

Payments at a tipping point – growth or terminal decline?

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Non-bank payment providers pose real threat

Banks need to stay attuned and learn from non-bank competitors to maintain their position of dominance in payment services

The payment services market cannot afford to be complacent. This was one of the key messages that came out of yesterday's panel discussion, 'Payments at a tipping point – growth or terminal decline?' The payment services market faces several challenges, not least competition from third-party payment service providers. During the session it soon became clear that banks view competition from independent providers of payment services as a serious threat to their business and fear disintermediation and a loss of revenue.

The discussion, moderated by Alec Nacamuli, editor of the Journal of Payments Strategy and Systems, covered the threat that non-bank payment providers pose to banks and how the market will develop as a result. However, it was also clear that the panel of experts felt that there are opportunities for improving payment services and for future collaboration. When asked for his assessment



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Michael Cannon, HSBC

of the market as it stands today, HSBC's head of payments and cash for Europe, Michael Cannon, said that

banks had good reason to be nervous: "We need to stay attuned and look at what third parties are providing.

We have to evolve. The way to compete is to look at your competition and to learn from it." ▶

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Innovation in short supply

The only non-bank member of the panel, Philippe Menier, deputy CEO, VISA Europe, focused on market innovation. The technology underlying payments services would open up new avenues of business, he argued. For example, mobile devices can provide opportunities for companies to offer payment services to consumers who are as yet 'un-banked'. While technological capabilities such as these will undoubtedly increase in future, Menier acknowledges that his industry still has one indefatigable competitor: cash.

Innovation, whether through mobile technology or through new ways of collaboration, is one area that some of the panelists saw as being in short supply. According to Rajesh Mehta, Citi's head of treasury and trade solutions, GTS, EMEA, banks are not spending enough on innovation in the payments space. He blames the lack of investment on the amount of mandatory spending banks have to undertake for compliance. Mehta also identified several other factors that underlie payment services strategies. These include: globalisation (particularly of labour); 'miniaturisation' (driving efficiency with personal interaction); liquidity and working capital; change of flows between the developed world and

emerging markets; SEPA and the Payments Services Directive (PSD); and new payment institutions.

Outsourcing

Collaboration with, and outsourcing to, third-party providers is set to become more common in the future, although the panel discussed why this particular development would not be without problems. HSBC's Cannon outlined some of the difficulties: "It is sometimes easier to outsource a function or service. However, banks must remember the risks involved in outsourcing and must take on the responsibility for an outsourced provider." Increasing amounts of regulation are putting pressure on banks to protect the identity and security of their customers."

Claude Brun, EPC vice-chair and managing director, Banque de l'Economie du Commerce et de la Monétique, cast some doubt over the practicality of outsourcing to third parties, mainly from a risk and security point of view. "We need to provide confidence and security to our end users," he said.

Visa's Menier made the point that, while investment is necessary if banks want to develop innovative payment services, they may have no idea of the return they will get on their investments.

Many smaller banks are reluctant to invest in payment services, but want to offer payment capabilities to their customers. These banks are more likely to buy a white-label solution from another bank or third-party, rather than make an investment themselves.

Another issue that arises when banks outsource payments services to third parties is how the revenues should then be shared. Brun remained unconvinced of the viability of this type of partnership. "It's a nice idea, but is something for the future," he said.

Payments and account relationship

According to Citi's Mehta, the payments industry is still intertwined with account relationships in the corporate space and this is unlikely to change in the near future. Nevertheless, there is a threat from new third-party players in the market who can offer substantial value to companies. Cannon pointed out that small and medium enterprises (SMEs) are not likely to want to shop around for the best deal. "In fact, SMEs don't even like banks" he said. "They want to limit their time talking to banks as much as possible. They much prefer banks to provide full services, including both payments and credit facilities."

From the audience, Peter Hazou, global transaction banking, UniCredit, observed that one of the more interesting points raised during the session concerned customers and whether banks can be disintermediated by non-banks. "I think that the customer franchise is really a bank franchise for payments," he said.

Outlook

The panel's predictions for the payment services landscape in the next five years combined expectations of consolidation and holding on to the customer franchise. Visa's Menier foresaw that, within the payment card industry, the acquiring business will change and banks will outsource an increasing amount. "There is still a lot to do and we need to invest properly for that," he said. Citi's Mehta predicted that there would be a measure of consolidation, the emergence of a few credible global mobile payment service providers and convergence in the area of e-invoicing.

"There will be more focus on what financial institutions do well," said HSBC's Cannon. "There will be more focus on what we have to do to be an acquirer, rather than an acquiree," he added. But banks have a strong advantage – their customers, noted Brun. "We know the customers and we understand their payments and credit needs." <<