

At the tipping point



FASTER PAYMENTS ARE NO LONGER SIMPLY A "NICE TO HAVE". AS **GAVIN MACLEAN** EXPLAINS, THEY ARE BECOMING A KEY TOOL FOR STRENGTHENING CUSTOMER RELATIONSHIPS AND OPTIMISING WORKING CAPITAL.



When the Faster Payments (FP) service was introduced in 2008 its benefits as a cost-effective alternative to CHAPS (Clearing House Automated Payment System) were immediately apparent. Take-up, though, was slower than expected. The ability of companies to use FP was tied to two notable developments:

- the introduction of Direct Corporate Access (DCA), through which up to 1.2 million transactions could be submitted in one file; and
- banks embedding the new payment types within their own online banking systems.

The technical developments behind DCA (and banks' own systems) were delivered on time, but the launch was, at best, soft, due to the onset of the global financial crisis. Banks understandably had more pressing priorities. Even those organisations that had already adopted DCA discovered drawbacks. The limited payment window, initially between 6am and 1pm, ran contrary to the principle of speedy, whenever-you-need-them payments. Limits on the value of transactions also helped CHAPS to remain the method of choice.

Fast-forward three years and the picture has changed. Banks can now offer Faster Payments as an option to all corporate customers. They can be accessed simply and securely, 24 hours a day, seven days a week, 365 days a year.

DRIVING GROWTH By the end of 2010, we at RBS had seen the number of transactions rise by nearly a quarter on the previous year, reaching a level almost four times that of the 2008 figures (May to September) at over 100 million a year. Yet this may be only the start. The availability of FP to organisations of every size, their ease of use and, more importantly, the changing face of 21st century business, mean that FP are becoming ever more attractive.

For certain sectors FP is already a key part of the business model. Typically this is in areas where consumer-facing companies want to motivate and reward customers by making near-instant payments. These range from mobile phone recycling businesses to consumer finance houses offering payday loans, and from payroll services providers to online security traders. In all these cases the ability to offer customers, traders or casual staff instant payment is essential to winning business.

In our connected world, however, the expectations of all customers, whether business or consumers, are changing. In an environment where

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nearly everything is available with a click of the mouse, or a finger on the touchscreen, tolerance for payment delays is wearing thin. Consumers demand better levels of service, so a business's ability to offer FP is an opportunity to differentiate and win loyalty. As well as fast payment, the service also offers businesses the certainty that the money has been received. As well as cutting out frustrating delays for consumers awaiting money, FP services can therefore cut out errors.

INCREASING VALUE RBS plans to raise its maximum FP limit from £10,000 to the industry-set limit of £100,000 by the end of this year, raising the proportion of overall payments eligible for FP from 64% to 84%. This in turn will increase the attractiveness of FP for the business-to-business market, which will be able to access a more cost-effective route than CHAPS for larger payments. The user base will widen accordingly to include businesses such as a legal firm releasing funds or a corporate paying its suppliers. Sort codes that can receive BACS payments should also be eligible for FP by the end of 2011. This increase in the reach of FP will lead to its wide acceptance as a payment type.

FP allows corporates to hold onto their cash longer. If, for example, you are paying a supplier under the normal three-day banking payments cycle, you would normally ensure that funds were in your account from authorisation until payment was taken. Faster, real-time payments mean you know exactly when your cash will disappear from your balance and appear on the beneficiary's. You can plan accordingly, managing your cash with greater certainty. FP can also help businesses to drive better deals from their suppliers. By offering suppliers increased speed and certainty of payment, corporates may be able to win improved pricing or better terms.

Instant payment can, of course, raise security concerns, but here RBS's integration of FP into its Bankline working capital optimisation tool has advantages. With a multi-level password system, data encryption, PIN and user ID protection all in place, Bankline offers high-level protection.

FP services are not only about near-instant payment. They can also be used to make one-day and two-day payments. These transactions benefit from lower costs, while retaining the advantage of certainty of payment and the reduced potential for errors.

Smart businesses can gain first mover advantage, using FP not just to match but to exceed customer expectations. They can also address another key current focus: managing cash and optimising working capital.

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