NatWest

# Redefining the payments landscape in 2016

## Payments are now at a tipping point in the UK. Not that long ago, cash was the primary way to pay, but no more: over half of all transactions now happen digitally.

This trend is only going to accelerate during the course of this year and beyond. Banks' customers really value the ease, speed and simplicity of digital payments such as contactless through cards, smartphones or even watches, especially when paying small amounts. Change towards a one-click, one-touch world is happening now, physically as well as digitally, from tap-and-go payments in shops to paying online.

### Three big themes:

Three of the big themes underpinning further growth are digital wallets, real-time payments and banks applying technologies such as Blockchain or Application Programming Interfaces (APIs) in new and exciting ways. These themes will allow banks to use the UK's well established Faster Payments infrastructure to usher in an era of frictionless ways to pay.

They also open up an opportunity for banks to disrupt the disruptors. At the moment, it is largely retail customers who are enjoying the benefits of the digital transformation wrought by the emergence of new solutions into the payments market.

But for corporates, especially those such as retailers or utility companies who process payments, the digital experience is different.

Traditionally, handling a card payment would involve the merchant paying a fee to the merchant acquirer running the physical infrastructure, such as point-of-sale terminals, this is in addition to an interchange fee to the card issuer's bank – this fee has now been capped by regulation.

But there is now a wave of new participants in the market who have successfully inserted themselves into the payments' value chain. Companies such as PayPal act as intermediaries between a business and its customer – and charge a fee for doing so.

Yet the infrastructure supporting a payment is still the same – a card company, a merchant acquirer and a bank. The only difference is there are now four fees to pay instead of three. Retail customers are not directly affected – rightly, all they want is their payment to be processed quickly simply and securely. It is the merchant, who bears the cost.

### Simplifying the payments process

The next step is to make it faster and cheaper for merchants to handle payments by simplifying the value chain while still keeping the system safe and secure; we look after and protect customers' money. This is where technology comes into play.

PSD2 and Open Banking will open up the payments infrastructure. Using APIs banks and other providers can develop new apps and online software, enabling people to pay from their mobile phones or via a button embedded into a website or app – without having to enter their card details or security codes. A new generation of biometrics, building one TouchID, could provide swift and secure access.

All of this means that the retail customer will find it easier to pay; while the merchant will receive their money faster and more efficiently.

## Working together

To make the most of these new technologies, banks are considering how they can work together more effectively, providing a network that makes customers' lives easier with cheaper and faster payments. Blockchain technology is likely to enable industry participants to remove costs from its back-office functions while APIs will enable customers to access their bank services quickly and simply. The faster payments infrastructure can then be used to pay almost instantly.

Banks are not there yet, but they are making progress. At NatWest, we are developing innovative instant payment systems, based on APIs and collaborating with other market players using blockchain technology.

Banks have years of experience in processing payments and are regulated. They can be trusted, to make sure a payment arrives when it's supposed to arrive. They have scale, making them attractive partners to technology companies, big and small, who are developing exciting and innovative products and services. We can work with them to design and build new ways to serve our customers.

The payments landscape is being redefined. NatWest is a cornerstone of UK payments and we are innovating to make customers' lives easier. Along with other market players, we will play a central role in how it is being redefined.

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