



Oxfordshire Branch

Enabling the
information society

A decorative graphic consisting of several overlapping, wavy lines in various shades of green and yellow, flowing from the left side of the slide towards the right. The lines have a soft, ethereal quality, resembling smoke or light trails.

The changing face of payments

Tim Lambertstock

20th January 2011

Agenda



- What are payments?
- Global payments market
- UK payments landscape
- How things are evolving
- Possible future developments
- Questions

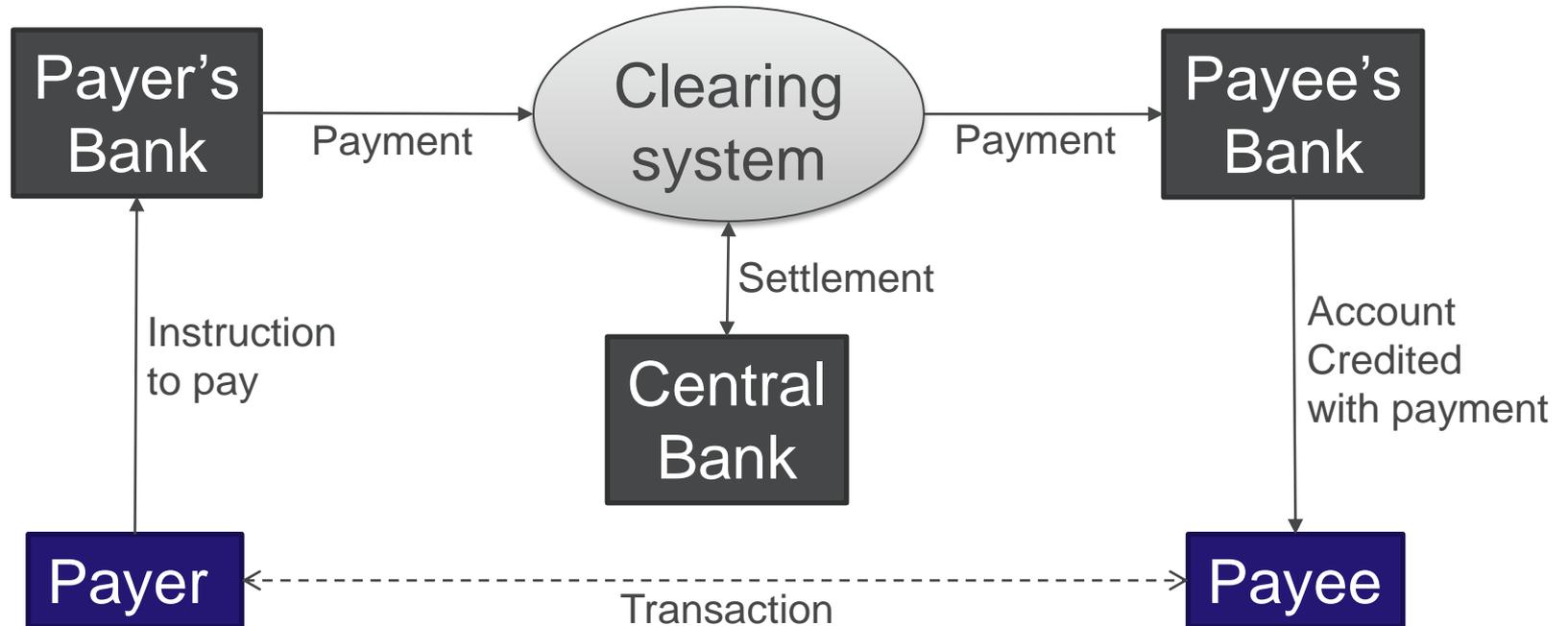
What are payments?



- They are a means of transferring value from one person or business to another
- They drive commerce
- Their key attributes are currency and amount
- They can be in cash, paper-based, plastic card or electronic
- They can be domestic or international
- They can be low-value or high-value

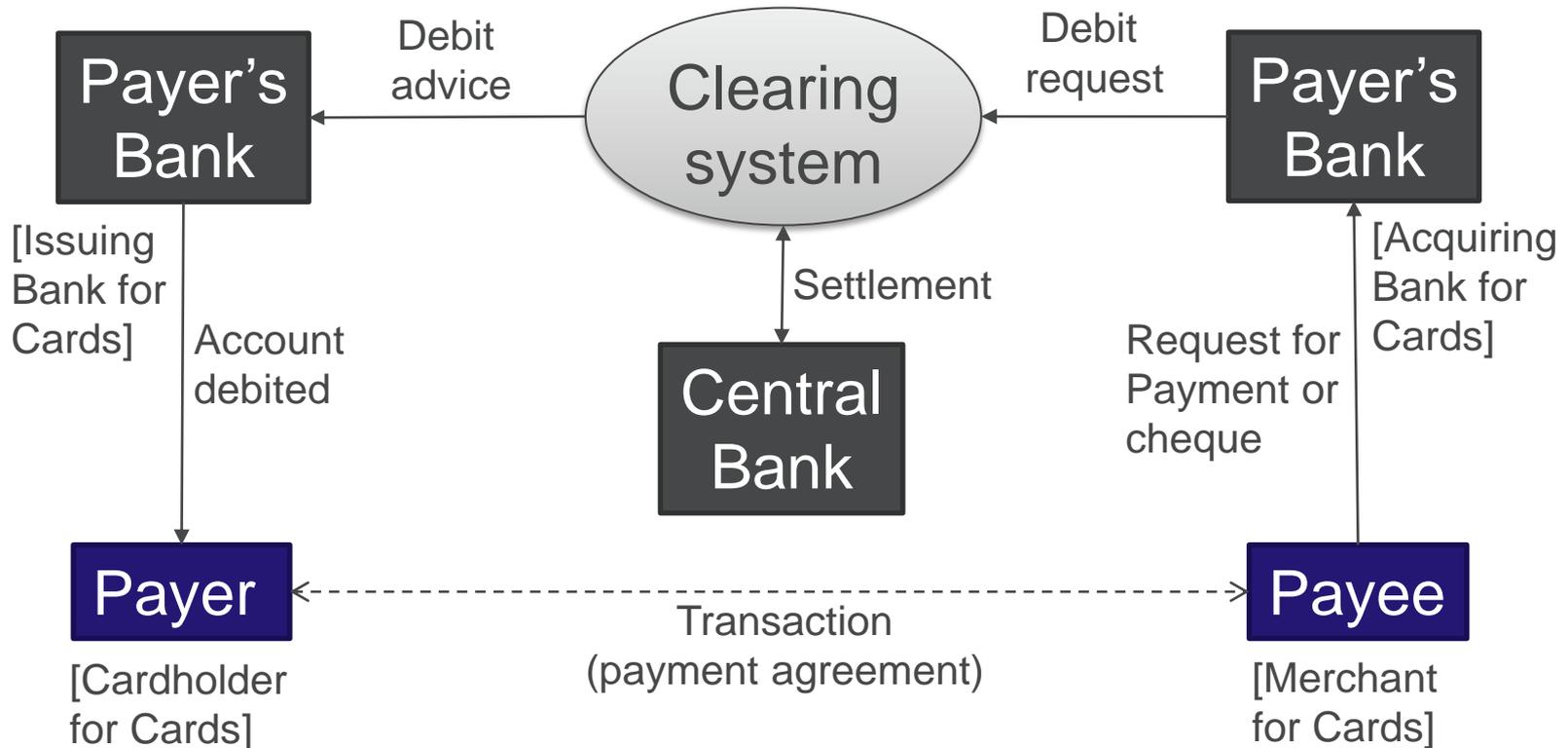
Payment basics

Push payment (credit transfer)



Payment basics

Pull payment (cheque, direct debit, card payment)



Payments infrastructure



- Payments can take place bilaterally (between two Institutions) but, more usually, multilaterally through a Clearing system
- Settlement, through accounts at a central bank, may be Net (Bacs etc) or Gross (CHAPS etc)
- Multilateral payments rely on a set of Scheme rules that bind all participating Institutions
- Direct Debit schemes have a separate set of rules to protect consumers
- Local and, increasingly, international standards are key

Global payments market



- The volume of payments continues to grow, in spite of economic crisis
- But volume of high value payments has fallen
- Debit card payments and electronic payments show biggest growth and cheques biggest decline
- Cards represent over 58% of non-cash transactions
- BRIC countries show the largest growth (28% CAGR)
- But cash use also continues to grow, particularly in the Eurozone (even excluding €200 & €500 notes)

Cash



- Cash is the simplest form of payment and still accounts for the majority of transactions globally
- Very few non-cash payments in Greece, Italy and Poland
- Cash-in-circulation in the Eurozone has maintained a steady growth of about 11% per year since 2002
- This represents a significant cost for global economies (the European Payments Council estimates that the cost of cash payments for European Union economies is €50 billion to €75 billion a year)
- There is thus a business and political imperative to reduce the use of cash

Cheques



- The use of cheques is in decline globally (6% per year), even in the US
- They have already disappeared from some economies (including Scandinavia, Belgium)
- Cheque processing is expensive and there is a high risk of fraud
- Most cheques are used by older people
- Many people under 30 have never written a cheque!
- BUT, cheques are currently the only alternative to cash for some transactions

Cheques in the UK



- Cheque volumes are falling by about 13% per year
- The UK Cheque Guarantee Scheme is currently being phased out and closes on 30th June 2011
- The Payments Council has proposed that the UK Cheque Clearing Scheme should close on 31st October 2018
“provided that adequate alternatives are in place...”
- A final decision will be taken in 2016 and this will be open to public scrutiny
- Cheques could continue after this but there would be no centralised clearing and no obligation to accept cheques

UK electronic payments



- Bacs has been running since 1968 and is one of the first electronic payment systems in the world
- Bacs supports Credit transfers and Direct Debits plus various payment information transactions
- Faster Payments was introduced in May 2008 and has grown rapidly
- CHAPS is used mainly for high-value transactions
- LINK is the UK ATM scheme that enables cash withdrawals, balance enquiries etc from virtually all UK ATMs. It also has links internationally

Card schemes



- Most cards are issued under one of the two International Card Schemes – Visa and Mastercard
- They have detailed scheme rules, standards and compliance requirements e.g. 3D Secure, PCI DSS
- Most ATM cards and some debit cards are issued under local schemes although most are co-branded
- Most card processing is now handled by third party processors such as First Data
- Moves to set-up third European Scheme (EAPS)

UK Faster Payments



- Introduced in May 2008
- Allows customers to make faster electronic payments, typically by phone or online banking, to transfer money between accounts or pay bills, or make regular Standing Order payments
- First new payments service to be introduced in the UK for more than 20 years.
- Now used by most UK banks for Standing Orders and phone and online payments
- Each sending bank has its own limits up to the Scheme limit of £100,000 per payment

New non-bank providers are emerging

- The EU Payment Services Directive created a new lightly regulated entity “Payment Institutions” (PIs), allowing non-banks to handle payments and join the banks’ payment schemes and associations
- Pis include
 - Money remitters
 - Retailers
 - Telcos and utilities
 - Internet brokerage
 - Independent ATM deployers (IADs)
 - Prepaid card companies
 - Internet payment companies
 - Bill collection companies
 - Payment technology companies
- These can exploit their existing infrastructure and brands OR be agile, low cost, niche players



New “banks” are also entering the market including:



Registered as a bank in Luxembourg

- Leader in online payments
- Active within the UK Payments Council
- Particularly interested in mobile space



Became a bank in 2010 with purchase of Church House Trust

- Apparently still interested in Northern Rock
- Will capitalise on brand loyalty and innovation



New UK retail **bank**, mainly internet-based, consumer and SME



Now a **bank**, as well as the leader in customer-centric retailing

- Potential leader in customer centric banking?
- Leading the way for other retailers?



Launched in Belgium in April 2010

- Claiming to be the first implementation of the SEPA cards framework
 - Significant interest from retailers, even banks
 - Looking to come to the UK
-

New payments market entrants



- New market entrants will operate differently
 - Think in pan-regional and global terms rather than domestic
 - Achieve high-levels of personalisation for customers
 - Appeal to the younger, convenience-oriented customers
- Some will bypass banks completely
- Some will not access clearing & settlement systems
- Banks may not yet have fully understood the change that is happening before their very eyes

The future



- Online and mobile are key to the future
- PayPal and cards largely have the online space
- Mobile is still a turf war (banks, operators and new entrants)
- Near Field Communication (NFC) is the most important development in mobile
- Smartphone apps are making it possible to improve the mobile payment experience
- Security is still a big concern!
- As already seen in the UK, use of cash will fall and be replaced by cards and mobile

Questions?

The background features several overlapping, wavy lines in shades of green and yellow, creating a sense of motion and depth. The lines are most prominent in the lower half of the image, curving upwards and across the frame.