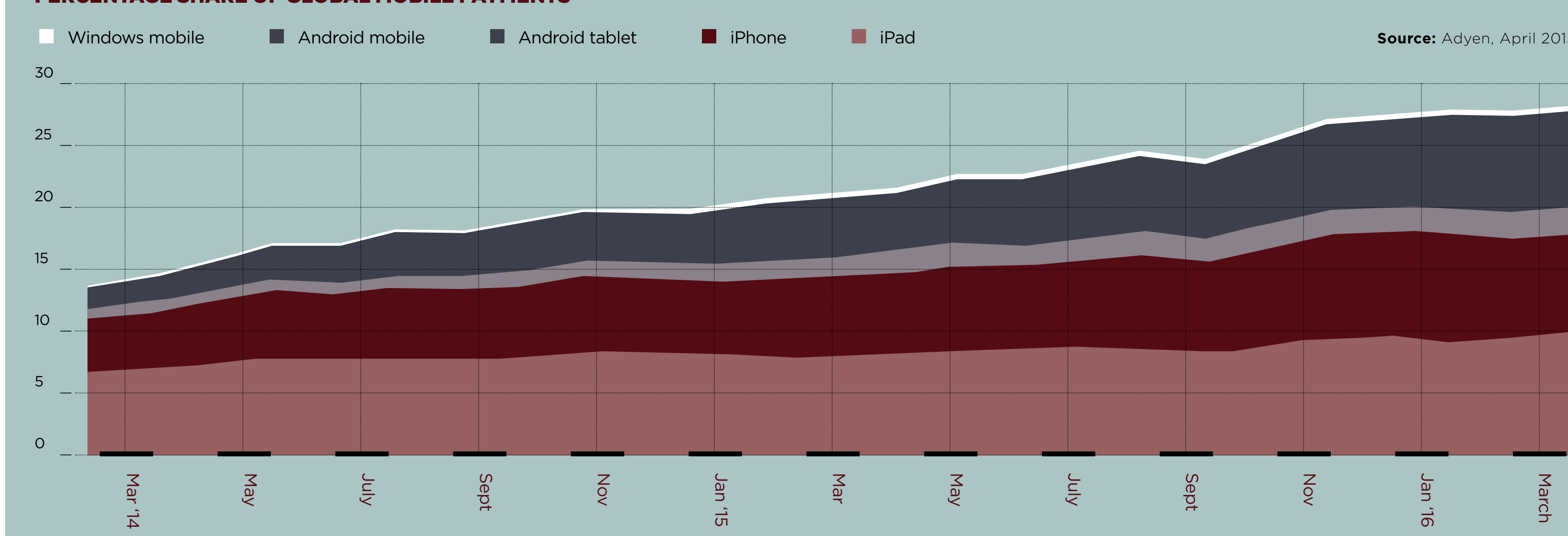
"Why was Apple the first?" he asks. "Success is not based on controlling the experience; it is about facilitating and enriching it."

Change will not take place overnight, warns PayPoint's Mr Salmons, as despite the multitude of froth blowing about on the surface of the mobile payments world, consumer adoption is a slow current deep beneath the surface.

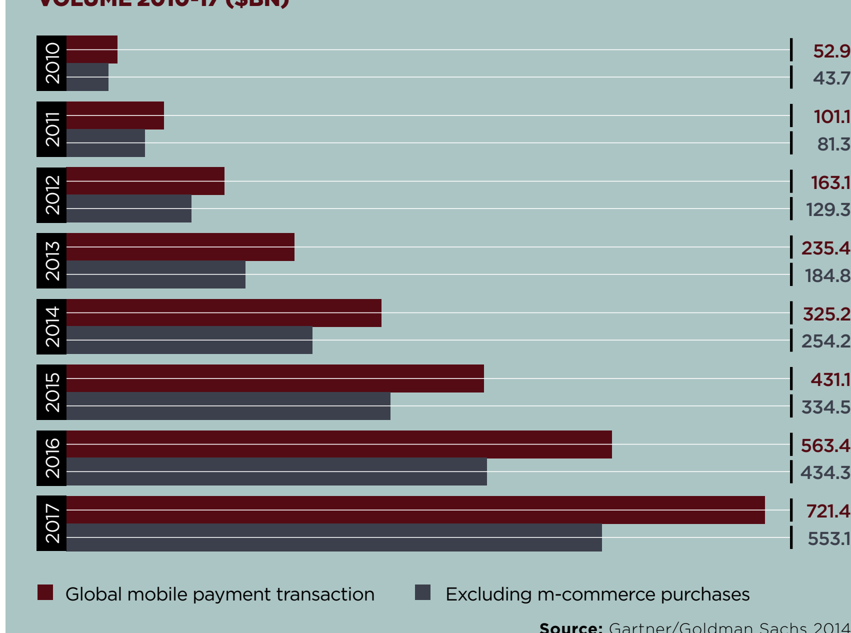
"Consumers won't be rushed into doing new things," he says. "Contactless has taken quite a while to get going and with other payment innovations there will be an awful lot of noise. There is an interface of fast-moving technology and relatively slow-moving consumer behaviour."

Mobile payments outlook

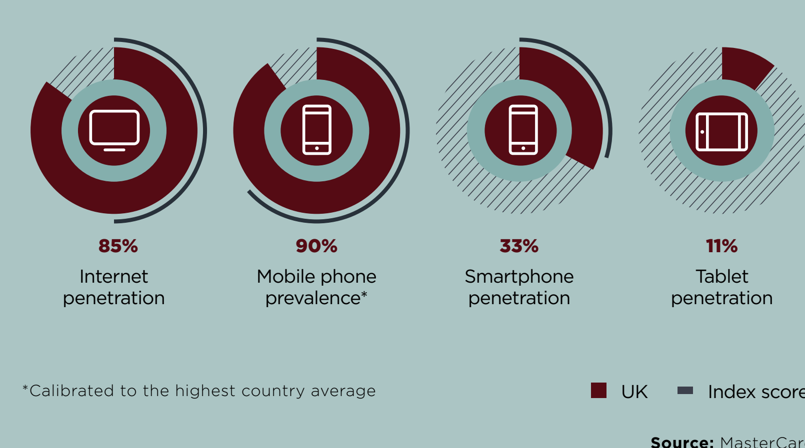
PERCENTAGE SHARE OF GLOBAL MOBILE PAYMENTS



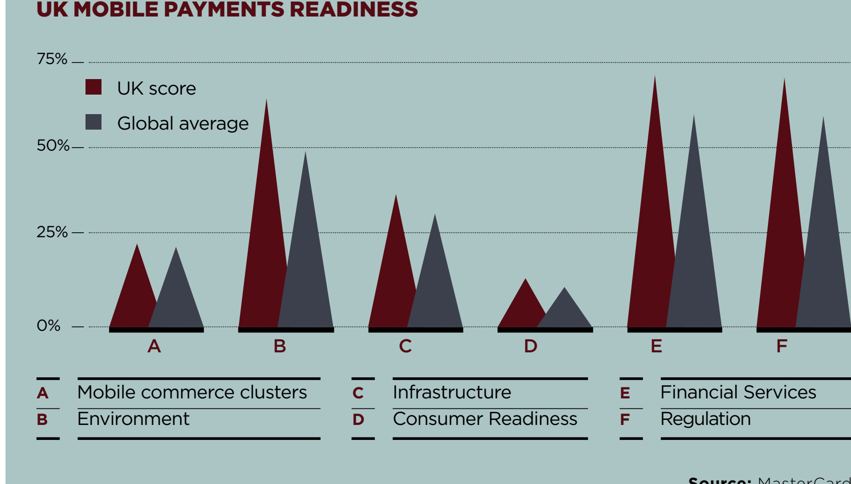
WORLDWIDE MOBILE PAYMENT TRANSACTION AND FORECAST VOLUME 2010-17 ($BN)



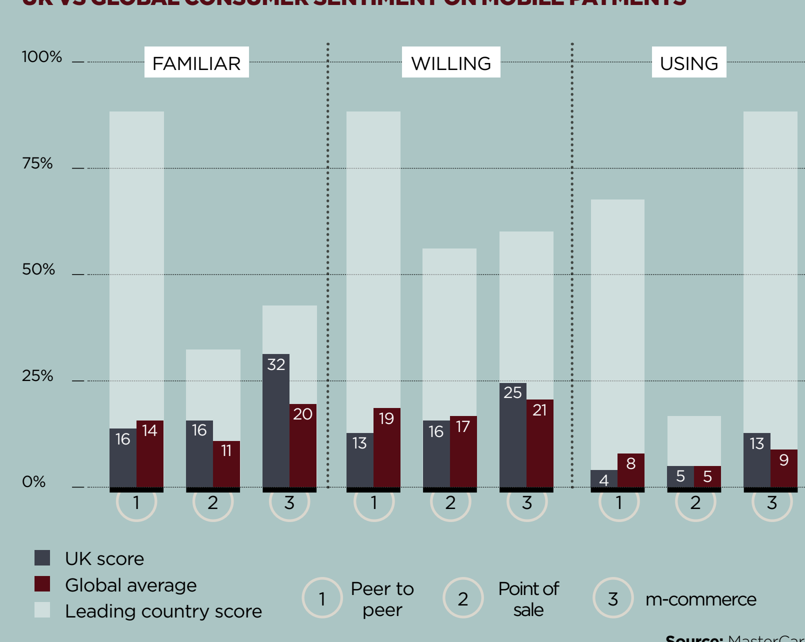
MOBILE PAYMENTS READINESS FACTORS IN THE UK



UK MOBILE PAYMENTS READINESS

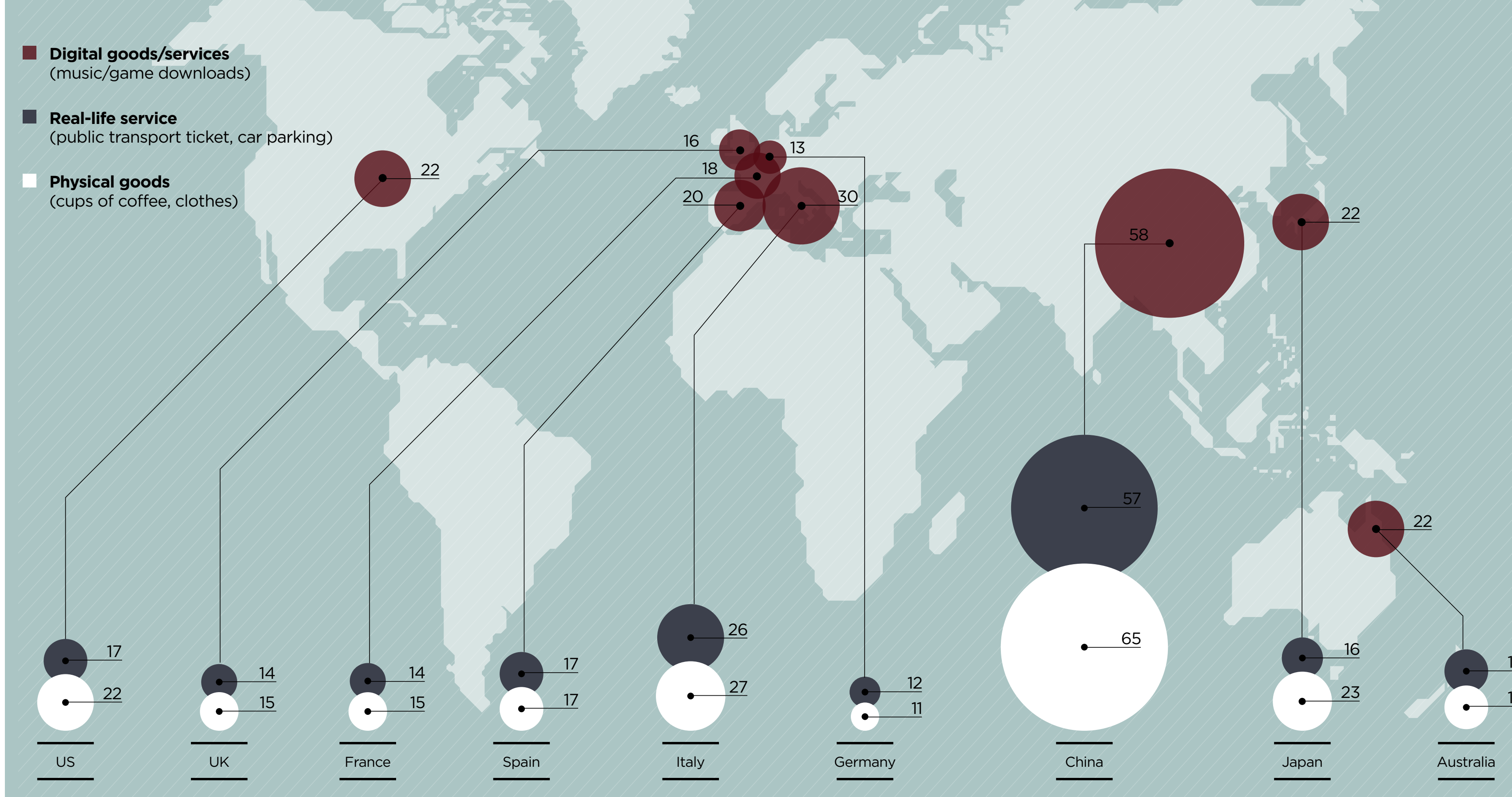


UK VS GLOBAL CONSUMER SENTIMENT ON MOBILE PAYMENTS



PERCENTAGE MOBILE PURCHASE RATE BY TYPE OF GOODS, 2014

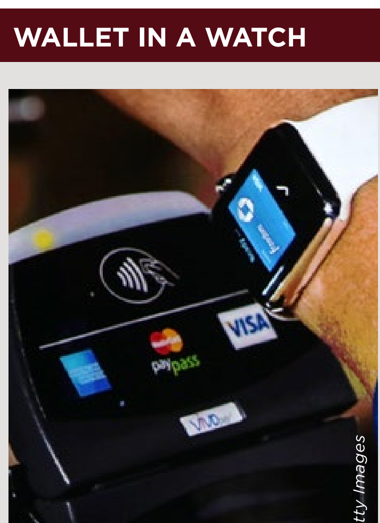
SHARE OF MOBILE USERS WHO HAD MADE A MOBILE PAYMENT, OCTOBER 2014



MOBILE WALLETS

According to Juniper Research, there will be more than 1.5 billion mobile wallets in use globally by 2018 and of these one in three will support contactless payments, with 50 per cent of mobile wallets in developed markets supporting contactless

WALLET IN A WATCH



Getty Images

Tapping a ring or a watch against a payment terminal could replace using a bank card in future, but only if the public buys into the idea. Since payment technology moved from magnetic stripes to chips, the need for a flat card to be used as a payment device has disappeared. The range of items that could hold a payment chip is limited only by size and practicality.

Terrie Smith, chief executive at DigiSEq, a UK-based near-field communication (NFC) payment system provider, divides wearable payment technology into three categories:

1. The festival or event wearable offering low payments value and limited passive functions, such as access, membership and information, to make them useful in an event environment.

2. The lifestyle wearable providing limited payment capacity with a specific service, such as lifestyle and health monitoring.

3. The fashion wearable with multiple active functions, including the capacity to interact with the user; payment can include apps and wallet functionality, possibly with interaction via a smartphone.

The simplest devices, such as event wristbands and rings, can have prepaid functionality built into a chip, which can be used with NFC to pay for small items such as drinks.

John McLear, founder of wearable technology provider NFC Ring, says: "Wearable technology is convenient; you can go to the beach or to the gym and not have to take anything with you that you might have to leave about, such as a wallet or a phone, but you can still have a payment function."

But for devices such as rings to replace payment cards would be difficult, says Mr McLear.

"The reissuance process would be a barrier, as you would have to charge for sending out the new ring," he says. "However, there are firms working on reissuance models using mobile phones which could provide the ring with a new set of credentials every three years."

Ms Smith says DigiSEq is planning to offer products in the festivals and lifestyle spaces where a controlled environment, such as a gym, creates a need for convenience within a specific range of activities.

"A member might finish running then want to get a bottle of water, but not have their phone, so specific payment devices are horses for courses," she says.

Dan Salmons, managing director, mobile and online at payment specialist PayPoint, has developed a parking payment app on the Apple Watch.

"It is simply a countdown of how much time I have got left with the ability to tap the screen and top it up," he says. "Simplicity is what you need on that device. So I think mobile is driving the expectation of payment as something completely integrated into whatever you are trying to do."

COMMERCIAL FEATURE

TRANSFORM PAYMENTS WITH AN HSBC MASTERCLASS

Three experts come together to give a master class on how to address the pressures a rapidly changing payments sector is placing on business

Thomas Haplin
HSBC Global head of clearing and foreign currency payments

Gregory Edwards
HSBC Head of global transactional foreign exchange (FX)

James Colassano
HSBC Global head of disbursements

The payments revolution is putting new pressures on businesses. Cash payments are now happening in real-time. That is a big departure from the old settlement cycle, which could take days to complete.

Senior management demand instant visibility of the cash position. This means new tools must be introduced which provide a clear picture of the global situation. Liquidity must be boosted through more efficient cash management. And cross-border payments must be done in a controlled and considered manner.

Those are four tough challenges. Solving each requires a break from traditional practices.

Daunting? Maybe. So we assembled three global experts to give a master class. The man who knows payments inside-out is Thomas Halpin, HSBC global head of clearing and foreign currency payments. Covering currencies is Gregory Edwards, HSBC head of global transactional foreign exchange (FX). And James Colassano, global head of disbursements, is HSBC's expert on cash management. This triumvirate are authorities in their field.

HERE ARE THEIR INSIGHTS

First up, you need to know what payments your organisation is making. Not just the big ones. "I regularly ask clients day in, day out, do you understand the nature of your under-the-radar payments?" says Mr Edwards. "I typically don't get a robust answer."

The problem is this. During the era of low volatility many companies let minor payments get paid informally. Overseas hotel bills, for example, are settled without a second thought about FX. Other small, but in aggregate important, items may include cross-border royalty payments, pension payments or procurement. Time and again these are made with little consideration of currency implications. Now that currency volatility has returned, this laissez-faire approach needs some management attention to introduce elements of best practice.

These under-the-radar payments must be identified and then a decision needs to be made on how to handle them.

Mr Edwards asks: "Do you have a threshold over which payments go to treasury for execution or under which you would be happy for them to be done in a straight-to-processing fashion? Do you know how long internally it takes to make a payment?"

Finally, a review should be conducted into the foreign markets between which currencies are high volatility. Destinations such as China will have their own rules and regulations regarding payments. The advent of the Single Euro Payments Area (SEPA) has changed the landscape in Europe. You need to ask whether your company's practices are making the most of SEPA and other initiatives. A systematic review of each market will clarify the situation. Clients need to manage the "how" can I get a payment made alongside the method the client can use to achieve the best overall price at which the payment can be execute at.

This three-step process will bring transparency and efficiency to some of the more overlooked areas of FX payments. But for a radical overhaul of mainstream payments, a deeper rethink needs to happen.

THREE INTO ONE

Treating the critical elements of a payment as individual components is no longer suitable in today's business environment. To support this convergence, Mr Halpin says: "The level of collaboration between payments, cash management and foreign exchange must be at an all-time high. Customers are no longer saying, 'It's just a transaction with an FX element in it' or talking about payment without thinking about liquidity. They want to end the silo-thinking and bring the three together."

The benefits are obvious. By linking cash management with payments and FX the company can reduce the chance of an unexpected shock to cash reserves. And the new model means the treasury can be streamlined. "Sometimes you can better leverage your primary account to make payments in different currencies thereby streamlining and simplifying your operation," says Mr Halpin.

Forecasting becomes more accurate, as the timing and FX elements are brought under a single control. Suppliers will love the increased transparency, knowing when and how they are going to be paid.

That's the sales pitch for fusing the three into one. But how is it done? "It is not primarily about technology," says Mr Halpin, which will come as a relief to many businesses. "The real investment is in time. The company and bank need to work together to become more informed about what types of payments they make, how they need to make payments, what their sensitivities are and where their priorities lie." Only then can the right tools be implemented. "We already have the tools, we just need to align them with what our clients need. That means them educating us about the types of controls they would like to have."

A case study illustrates the point. A treasurer of a large company analysed his team's performance. He found 90 per cent of their time was spent on transactions of less than €100,000. He was shocked. The data showed not only were the smaller transactions using a disproportionate amount of man-hours, payments were getting lost or not paid on time. HSBC introduced a straight-to-processing solution which sorted the issue out immediately. The hours spent on managing smaller payments collapsed. "It was nothing to do with flash new technology," says Mr Edwards. "If anything it was going back to basics."

BLURRING OF PAYMENT TYPES

A vital component of revamping payment processing is to take a fresh look at the ways that payments have been made historically. Traditionally, wire payments, automated clearing house (ACH) payments and cheques, for example, had their own unique characteristics, the chief one being settlement time, which varied from minutes to days. No more. With the growing number of programmes underway globally to accelerate clearing and settlement times, same day and even immediate settlement is becoming much more prevalent. The acceleration of settlement times means it is harder to distinguish one from the other.

There are important implications to this trend. One example concerns fulfilment. As payments become more immediate, customers will increasingly expect that experience to be end-to-end. Real-time commerce is the model. Just look at the new generation of services which can deliver a new pair of shoes to your desk the same day you ordered them. Overseas clients may not quite get that level of speed, but they won't want to wait a few extra days for processing to complete after their payment has been made and settled.

Another concerns day-to-day liquidity requirements. Mr Colassano explains: "Companies now have payments coming in at various times and they will want to leverage the 24-hour clock for paying suppliers too. This changes not just their operational approach in terms of payment management, but their intraday liquidity needs to make sure they have funds available when they need them throughout the day. They will need more information about payments, such as the time of day they settle, so they can effectively manage their intraday positions. That will have implications to the back offices of the treasury function."

Again, banks can help in many different ways. For example, helping companies navigate these global changes and route bulk payments in the most effective and cost-efficient way possible. "We can distribute lower-value payments into different global clearings without the client having to decide or understand whether or when to use a wire, ACH or a cheque. When we start to understand customer flows from an end-to-end perspective, we can also guide them on the best way to pay their beneficiaries, and to minimise the amount of work they need to do, as well as their costs and value to their beneficiaries."

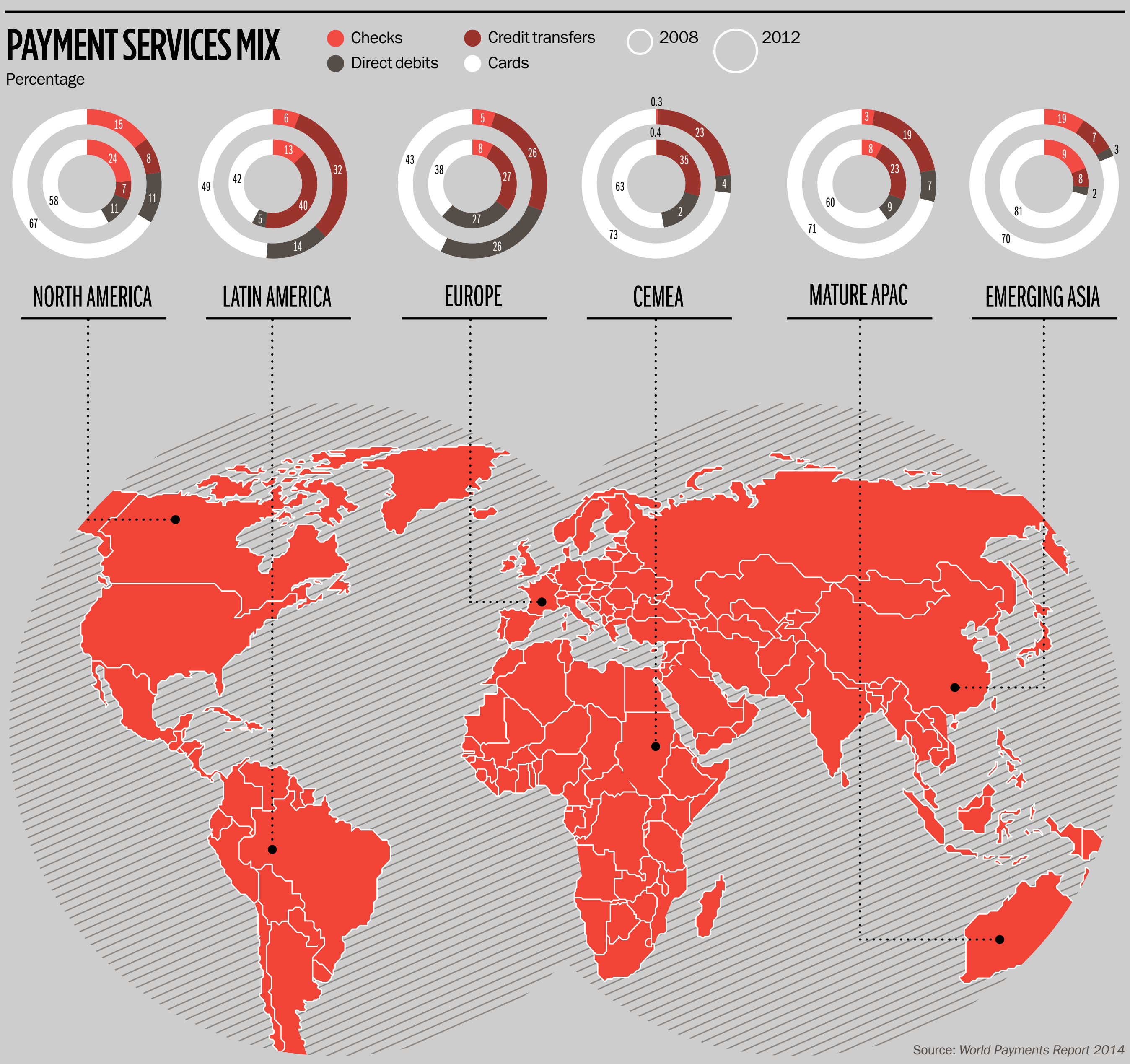
> "The level of collaboration between payments, cash management and foreign exchange must be at an all-time high

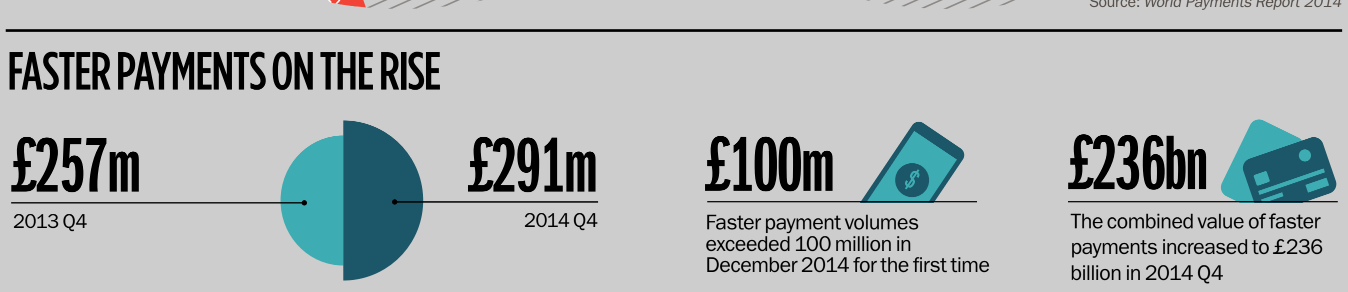
HOW TO GET STARTED

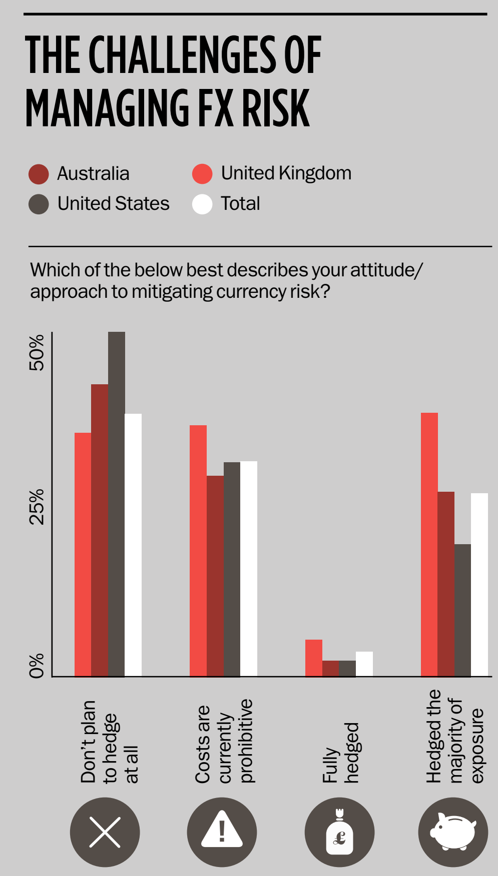
It is clear that treasury departments have a lot of work to do. It won't be simple. Treasury projects can pull in stakeholders from across the organisation, leading to dozens of voices competing for attention.

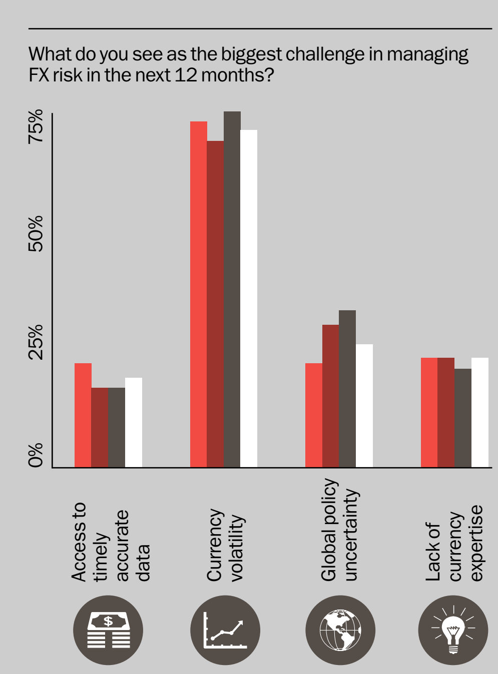
Fortunately, treasurers have a lot of guidance they can call on to manage the transformation process. Mr Halpin urges anyone looking for guidance to lean heavily on their bank. "We can talk to all departments and bring an external perspective, seeing things you might miss. More than that, we bring experience. We work with clients across industries and bring those insights with us. We know markets such as China intimately. Issues like how to leverage the Directive on Payment Services in mobile is something we understand well," he says.

"Our message is if you make the most of your banking relationship, and take the time to educate your bank on how you work and what you need, you'll find you can get where you want to go very, very quickly."





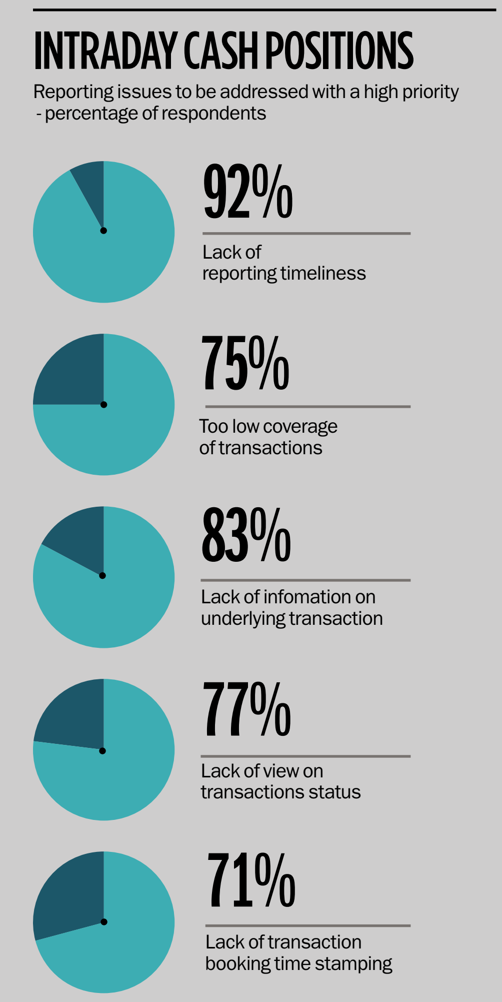




SEPA NOW AFFECTS 522 MILLION PEOPLE IN 33 COUNTRIES

Austria	Liechtenstein
Belgium	Lithuania
Bulgaria	Malta
Republic of Croatia	Monaco
Cyprus	Netherlands
Czech Republic	Norway
Denmark	Poland
Estonia	Portugal
Finland	Romania
France	Slovakia
Germany	Slovenia
Greece	Spain
Hungary	Sweden
Iceland	Switzerland
Italy	United Kingdom
Latvia	

Source: About Payments



Q&A

To streamline payments and reduce cost, innovative companies are centralising their payments processes. ***James Colassano****, global head of disbursements for HSBC, considers whether all firms should adopt the strategy*

Q What is the motivation for centralising payment processing?

A There are lots of models for centralised payments and supporting each are lots of different business cases. In general, centralised payments structures support well-managed foreign exchange (FX) risk, currency forecasting and cross-currency cash management which are strong motivations. Centralised structures also create efficiency and cost-savings. Companies can reduce the number of bank accounts they hold globally, reducing the money spent on account, transaction and FX fees. It also minimises the number of proprietary banking platforms which need to be maintained. Compliance is easier. Instead of monitoring multiple local banking relationships, you can focus more deeply on a smaller number. There are administrative economies of scale in moving payments processing into fewer centres. And, when combined with the right technologies, this can increase visibility and control, which is vital for effective treasury performance.

Q Does it improve liquidity management?

A Yes. Though payments are only part of a company's working capital management strategy. You can achieve increased visibility by consolidating your cash positions. Your banking partners can provide tools to give you even greater insight and control. Do it right and you'll find you can predict cash positions more accurately, which allows you to put idle funds to work to improve liquidity and manage risk more effectively. Some of the more complex models cover more than just the underlying payment activities, and start to touch on centralised bank accounts and "on behalf" transactions, which have a more significant impact on liquidity and FX management, through consolidated funding positions and centralised currency exposures.

Q Why is it becoming more popular now?

A Advances in technology are a key driver. Companies can also now make use of common message standards, dependable communications connectivity and simplified processes to make it easier to implement. Industry initiatives are contributing too. The Single Euro Payments Area (SEPA) means you no longer need bank accounts in multiple European countries. Bank agnostic channels, such as SWIFT, and the development of XML messaging standards are making it possible to integrate payments into enterprise resource planning or treasury management systems. This makes it easier than ever before.

Q Is there a downside?

A Some of these structures can be complex, and involve tax and legal considerations that need to be well understood and clearly align with a company's business strategies. They can also introduce a lot of disruptive change to organisations and that should not be underestimated. From a pragmatic point of view, it's easier to consolidate payments across countries than it is collections for numerous reasons, including the paper intensive nature of collections, which is something to consider as you develop an execution plan.

Q So is it right for everyone?

A There are several models deployed in the market and every business is different, so I would not say there is any one right structure for everyone. You need to understand what your needs and objectives are from a corporate standpoint. It's only an appropriate solution if it aligns with your strategy and business objectives. However, if it makes sense to you as a business and aligns with your strategy, then it is very likely there is a structure that can help achieve your objectives.

Q Even small firms?

A In Europe we are starting to see smaller firms centralising payments. It's a strategy which needs a supportive environment, and SEPA came in and created that environment. Whereas previously centralisation was the domain of large corporate multinationals, it is now something which smaller companies are taking advantage of.

Q What unexpected considerations are there?

A There may be tax implications, so they need to be examined carefully. You will need to look at intra-company transfers. These are complex structures to set up. If you want a downside, then it is that this isn't simple. It will also require some organisational re-engineering from a treasury standpoint.

Beware long-term currency volatility

Volatility in the currency markets means companies would be well served to review their international payments policies

◆ INTERNATIONAL PAYMENTS

● JOE McGRATH

Currency volatility has dominated finance directors' thoughts since the beginning of the year as global events impacted hedging strategies and hit the bottom line of international businesses.

The strength of sterling and the US dollar against the euro dominated meetings in the first quarter of the year, but attention has since shifted away from the out-and-out strength of these currencies to the prospect of long-term volatility.

David Rodriguez, quantitative strategist at DailyFX, says: "We saw the euro nearly freefall versus the US dollar and other major counterparts as the European Central Bank cut interest rates into negative territory and began aggressive quantitative easing policies."

A poll of 96 chief financial officers by consultancy Deloitte at the end of March found many of those not previously concerned with currency risk are now looking at hedging options to offset potential exposure.

> Many of those not previously concerned with currency risk are now looking at hedging options to offset potential exposure

The research concluded that companies with global distribution are employing the most extensive hedging approaches, focused on strategies which match income with expenses in local markets. Companies with a narrower distribution line, however, were more likely to focus on debt management and individual financial instruments to offset their risks.

Jerome Albus, senior vice president, payments and messaging at SunGard, says forecasting for businesses can be extremely challenging in the current climate, but there are steps firms can take to make hedging and forecasting easier.

He explains: "Forecasting can be more challenging when you are managing with ten, twenty or even thirty foreign exchange pairs. When it comes to payments there is also an added complexity due to the multitude of systems, subsidiary locations and approvers. Gaining control over all of these payment flows is usually the obstacle. Once done, companies can be more proactive with their hedging programmes."

Mr Albus recommends that businesses set aside time to obtain a true view of payment flows and cash collections. "Understand the trade receivables portfolio, the risk inherent in the portfolio and then, of course, your cash outflows," he says. "Without a strong forecasting ability you cannot appropriately manage the risk."

You could be forgiven for assuming this is just common sense, however, the Deloitte report found that around a third of global businesses are not actively managing their currency risks. And for those companies that are actively managing their currency exposure, few are reviewing their hedging strategies on a regular basis.

Jessica James, managing director and head of the foreign exchange (FX) quantitative solutions group at Commerzbank, says all companies should start by looking at historical trends and thinking about their vulnerabilities.

"One thing which is so often forgotten, but so important, is to look at history. If a company is wondering how to hedge FX risk, it will have a number of different contracts it can use, ranging from very simple forward contracts which lock in a future rate to complex contracts with a lot of conditions and contingent payoffs," she says.

"I would say that to minimise and manage FX risk, a company should look back through the historical performance of different hedge contracts for the currency pairs they are exposed to, and they may well be very surprised."

The use of real-time and post-trade analytics systems can vastly improve the efficiency of international payments by understanding corporate exposure at any one time. However, it can also improve the bottom line.

Delays in international payments can leave companies open to sliding currency markets, which can wipe out profit margins and leave once-profitable product lines loss-making.

Ranko Berich, head of market analysis at Monex Europe, explains: "As straightforward as it sounds, FX volatility is the number-one challenge.

"Some businesses can remove risk altogether and hedge their exposure to risk, while others leave a percentage unhedged. What is essential for all companies is acknowledging and evaluating its exposure."

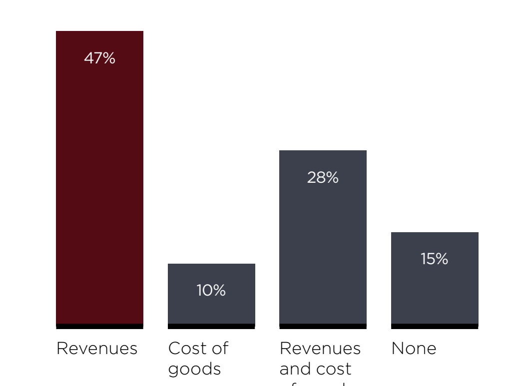
SunGard's Mr Albus says there is a silver bullet to resolving many problems – reducing complexity. "Complexity creates increased costs, and risk of error and fraud. It is essential to gain control over the payment flows and that is why so many companies are now looking to bring in a payment factory approach," he says.

Experts believe volatility is likely to be with us for the long haul, so those companies that haven't yet acted may be well advised to do so now.

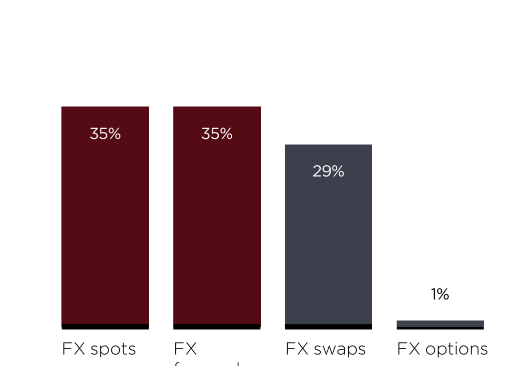
John Booth, chief executive of Midpoint Holdings, warns: "The increasing volatility of cross-currency rates is probably the greatest challenge for larger corporates as swings are getting larger and more violent due to the enormous leverage in the global financial system."

His views are echoed by other industry experts. Martin Arnold, research analyst at ETF Securities, adds: "We expect that the European Central Bank's activities will continue to keep the euro under pressure. While a weaker euro has been a boon for companies that operate in foreign markets, businesses which import goods will be worse off because margins will be squeezed."

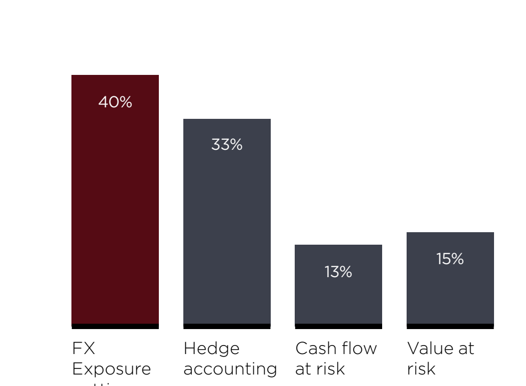
FX VOLATILITY IMPACT



FX RISK MANAGEMENT INSTRUMENTS



FX RISK MANAGEMENT CONCEPTS



Source: Reval *FX Risk in Focus*

SWISS GNOMES' SURPRISE MOVE

Getty Images

One of the major foreign exchange events of the past year was the Swiss National Bank's decision to end is pegging to the euro.

Many businesses that had not hedged external revenues found a sharp decline in revenue bases in local terms and it encouraged many to review their internal practices.

John Booth, chief executive officer of Midpoint Holdings, explains: "The Swiss National Bank's decision to remove the cap clearly had a huge impact and dramatic adjustment to the pricing of the Swiss franc against all other currencies.

"Many margin traders were caught offside and bankrupted by the event. We saw a severe negative impact on Swiss export business and local tourism."

Jeremy Roberts, head of UK retail sales at global asset management group BlackRock, says surprise central bank actions may no longer be occasional occurrences. Businesses seeking to review their international payments policies would do well to be mindful of this insight.

He says: "The prospect of surprise central bank actions – for example, the Swiss National Bank's removal of the franc's minimum exchange rate floor in January this year – introduces the potential for bouts of volatility, nervousness and unseen risk into an asset class that has traditionally been viewed as a safe haven in times of market stress."

Martin Arnold, research analyst at ETF Securities, says the event focused the minds of international businesses. "Rising volatility in currency markets is a significant consideration for international companies which needs to be addressed with appropriate risk management processes," he says.

Mr Arnold adds that the unpegging of the Swiss franc was one of two events which triggered reviews at global businesses. He also flags the European Central Bank's decision to implement its quantitative easing programme as another turning point.

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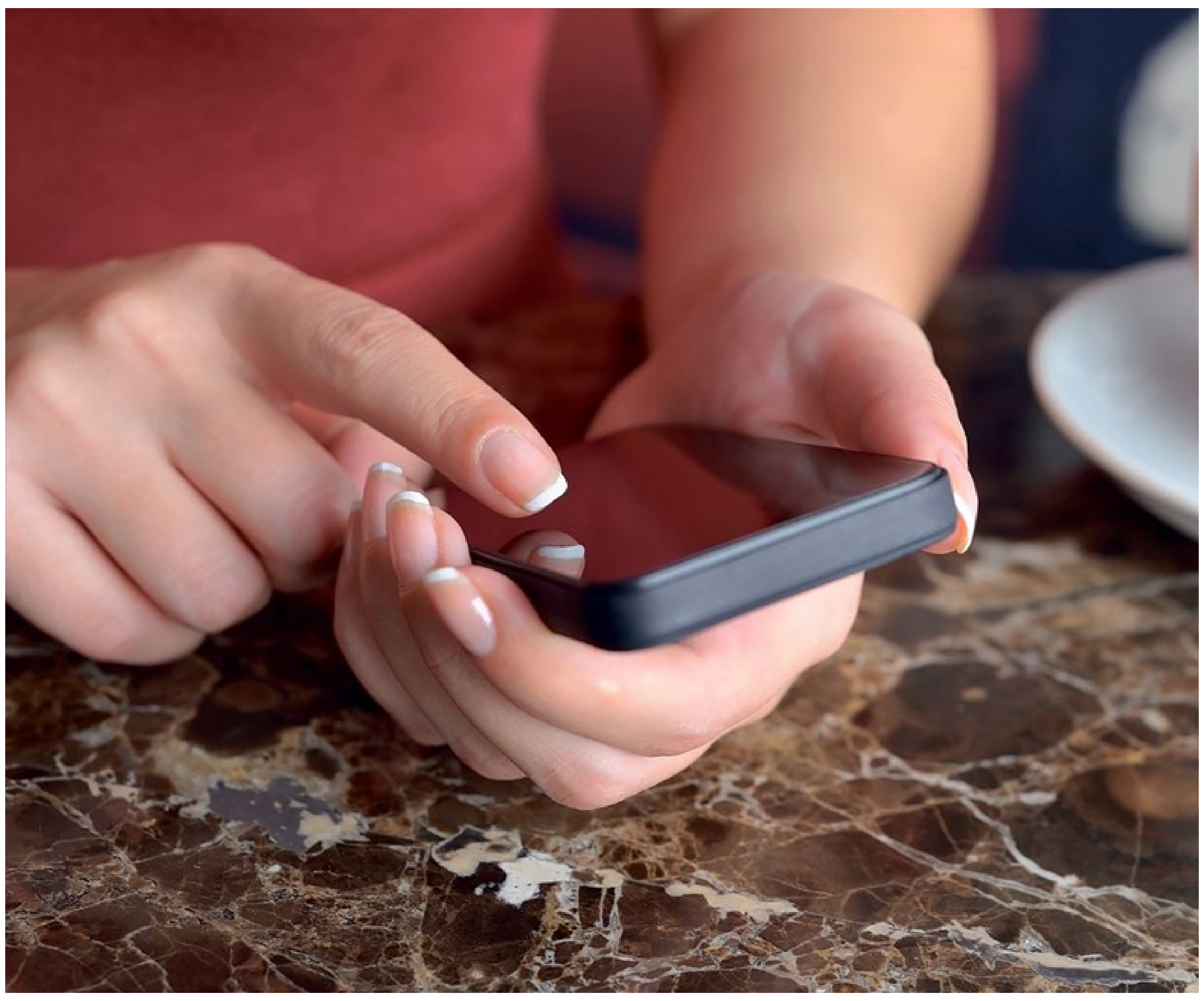
COMMERCIAL FEATURE



STREAMLINING PAYMENTS AND DELIVERING INSTANT VALUE

David Yates, chief executive of VocaLink, the company that sits at the heart of UK payments, says the key to success is to make transactions as easy and friction-free as possible

David Yates
Chief executive

VOCALINK

VocaLink pioneered electronic payments in the 1960s and has been at the forefront of payments innovation ever since. Today, VocaLink technology offers universal connectivity between UK financial institutions, and its services touch the life of every person and business in the UK with a bank account.

What started as a utility company owned by the banks has grown into a major power within the British economy, offering multilateral payments clearing and designing, building and operating world-class, real-time payment clearing systems and ATM switching platforms. "We are the payments hub for the UK, connecting with every bank, for all domestic electronic, non-card payments," says Mr Yates.

In the UK, one of the most exciting things we have seen is the launch of Paym a service funded by the Payments Council, which offers person-to-person mobile payments and is powered by VocaLink's real-time payments technology. The initiative allows individuals to send, receive and move funds directly from account to account, via their mobile phone and without the need for sort codes or account numbers. With more than 2.25 million registrations to date and £44 million transferred via the service since its launch in 2014, there is clearly great interest in the service and a burgeoning interest in mobile in general.

> Our objective is to make payment systems at the heart of e-commerce and m-commerce more invisible and frictionless

The accomplishments of VocaLink have not gone unnoticed and the success of UK payments initiatives has attracted attention from around the world. Consequently, VocaLink is fast becoming a major force in international payments. VocaLink technology and expertise helped introduce real-time bank transfers in Singapore. The FAST service, which has been operating for more than a year at 100 per cent availability, has built on the success of the Faster Payment Service. As well as push credits, it includes debit requests in real-time, making Singapore one of the world's most advanced payment markets.

"We continue to see a worldwide movement towards real-time payment systems and there is significant international interest in VocaLink's capabilities," says Mr Yates.

With the exponential global growth in e-commerce and m-commerce, banks and their customers are looking for new ways to pay that are easy to use, affordable and deliver instant value. VocaLink has invested heavily in real-time technology that empowers people and businesses to pay who they want, when they want. In practice, VocaLink's real-time technology provides a backbone for the UK economy. As well as providing the processing power behind the Faster Payments Service, real-time technology is the ideal platform to develop innovative payment solutions that reduce transaction friction and offer a much improved customer experience for consumers.

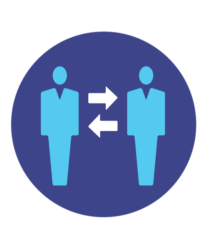
One such capability currently being developed is Zapp, an application that integrates bank systems with the world of e-commerce. Consumers and businesses can use Zapp to conduct e-commerce and m-commerce directly from their bank accounts with the highest standards of simplicity and security, while offering both certainty and control. Zapp puts financial control firmly into the hands of the consumer, even providing an account balance before a purchase is made. Small businesses and merchants will be able to improve their cash flow and tighten control, while offering a more engaging user experience. There is already great support for Zapp from banks and retailers, and the service is due to launch later this year.

"The key to success is to make payments as easy and friction-free as possible. The elegant simplicity of Zapp aims to build customer loyalty and reduce the customer drop-off rate, to ensure more business gets done," says Mr Yates.

Economies across the globe are realising the benefits of moving towards real-time payments technology, and with its experience of building and delivering domestic and international real-time payment solutions, VocaLink is perfectly placed to help make immediate mobile payments an international reality.

Vocalink.com

VocaLink pioneered electronic payments in the 1960s



Paym is a service funded by the Payments Council, which offers person-to-person mobile payments and is powered by VocaLink's real-time payments technology

2.25 million registrations to date

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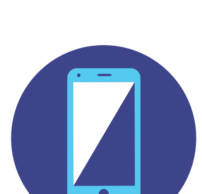
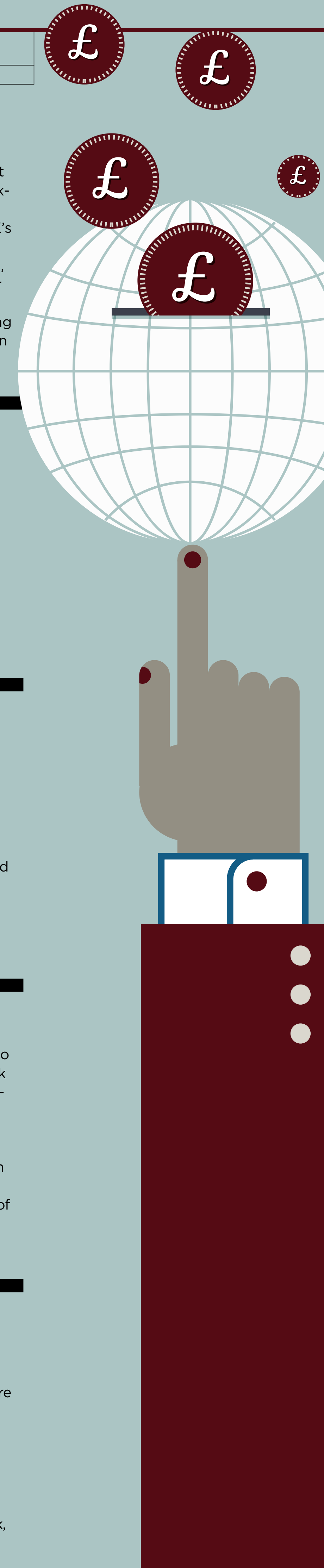


Zapp is an application to conduct e-commerce and m-commerce directly from bank accounts with the highest standards of simplicity and security

Meet some of the hottest payment companies

Payments companies are proliferating, but some stand out from the crowd. Here are 20 of the best

◆ ONES TO WATCH
● EDWIN SMITH



GOCARDLESS

Location: London
What it does: Processes direct debit payments in a cleaner, simpler, quicker way.
Why its hot: Having become the UK's leading direct debit provider, the company is launching new products, and focusing its attentions on larger businesses and foreign markets, starting with Europe. Now processing transactions at a rate of $500 million a year.
» Gocardless.com

TRANSFERWISE

Location: London
What it does: Transparent, low-cost international money transfers.
Why its hot: Recently received investment that values the company at almost $1 billion and has an impressive list of backers. Has transferred £1 billion of its customers' money and tripled its staff to 300 in the last year with international offices.
» Transferwise.com

STRIPE

Location: San Francisco
What it does: Online payments technology allows payments through an app or website.
Why its hot: Working on e-commerce with Apple, Facebook and Twitter. Total investment has reached $190 million and the company has recently been valued at $3.5 billion, more than double its valuation less than a year before.
» Stripe.com

VENMO

Location: New York and San Francisco
What it does: App links to users' bank accounts and allows instant free money transfers.
Why its hot: Although under pressure from newer apps that serve a similar purpose, Venmo is still the best-known mobile app for free money transfers between friends and has the backing of parent company PayPal. Scope to be used by merchants for a fee.
» Venmo.com

ADYEN

Location: Amsterdam
What it does: Payments platform for almost any type of payment, anywhere in the world.
Why its hot: Closed a $250-million funding round at the end of last year that valued the company at $1.5 billion and is targeting growth in the Asia-Pacific region. Has signed up 3,500 merchants, including Facebook, AirBnB and Groupon.
» Adyen.com

TIPALTI

Location: Israel and Palo Alto
What it does: Streamlines and automates business payments to large numbers of payees.
Why its hot: Designed to take care of regulatory and tax requirements, even when payees are in multiple countries. Currently serves more than 250,000 payees globally and processes over $1 billion annually.
» Tipalti.com

ANT FINANCIAL

Location: Hangzhou and Shanghai
What it does: A range of technology-based financial services, including Alipay.
Why its hot: Currently has a user-base of 300 million, handles 80 million transactions a day and accounts for half the Chinese e-commerce market, processing $519 billion in payments during 2013. Reports suggest the company intends to seek funding in mainland China.
» Global.alipay.com

PAYPAL

Location: Palo Alto
What it does: Online money transfers and owns smaller payments companies.
Why its hot: Founded in 1998, the company went public in 2002 before becoming a wholly owned subsidiary of eBay later that year. In 2013, revenue increased by 20 per cent to $6.6 billion, but in 2014 plans were announced to detach the company from eBay.
» Paypal.com

RAZORPAY

Location: California and Bangalore
What it does: Enables companies to accept online payments through their website. **Why its hot:** Operates in India where improving technology infrastructure and a population of 1.3 billion means the online payments market has the potential to grow rapidly. Co-founders have been working with US tech incubator Y Combinator.
» Razorpay.com

SQUARE

Location: San Francisco
What it does: Mobile payments and sales register app.
Why its hot: Although threatened by an increasing number of competitors, the $5-billion company has launched its app in multiple languages in more than 100 countries. It will begin to accept Apple Pay this year and has done a deal with Snapchat.
» Squareup.com

SNAPCHAT

Location: Venice, California
What it does: Hugely popular messaging and content app with added payments function.
Why its hot: Once a Snapchat user has registered a debit card they can send money to a contact's bank account by just typing the dollar symbol and required amount. With some 100 million users already signed up to the service, the add-on has a huge ready-made audience.
» Snapchat.com

APPLE PAY

Location: Cupertino, California
What it does: Contactless payment technology built into the US tech giant's newest devices.
Why its hot: US users of the iPhone 6, Apple Watch and other new Apple products are now able to pay for real-world purchases by swiping their device at hundreds of thousands of locations. The service will be launched in other territories later this year and into 2016.
» Apple.com/apple-pay

POYNT

Location: Palo Alto
What it does: A "future-proofed" payment terminal from the former head of Google Wallet.
Why its hot: The single piece of hardware can process payments from magstripe cards, chip-and-PIN, NFC (near-field communication) technology, Bluetooth, QR codes and beacon technology. Has agreements with at least two of the US's top five banks.
» Getpoynt.com

ZOMATO

Location: New Delhi
What it does: Restaurant search app with payments platform MaplePOS. **Why its hot:** A cash-and-equity deal, thought to value MaplePOS at more than $1 billion, opens Zomato up to providing a range of business-to-business services to restaurants, while keeping its growing number of consumers – 35 million users a month – happy.
» Zomato.com

M-PESA

Location: Nairobi
What it does: Mobile money service.
Why its hot: Vodafone subsidiary allows users without a bank account to pay for everything from groceries to utilities and airline tickets using their mobile phone. Already used by 59 per cent of Kenyan adults, the company processes $2.1 billion in transactions monthly.
» Mpesa.in

PAYTM

Location: New Delhi
What it does: Payment services provider.
Why its hot: At the vanguard of businesses offering mobile money services to India's 720 million unbanked adults, it applied for a licence to become one of the first non-bank entities to provide financial services there. China's Ant Financial owns 25 per cent of the company.
» Paytm.com

GOOGLE WALLET

Location: Mountain View, California
What it does: The NFC and online payments platform from Google.
Why its hot: Google Wallet was established in 2011, long before Apple Pay went live. Its recent acquisition of Softcard, a joint venture between three of the US's big four mobile networks, means Google Wallet will be pre-loaded in new Android phones. audience.
» Google.com/wallet

FACEBOOK

Location: Menlo Park, California
What it does: Payments feature on Facebook's Messenger app and website.
Why its hot: Although only available so far in the US, the service is simple to use and purports to be protected by robust security measures. Users can also choose to set up a PIN or use Apple's Touch ID fingerprint security system on new iOS devices.
» Facebook.com

KLARNA

Location: Stockholm
What it does: Online payments business with an expanding range of services.
Why its hot: One of Europe's few $1-billion tech companies, Klarna is eyeing expansion into the US and UK, and adding to its services. New functions could include peer-to-peer money transfers, payment for public transport and innovative ways of paying for single items.
» Klarna.com

Digital money is on the rise, but cash is kicking

The Payments Council predicts the majority of UK consumer transactions alone will be cashless in 2016, but notes and coins are still preferred by many

◆ **FUTURE OF MONEY**

● **STEPHEN ARMSTRONG**

It's easy to get distracted by the hype. Right now new payments companies are launching and packing in funding like a flotilla of over-excitable fishing boats heading into the Atlantic with a set of nets made from previously untested fibres and fuel from a laboratory in California.

In the last year we've seen the rise of new online banks such as Fidor, robo-investment advisers including Wealthfront, Motif Investing and Betterment, and the spread of crowdfunding into the venture-capital arena with the launch of Syndicates. Amsterdam-based online payments company Adyen raised £161 million back in December, valuing the company at a very healthy £970 million.

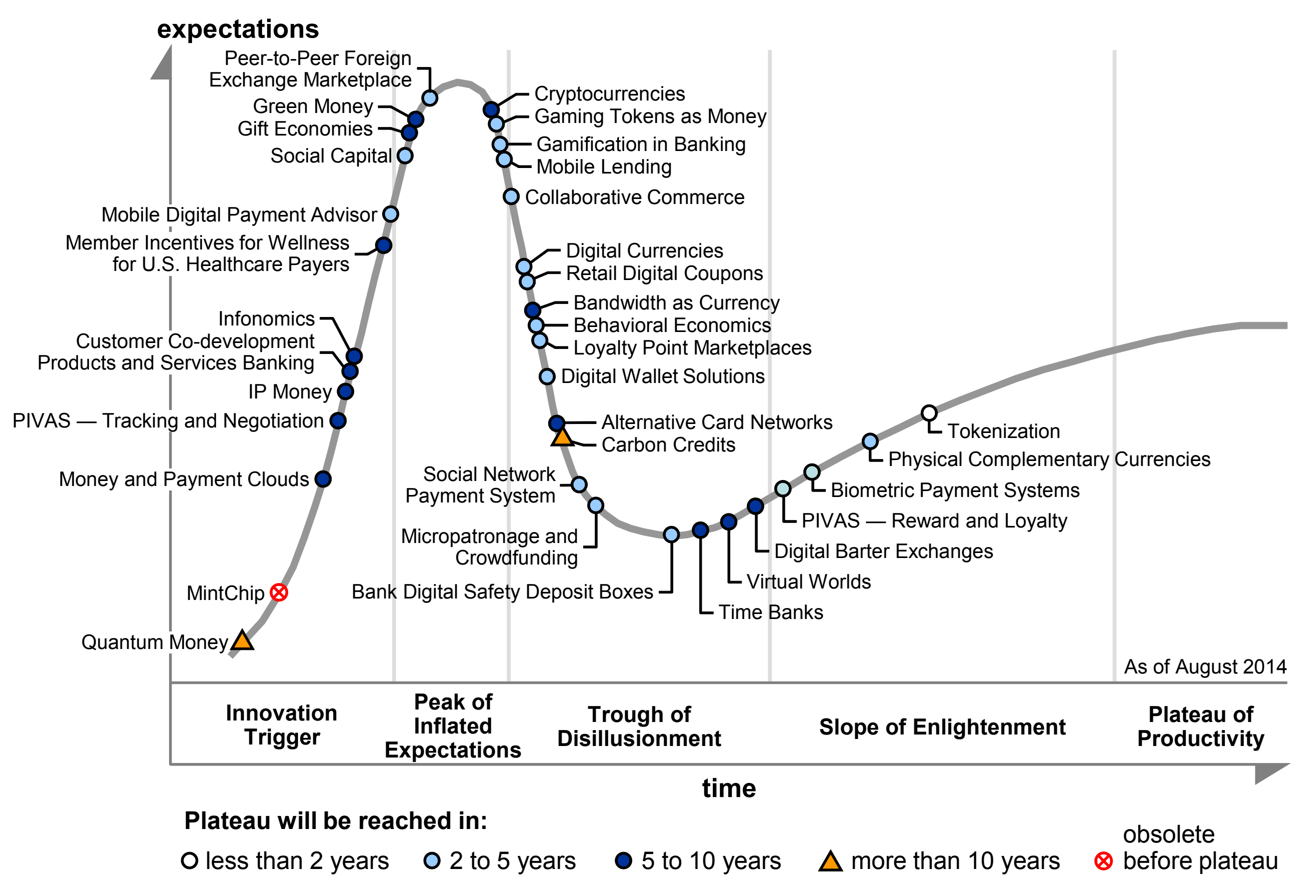
"Money is an area where consumers are traditionally nervous about trusting new entrants, so you might expect consumers to trust long-standing brands like banks when it comes to new technology such as m-commerce," says Aunkur Arya, general manager mobile at eBay's mobile payments processing company Braintree. "But really it's been energetic new startups that are introducing the consumer to new concepts."

He predicts the rise of beacon technology, allowing consumers to interact with the immediate physical environment through their smartphone, as well as wearables such as the Apple Watch or Pebble, allowing seamless purchasing without the need for a dusty wallet or even and clunky phone.

When Gartner puts together its future of payments hype curve, however, it compares two things: how much hype surrounds a technology innovation; and when is it likely to become a genuine mainstream piece of our lives? For Alistair Newton, Gartner's research vice president, banking and financial services, many of the bold adventures currently launching are effectively just new user-experience interfaces.

"Underneath most of these new launches, including Apple payments, you find the actual payments are running on the same rails as they always have," he explains. "It's still the banks that are managing the actual transfer of cash, via credit or debit cards typically."

HYPE CYCLE FOR THE FUTURE OF MONEY, 2014



Source: Gartner

Latest 2015 figures from the Payments Council show cashless payments have now overtaken the use of notes and coins in the UK for the first time.

Use of cash by consumers, businesses and financial organisations fell to 48 per cent of payments last year. The remaining 52 per cent was made up of electronic transactions, ranging from high-value transfers to debit card payments, as well as cheques.

The Payments Council expects cash volumes to fall by 30 per cent over the next ten years, with movement towards debit card, contactless and mobile payments driving the continued exodus from cash.

Mr Newton argues that the biggest genuine change in payment may come when the hype surrounding Bitcoin's digital coin dies away and people understand the payment change that underpins it – and it's more respectable rival Ripple.

"Every form of payment from me giving you five pounds to a bank transferring £50,000 is fundamentally the same – the stored value leaves on ledger or wallet and is transferred to another," he explains. "The cryptocurrencies use blockchain, which means all the ledgers are in the same place. It's much faster, much safer and you can see corporations taking this element up much faster than the mainstream."

Blockchain's advantage satisfies two of his rules for anything new to take hold in the payments sector – it either has to be quicker, easier and safer – or at least one of the three – or it has to offer a pretty substantial inducement.

Velocity chief executive Zia Yusuf believes it's all about the incentives. Mr Yusuf's restaurant payments app reduces the time taken to ask for and pay the bill to an average of one minute from an average of eleven minutes. "The technology winners won't be those who purely focus on payments, they will be those who add the most value to venues and to customers," he says. Velocity, for instance, combines its own rewards programme with merchant's programmes to double a diner's benefits if they chose to pay via the app, and plans to add recipe and shopping options.

> Movement towards debit card, contactless and mobile payments is driving the continued exodus from cash

At the back end of Velocity's business, of course, its bank is handling the value transfer. If this is to change, the role of the regulator will be key. In some cases, an increase in competition is fuelled by regulation changes. The European Payment Services Directive's recent updates, for instance, allowed the founding of new banks such as the pan-continental Holvi.

Holvi's 36-year-old chief executive Johan Lorenzen says the company offers complete financial services for freelancers, micro-businesses, and small and medium-sized enterprises (SMEs), from invoicing to book-keeping. "Small businesses and entrepreneurs are the segments poorest served by traditional banks," says Mr Lorenzen. "And yet EU figures show 99 per cent of European businesses are SMEs – some 20 million companies."

Typically, however, regulators are cautious and risk averse, says Ian Pearson, futurologist at forecasting consultancy Futurizon. "Security is the biggest concern," he explains. "We may see fingerprints with 64-bit codes imprinted or we may see gesture recognition. It needs to be fluid and unfakeable, which is tricky to guarantee."

One solution, Mr Newton suggests, is quantum money. With bleeding-edge quantum computers issuing currency that can't be copied, it would be possible for any of us to create our own payment system, using anything from time to bandwidth to supply value. That, he points out, is some way in the future – at least ten years, if not more. In the meantime, he concludes: "Until we have a payment system that's ubiquitous and stores value in the same way as the £5 note, why would we give up the £5 note?"

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COMMERCIAL FEATURE

CHOICE AND CONTROL: KEY TO SUCCESSFUL PAYMENT SERVICES

*In an increasingly globalised, hybrid economy, consumers and businesses want choice and control. That's why **Western Union** is working to create an omni-channel experience for both senders and receivers*

WESTERN UNION WU
moving money for better

In our fast-paced world where more and more of us are living, working and travelling abroad, moving money internationally in a way that's fast, reliable and convenient is more important than ever, whether it's to buy goods and services, to pay employees or to send money home to family.

In particular, the rapid growth of migrant workers is driving the increase in money transfers across borders. United Nations figures reveal that more than 232 million people were living outside their home country in 2013, while according to the World Bank, global remittances will reach $681 billion this year.

A Fortune 500 company traded on the New York Stock Exchange, Western Union has been helping people to transfer funds for more than 140 years. And today, in response to these trends, its business is evolving more rapidly than ever as it handles over 130 currencies, and moves more than $150 billion annually.

People expect a greater variety of payment options. That's why Western Union now provides payment facilities through mobile apps, mobile wallets and online, via more than 100,000 ATMs and kiosks, plus a network of over 500,000 agent locations, from Andorra to Zimbabwe. Digital transfers are growing rapidly, but the "bricks and mortar" option is still essential for millions of customers.

Western Union's vice president for Northern Europe, Massimiliano Alvisini, points out that the provision of both cash and electronic payments is a major attraction to customers. "From the UK, for instance, you can send money to more than 200 countries and territories that can be picked up as cash or paid into a bank account in over 50 countries," he says.

"People can transfer money when they're in the office via our digital channel, or they can do so on the way home or when they're shopping, thanks to our retail locations on the high street, one of the biggest networks in the UK," says Mr Alvisini. "There's also the opportunity to use our mobile channel, particularly when sending money to countries in Africa, which have leapfrogged to mobile technologies. At the same time we also have a bank account channel, which means that it's possible to send money directly to a bank account. For us the customer experience is critical, whether it be retail, online or mobile."

Mr Alvisini is also very much aware that with customers' differing needs a one-size-fits-all approach doesn't work. "Not everyone has a mobile wallet or even a bank account – many people still prefer cash," he says.

Speed and efficiency are also important, Western Union's vice president for eCommerce, Europe, Middle East and Africa, Ganesh Krishnamoorthi, points out. "I work in Europe and send money home to India," he says. "It's good to know that, if I had to transfer funds to my family because of an emergency, the money would arrive in minutes with Western Union." Tracking is another advantage.

Western Union is also working with other providers in order to reach an even wider audience. In January, for instance, it announced that it would offer the Apple Pay mobile payment solution at its flagship location and selected agent locations in the United States.

> Not everyone has a mobile wallet or even a bank account – many people still prefer cash

The company already has relationships with 17 active mobile network operators in 14 countries.

Despite the increase in the numbers of people travelling and working in different countries, harmonisation between national systems is still a long way off.

As an industry leader, and with agent locations in over 200 countries and territories, Western Union is focused on implementing strong compliance programmes designed to detect and prevent money laundering and other criminal activities globally.

It added significantly to its compliance organisation throughout 2014, for instance, growing it to more than 2,000 people and has invested over $100 million in state-of-the-art compliance controls. "This improves security and offers peace of mind, whether you're sending or receiving money," says Mr Alvisini.

Alongside individuals, organisations, especially small and medium-sized enterprises (SMEs) and non-governmental organisations (NGOs), are also benefitting from Western Union's global reach, coupled with its constant innovation. Offering services in over 30 countries with more than 100,000 clients around the world, Western Union Business Solutions, an operating division of Western Union, is a global financial services partner for organisations engaged in international business. It provides multi-currency cash management and payment services for businesses of all sizes that operate internationally, many of which are SMEs.

SMEs are increasingly internationalising. According to Oxford Economics this year, nearly half will generate over 20 per cent of their revenues outside their home country with the number of SMEs that operate in six or more countries increasing by 129 per cent. In support, Western Union Business Solutions provides foreign exchange risk management services that improve cash flow and increase profitability, in addition to efficient and scalable global payment products. Dedicated relationship managers help SMEs and larger businesses with cross-border payments.

"As well as SME importers and exporters, we also have clients in key verticals," says Tony Crivelli, vice president Western Union Business Solutions UK and Europe. "These include universities and colleges that might be receiving funds from international students or sending professors abroad for assignments. Pensions and payroll providers are also important partners who we work with to provide international payment services for their customers."

Thanks to Western Union Business Solutions' global reach, its business customers can send money around the world quickly, easily and cost effectively. "Other networks have numerous correspondent banks involved in the payment process, and along the way service charges and fees are deducted. These can be significant for smaller payments," says Mr Crivelli. "So we've developed GlobalPay, a system that interfaces with our own network, and allows SMEs to send a payment in full and on time without expensive banking fees."

Western Union Business Solutions has also helped more than 700 NGOs to send $2.3billion around the world. "Western Union NGO Global Pay enables NGOs to make international account-to-cash payments," says Mr Crivelli. "They're able to do this from one platform because we bring the Western Union Business Solutions network and the Western Union cash disbursement network together."

It's another example of how this long-established company is innovating and using its global reach to transfer funds quickly, reliably and conveniently in the form that suits customers.

www.westernunion.co.uk

No more poverty with mobile money

Bill Gates is making some bold predictions, the latest of which is there will be no poverty by 2030. With billions of people living on less than a dollar a day, that's a mighty claim but, using mobile money, his vision just might come true

OPINION COLUMN

CHRIS SKINNER
Chairman
Financial Services Club

For the last decade, the Bill & Melinda Gates Foundation has invested heavily in projects across the developing world to eradicate disease and illness. It has yet to succeed, but is certainly making a difference. For example, the number of children under five who die each year worldwide has almost been halved, while diseases, such as polio, elephantiasis and river blindness, have all but been eradicated. Now the foundation has moved on to a new focus – to wipe out poverty.

In his 2015 newsletter, Bill Gates says: "The lives of people in poor countries will improve faster in the next 15 years than at any other time in history." And he places access to banking services near the top of the list for why this will be the case. What is it about banking that makes such a difference?

The difference is clear when you consider the tremendous changes in Kenya since a new mobile payments service was launched eight years ago. The service is called M-Pesa – mobile money – and has transformed the economy.

Before the service launched, most Kenyans had no banking services. Only 2.5 million people had bank accounts in a country with a 40 million population. The majority of workers in the main cities could only send money home to their families via couriers, typically a bus or taxi driver. This was a very poor service as the money might arrive home, but on occasions would just disappear. If it did arrive, it was always subject to hefty courier fees of 25 per cent or more.

Of course, there were services such as Western Union, but these were geared towards overseas rather than domestic transfers. Then M-Pesa launched in September 2007 and has been followed by several other mobile money services. Now $2 out of every $5 transferred in the Kenyan economy is moved through mobile money – 40 per cent of the GDP – and is used and trusted by almost all Kenyan adults. The reason it took off so fast is that it was simple, easy and trusted.

The way the mobile money system works is that there are M-Pesa agents on the ground who record the sending and receiving of money using SMS text messaging. These agents are vetted by the network and act as the trusted agent to manage the money transfers. In other words, no money actually moves, just a message between one agent and another to notify the receipt and release of monies between individuals.

The result is that all Kenyans now have access to a financial system that previously excluded them. According to the Consultative Group to Assist the Poor, less than 20 per cent of the population living outside Nairobi on less than $1.25 per day used a financial service in 2008 and yet, by 2011, 72 per cent were using M-Pesa.

Equally, the system has transformed the banking system. When the service launched in 2007, banks did not trust it. In fact, they asked the regulator to get rid of it as likely to be fraudulent and conducive to criminal activity. The regulator disagreed and gave the service support, having seen its financially inclusive nature.

The result is that many of those people who were previously excluded from the system have now created mobile credit histories through mobile money transfers. Once you have a credit history, you can get a bank account and many Kenyans have. Since the start of the service, the number of bank account holders has increased from 2.5 million to 15 million, and continues to expand as others join the system. For example, Equity Bank recently started competing head-to-head with M-Pesa for mobile money transfers, mobile loans and more at rates that are far more competitive and compelling. The message is where there's money to be moved, there's money to be made.

> **The message is where there's money to be moved, there's money to be made**

And what does all of this mean for you and me? Well, there are thousands of unbanked and underbanked citizens across Europe and America. America, in particular, has something like 80 million people who are excluded from the banking system. When you are excluded, you are in a poverty trap that is nigh impossible to escape. Everyone can target you in scams, take the cash and leave you broke. A safe, secure and trusted money store and money movement system changes all that, as the M-Pesa example has shown.

If everyone in Britain and the world has access to financial services, then Bill Gates' vision of no more poverty might just come true. The vision is that a basic human right should be access to banking so no one is poor because of the system. Surely, that's a good thing therefore.

Tech is now tap, swoosh or touch

Consumers, particularly the young, are hungry for high-tech, no-hassle, fast ways to pay which are now central to the customer experience

◆ **FINANCIAL SERVICES**

● **DAN MATTHEWS**

Every year, another large group of wide-eyed and tech-friendly youths go out and open bank accounts. These young folks have never known an offline world and can't remember life without the iPhone. To them, paying in a cheque is like writing an IOU in italics on parchment with a quill.

It's one of several reasons why banks are looking to upgrade the way they let customers pay for the things they want. First credit and debit cards reduced the need for cash and now smartphone apps are reducing the need for plastic.

"Each year, 'Gen Y' [Generation Y born between the early-1980s and early-2000s] comprises a larger proportion of banking customers," says Patricia Hines, a director at technology company MuleSoft.

"This tech-savvy segment expects the same round-the-clock convenience provided by digital shopping, travel, music and social media websites, and mobile apps. Both banks and non-banks will continue to invest in these types of technologies."

The stats speak for themselves. The British Bankers' Association says around 14.7 million people have already downloaded banking apps to their phones. In 2014, they used these apps for 18 million transactions, double the total just two years before.

The UK Cards Association says 58 million contactless cards had been issued by the end of last year and transactions on them soared 330 per cent compared with 2013. Put all these stats together and what do you have? A brave new world of payments where people just tap or swoosh – and go.

Customer experience is everything. People want payment apps to be intuitive and easy to comprehend, but most of all they want them to work instantly, without fuss or fumbling.

> **People want payment apps to be intuitive and easy to comprehend, but most of all they want them to work instantly, without fuss or fumbling**

But there are other, more involved, potential benefits for the customer. "The emergence of mobile and internet banking will act as a spur for banks to develop and offer a true omni-banking solution," says Anthony Duffy, director of retail banking for Fujitsu UK and Ireland.

"Banks will be able to gain a true single view of the customer and the ability to start a transaction in one channel and complete it in another, providing customers with a seamless and synchronised customer experience."

Exciting times. But a few things are getting in the way of banks perfecting customer service. One is the bewildering range of platforms offering to streamline the payment process. Some have been produced in-house by banks, some have been adopted or acquired by them, while others act independently.

These must consolidate in future, according to commentators who say what the industry is crying out for is one elegant and ubiquitous solution that the banking sector can adopt as one.

Some platforms are getting close, such as Zapp or PayM, both of which have established links with numerous high street banks, or iZettle and Square which enable easy merchant card payments on the go. But an endless stream of alternatives prevents any one, or even any group, from dominating the arena.

"Currently, technology companies have the competitive advantage," says Peter Veash, chief executive of The BIO Agency. "They're more agile, so can respond to innovation, whether that's building a better customer experience-led app or facilitating more trustworthy payment systems."

Others say banks should stick to their knitting. They don't have to innovate to provide a great customer experience, just make sure the money is accessible and the back-end systems won't collapse under the strain of online transactions.

"Banks don't have to be innovating at the cutting edge," says Judo Payments chief executive Dennis Jones. "Banks should focus on improving the legacy infrastructure so that it can support innovation brought in by new service providers. Banks can partner up with innovators and stay relevant with the shift to mobile."

Jerry Norton, managing director at IT and business process services firm CGI, argues many institutions have some work to do in this area. "Payment is still constrained by the underlying infrastructure. It is for this reason that banks are now investing. Improve this and you can offer better payment services to your customers," he says.

In future, legislation and oversight will help steer banks in their financial technology operations. A new Payment Systems Regulator and European Union Directive, for example, will ensure the customer comes first.

"The regulator will be looking to make improvements to the industry and it will have an effect on the focus of existing and new banks, as well as payment institutions," says Jonathan Williams, director of payments strategy at Experian.

"This will be in addition to the updated version of the EU's Payment Services Directive and regulation on card fees. It is clear that services need to get closer to the customer, wherever he or she is and at whatever time."

SEVEN WAYS FINANCIAL SERVICES ARE TRANSFORMING PAYMENTS

- A changing regulatory framework geared to open the payments infrastructure to providers other than established banks
- Improving the efficiency and effectiveness of existing payments infrastructure though implementation of the Faster Payments Service
- Taking new products, such as mobile banking apps, to consumers which will improve banking customer experience
- Devising new products which are not small, niche or regional, but offer a consistent service to all customers across all regions
- Adopting next-generation biometric security technologies, such as the iPhone 6 Touch ID or Hitachi finger vein technology used by Barclays
- Traditional bank and card companies partnering with non-bank providers, such as Apple Pay, to offer new mobile payment methods
- Mobile banking apps that are context-aware and able to provide international payment services when a customer is travelling abroad