Something old, something new

MOBILE PAYMENT INNOVATIONS, COMBINED WITH REGULATORY PRESSURES AND THE PROPOSED INTRODUCTION OF CHEQUE IMAGING, ARE PRESENTING CORPORATE TREASURERS WITH BOTH CHALLENGES AND OPPORTUNITIES. REBECCA BRACE REPORTS

The UK's payments landscape is evolving rapidly – but this evolution is taking place in a number of directions and across a number of different payment instruments. While mobile technology is driving many of the most exciting innovations in payments, other factors, such as regulatory change and the rise of faster clearing, are also contributing to a dynamic and fast-changing market. Meanwhile, paper cheques are set to be overhauled through the proposed introduction of cheque imaging.

Where treasurers are concerned, efficiency, costs and standardisation continue to be the most pressing goals in the payments space. "In terms of what corporates want from the market, so much of it is about consistency and centralisation in moving costs from their transaction processing, and the demands they are putting on banks to improve their reconciliation reporting to enable transactions to go straight through," says Steve Pairman, head of EMEA for corporate solutions and low-value payments at JPMorgan.

At the same time, recent innovations are opening up new payment methods that will affect both consumers and businesses. According to research by the Centre for Economics and Business Research, the value of mobile payments in the UK will reach more than £14bn by 2018. Meanwhile, 20 million adults are forecast to pay for goods and services using a mobile device by 2020.

The prevalence of mobile devices has had a significant impact on the development of new payment offerings. "With over 70% of people in the UK now owning a smartphone, the desire to transact anytime and anywhere is one of the big drivers for consumer behaviour," says Richard Martin, head of cash management product at Barclays. "This has a major impact on corporations, since many of their payments are either business-to-consumer or consumer-to-business payments."

The topic of mobile payments is in itself a diverse area that covers everything from SMS payments to mobile point-of-sale offerings that allow customers to purchase goods in person using their smartphones.

"Mobile payments in Europe have been available for some years now and in various forms: text message, mobile app/browser, card near field communication, phone near field communication and, more recently, 'pay to contacts'," says Ad Van der Poel, head of payments and receivables, GTS EMEA at Bank of America Merrill Lynch. "Most of these have relied on mobile phone billing and cards as the underlying payment method."

The impact of Paym

This is changing with the arrival of Paym, however. Launched earlier this year by the UK Payments Council, Paym provides a means of making payments using a UK mobile phone number and without the need to share bank account details. To date, nine banks and building societies are offering the service; several others have committed to join the scheme within the next year.

Van der Poel says that while Paym will not differ greatly from other banking apps offering a pay-to-contacts feature from a consumer perspective, the main difference is behind the scenes: "Merchants' websites will be charged at automated clearing house fees (fixed-pence charging), rather than card fees (percentage of transaction and monthly fee)."

Banks with existing mobile payments capabilities, such as Barclays, have integrated their offerings with Paym. "We've been making it easy for our customers who already use the Pingit app to link into the Paym infrastructure," comments Martin. "We see this as very important; albeit Paym is seen very much in the person-to-person space. To really drive adoption, we believe that customers need to be able to use mobile payment methods in a multitude of scenarios in order to facilitate their daily lives."

Developments are ongoing. Van der Poel says that Zapp, which is due to be launched later this year, has a role to play in helping merchants to encourage more Paym automated clearing house payments via mobile. "Zapp

SEPA UPDATE

In January, just days before the Single Euro Payments Area (SEPA) migration end date, the European Commission announced the addition of a six-month transition period, giving some countries extra time to complete the migration process. Figures from the European Central Bank revealed that, in May, more than 96% of credit transfers in the eurozone were processed in the SEPA format, while SEPA direct debit accounted for over 88% – up from 26% only six months earlier.

For many companies, the challenge of migrating within the deadline has meant that the broader benefits of SEPA have been put to one side. With migration complete, however, some of these companies may take the opportunity to revisit SEPA and explore how they can use it to achieve a more efficient cash management structure across the region.

in the UK is a mobile payment acceptance similar in user-journey to PayPal," he says. "The difference from PayPal is that instead of being presented with a PayPal screen with items for payment, a consumer can choose their bank and pay via their familiar banking app money-transfer screen."

While mobile is a major driver in the evolution of payments in the UK and Europe, other factors are also playing an important role. One of these is the growing focus on faster clearing capabilities. "The Faster Payments service in the UK is being exported to a number of different markets. Singapore has gone live with its version of it; Australia has got a tender out to try and replicate what we are doing; and Scandinavia is well advanced in this space," says Martin. "The move towards near real-time payment capabilities in a lot of different markets provides the rails for the anytime, anywhere capability that consumers are looking for."

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Most innovation in the payments area is focused on the most efficient payment instruments. At the other end of the spectrum, however, even the lowly cheque is set for a revamp. The government recently provided details of its plan to introduce cheque imaging, which could enable consumers to pay cheques by photographing them with a smartphone.

Payments in Europe

At the European level, the Single Euro Payments Area (SEPA) is also reshaping the payments landscape, giving corporate treasurers the opportunity to centralise their accounts payable and accounts receivable functions more effectively than in the past.

Not quite THE END

UK CHEQUES: THE NEXT CHAPTER

In 2009, plans were put in place to eliminate cheques in the UK by 2018. This changed in 2011 when cheques won a reprieve from the Payments Council following objections from individuals, businesses and consumer groups. So cheques continue to play their part in the UK payments landscape: while volumes have declined in recent years, cheques worth almost £840bn were processed in 2012.

Having decided not to eliminate cheques completely, the government's focus has shifted to increasing the efficiency and convenience with which cheques can be used. In June, the government announced that cheque imaging would be permitted, providing a legal basis for cheques to be paid in using scanned images rather than requiring the recipient of the cheque to present the physical cheque to their branch.

Already permitted in numerous markets, including the US, France and parts of Asia, cheque imaging would allow cheques to be paid in remotely using smartphones or other devices. This could make life easier for the treasurers of companies that continue to receive payments by cheque – an inefficient instrument, which is prone to delays. "Cheque imaging will help corporates to remove the actual paper flow from the system, so that will be of benefit," says Steve Pairman, head of EMEA for corporate solutions and low-value payments at JPMorgan. "That said, corporates are, by and large, reducing the volume of cheques that they use as they continue to focus on straight-through processing."

Some obstacles will need to be overcome in order to make the move to cheque imaging, however. "One area of concern is the intention to incorporate all payment mechanisms that use the paper cheque-clearing process, such as bank drafts and traveller's cheques," says Nancy Atkinson, senior analyst at Aite Group. "These are not used in a uniform way, so this could be a challenge."

Nevertheless, Atkinson points out that in other countries that have introduced cheque imaging, it has proven to be an effective solution that saves money, speeds up processing and helps to eliminate some of the cheque float.

"Following the transition to SEPA payments this year, I believe that we will start to see an increased move towards payment factory solutions," says Jude Morris-King, global process expert, cash and banking at AstraZeneca. "This will permit corporates to manage centralised, rationalised and harmonised banking structures, and enable payments to be made on behalf of multiple entities within the company."

But some of the potential benefits have yet to be realised, as David Felton, VP of international treasury at media distribution company Discovery Corporate Services, observes: "The increased use of IBANs [international bank account numbers] and BICs [business identifier codes] means that banking payment templates *should* also be able to be standardised – but due to the differing systems developments, this has not happened yet."

Looking ahead, Van der Poel also says that there are investigations currently under way to create an equivalent to Paym across Europe using the SEPA scheme. "In order for this to happen, banks have partnered with all of Belgium's telecom providers," he says. "In our opinion, Paym-like solutions are likely to be more successful in Europe than in the UK, as in most countries on the continent there is already less usage of credit cards as a payment instrument."

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Impact on treasurers

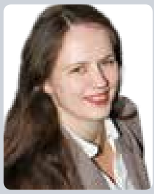
With payments evolving in so many directions, there is much for corporate treasurers to keep up to date with – and this is being compounded by the impact of regulatory changes currently in the pipeline. "It's not easy trying to understand the impact of all the regulations that have gone through and keeping up to date with the evolution of the core infrastructure – such as the changes in clearing, the arrival of SEPA and Faster Payments in the UK," notes Martin. "Other changes are potentially being put forward around things like interchange fees on card transactions."

For treasurers, innovations in the area of mobile payments have the potential to open up new opportunities. These include the ability to receive payments quickly and efficiently, and to use quick response codes on invoices.

But innovations that might have a place in consumer banking are not always suitable in the corporate context. Receiving mobile payments is one thing, but corporate treasurers are less interested in making payments using a smartphone due to existing security procedures.

"Our offering uses the mobile device as a means of viewing balances, providing transaction alerts and authorising transactions," comments Pairman. "Treasurers have in place dual or triple authorisations, so you will not see a treasurer initiate, execute and approve a payment purely using a mobile device."

While a great deal is happening in the world of payments, managing risk is a higher priority than ever for corporate treasurers. As such, the adoption of the latest innovations will be tempered by the ever-growing focus on security and control.



Rebecca Brace is a financial journalist with extensive experience of writing about corporate treasury