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Exploring Payment Overlay Services

Jerry

Jerry Norton, Vice President, Global Banking is responsible for CGI's strategy across the wholesale and corporate markets and is a member of both CGI's Banking Industry Cabinet and Growth Council. He specializes in industry-wide change, whether led by business or technology and his views are sought across the global market. Jerry brings a combination of domain expertise and technology stewardship coupled with an understanding of compliance, regulation and operational risk prevention and management. Much of his current focus is on the changing nature of business and technology in the payments market. He is a regular presenter at international conferences on the major financial services themes of the day, a contributor to a number of think tanks, and is often quoted in the mainstream and trade media.

Malcolm

Malcolm Thomas is a Vice President in CGI's UK Business Engineering team which specialises in identifying, shaping and delivering large scale business transformation opportunities for our clients. His background spans many industries and sectors including working in Financial Services, Insurance, Healthcare and Justice – always with a clear eye towards how digital technology can enable businesses to step change their performance.

In the last year he has been working with CGI's global payments experts to support their approach to the huge changes taking place in banking and payments services, building on our rich heritage and experience to help our banking and other clients maximise the opportunities these changes bring.

Marc

Marc Bröking, Director, runs the development of digital payment solutions within Germany. Topics such as instant payments, payment transaction processing, API management and service engineering all playing key roles. Marc is a "bridge builder" between the banking world and the retail payment ecosystem. With his expertise, he can design and implement end-to-end payment transaction processes strategically, commercially and operationally. Most recently, he successfully executed a PSD2 project for an international bank. A distinctive customer and market perspective are the essential basis for the success of his projects, in which he always attaches great importance to customer benefit and user experience. He represents CGI in the payment working group of the EHI Retail Institute and works in the expert group of the European Payment Council (EPC) on the development of SEPA Request to Pay and ISO 20022 RTP in Brussels, Belgium.

Prior to joining CGI, he worked for First Data and held various management roles in card processing, merchant acquiring and eCommerce. Marc started his career in the payment industry as Head of Marketing at Acquirer Concardis and was a member of Mastercard's Marketing Board in Germany.

CGI's experts discuss: Payment Overlay Services

As part of our "Banking.Transformed." roundtable series, this roundtable explores key topics related to payment overlay services. CGI banking experts Jerry Norton, Malcolm Thomas and Marc Bröking share their insights.

The base revenue that banks can derive from payments is declining. What role do payment overlay services play in helping banks overcome this?

Jerry: To set the scene, payment overlay services are offerings (for both consumers and corporates) that add value to standard payments through improved customer service. In turn, these overlay services create opportunities to generate new revenue flows for banks. Creating these new sources of revenue is important as we begin to witness the increasing commoditization of payments. Likewise, we see standardization and instant payments becoming the norm, while the market is opening up to non-banks as well. So as the base rate for payments is declining, new entrants are cherry picking the more lucrative payments, leaving banks with declining revenues yet still funding the pipeline. Banks need to seek new ways of making money from payments, and they are doing that by looking at value-added services to overlay on the standard payment.

While these value-added services can be corporate or consumer oriented, they offer beneficial or functional value to the end customer and enable the bank to charge consumers for these services. By delivering extra value to the customer, the bank also "locks in" the customer, who is then less tempted to look elsewhere. For these reasons, payment overlay services are a hot topic in the banking market right now, and at CGI, we are developing a set of different services to respond to the demand. For example, we are developing Request to Pay and instant payment offerings and looking at IoT and the case for invisible payments.

That sounds interesting. Could you share a little more on these services and their use cases? What is the request to pay opportunity for banks?

Malcolm: Jerry is right. Payment overlay services are all about offering something over and beyond the raw payment itself and are an opportunity for banks to expand their footprint. 'Request to Pay' looks at the exchange and dialogue that happens when people make payments. It automates and secures the billing flow between a payee and payer, and enables the payer to pay bills directly through open banking.

For example, once a service or product has been offered and accepted (whether it is washing a car or providing a million pound contract), there is usually an exchange of invoices and bills. Typically, this is activity done outside of banks' remittance. However, by offering a service in which the payee can request payment, a bank can look to expand its footprint in this area.

The key value that banks offer with this service is their security credentials. Banks are inherently very secure, and this is something they can capitalize on. If you think about the amount of invoice fraud that happens (in the UK only, it is close to £9BN), tackling some of this has a clear benefit, and if the banks do it right, they can create a new revenue stream.

I think also it is worth saying that small to medium enterprises are a market where Request to Pay will be particularly valuable. Within this segment, customers do not typically use direct debit to either pay or receive payment, so an automatic and secure billing service attached to their payments would be very beneficial.

Jerry, you mentioned instant payments at the beginning. What is the use case there?

Jerry: Instant payments are becoming ubiquitous in Europe. The U.K. has had instant payments and its faster payments variant for more than a decade. We are now seeing in Europe a number of instant payments initiatives, particularly in the Netherlands and France. We also are seeing initiatives between nations with the European Banking Association (EBA) and, indeed, the central bank itself with a common initiative called TARGET instant payment settlement (TIPS). As a result, the infrastructure for instant payments is in the works. The question is then what do you put on top of it?

A clear use case is using instant payments at the point of sale instead of using a traditional card (whether a credit or debit card). This will enable a service response in just a few seconds; something cards cannot achieve, and so work is in progress to offer this to consumers. This would be advantageous for some key reasons. Large retailers, such as supermarkets, currently have to pay an interchange fee for using cards. An instant point of sale solution would eliminate this cost. Moreover, the data attached to a card (payments made, purchases, etc.) often is unavailable to the retailer or the card being used has a different loyalty scheme than the one the retailer wants to use. In this instance, an overlay service could be the availability of an app owned by the retailer that enables a consumer to pay at the point of sale using the retailer's loyalty schemes and giving the retailer access to the transaction data. Through this, the retailer also avoids paying card fees. Good news for both the retailer and consumer. It is also good news for the bank, which can offer this overlay service to the retailer and lock it in as a customer.

Lastly, the compliance behind using cards is extremely complicated. Not only is there Payment Card Industry Data Security Standard (PCI DSS) related to holding secure information, but there is also all the chargeback processes needed if someone disputes a claim, which results in intensive processing. Again, using an instant payment overlay service will ease the work done behind the scenes.

Of course, it is not quite as clear-cut as that, and there will be certain costs or processes that need attention, such as anti-money laundering processes. However, the basic business principle is what I have outlined, and there are some places already making progress. In fact, the European Central Bank earlier this year stated that it would encourage the proliferation of some payment schemes in Europe as an alternate to Visa or Mastercard.

An important point, however, is that there are a few different models for how a service like this could be offered. It could be direct from the retailer, with the retailer using a third-party technology company making the most of open banking or it could be a bank offering provided to the retailer as a payment overlay service. Likewise (and we are already seeing this happen), traditional card acquirers can branch out to offer this model as well.

Banks wanting to capitalize on this opportunity should move quickly.

How about the corporate market? How can payment overlay services add value there?

Marc: Yes, payment overlay services can absolutely add value. There is a strong use case for payment overlay services in the corporate market. One of the key challenges corporate treasurers have is managing and understanding their payment-mix and cash flows across the organization and various distribution channels. Multiple accounts across multiple banks with multiple payment service providers in multiple countries and currencies can be complex to manage. Keeping track of where money is and to process reconciliation accurately is resource intensive. Significant charges/fees from all kind of payment methods are coming in and understanding where they can charge the most interest can be a headache and a commercial factor.

Typically, they use information and data that is only available on a weekly and, at best, daily basis. There is no real-time information or control. However, with the introduction of Request-to-Pay within the new real-time payment infrastructure merchants can initiate payment requests via their banks directly to the Payee. For Corporate Banking this opens various new revenue opportunities. Utilizing the open ecosystem and the open APIs, corporates can now track payments in real time giving them better control and insight into their payments position. Following the European´s Payment Service Directive 2 (PSD2) this will be possible for SEPA in Q4, 2019 and in the international context with SWIFT GPI there is a solution available to track cross-border payments.

It is not hard to envision then the types of new services that banks can offer corporates to address their treasury challenges. At the lowest level, they could offer a real-time track and trace service that enables the corporate treasurer to know the status of outbound and inbound payments. However, the bank also could bundle that up with a service that allows the corporate treasurer to see—at any time of day, 24 by 7—the state of corporate bank accounts across all jurisdictions and in all currencies—effectively offering a real-time (and predictive) dashboard.

There are, of course, dashboards available today. However, they present data after the event and in batch, which is not effective. Taking inspiration from the personal finance management tools available to consumers today, banks can offer really innovative and forward-looking services to corporates and begin generating new revenue streams through them and, of course, stickiness with their corporate customers. This is exactly what we are looking at currently with some of our corporate banking clients—offering a service like this in the cloud to which banks can connect and offer to corporates.

You also mentioned IoT and invisible payments. What is the story there?

Jerry: Invisible payments are interesting and are another opportunity for the consumer market. There are two key offerings here.

The first is virtual cards, with a good example being Apple card. While you can have a physical card, it is not necessary because you can use your phone in place of the card. The virtual card can then be used either offline at the point of sale or online. While the card is virtual, you still have to go through the process of presenting the phone for payment.

The second offering is all about associating your payment credentials in tokens with an object or service of some sort, which allows you to make future payments automatically and without even being conscious of the payment. A good example of this is Uber. Once I have registered with Uber, I never have to present my particular payment details again because they are securely tokenized. Uber automatically debits my account each time I use its service. This type of invisible payment is set to grow. For example, there is no reason why I could not register my payment details with my car, so that every time I go through a toll, an automatic account debit occurs. You could even buy fuel this way, and we are starting to see examples of this happening today.

What does this mean for banks? Again, there is an opportunity to make some money. A great example of this is Barclay's Grab and Go. This service, which is currently in a testing phase, allows you to walk into a shop, pick up what you need, and then scan the item or, in the alternative, the shop will just "know" what you have taken (most likely using sensors) and charge you automatically when you walk out of the shop. There is no need to present any form of payment at the point of sale. Sounds fanciful, but it is already in practice in U.S. Amazon stores.

Banks are set to gain new revenues streams and increased "stickiness" through invisible payments, while also remaining part of the payments dialogue and value chain. The retailer also benefits from convenience, lower administrations costs, a quicker shopping experience for customers and, most likely, reduced interchange fees.

Of course, with open banking, any third party could offer this service as well.

Many of these initiatives seem driven by the ECB and developments within Europe. Are there any major differences between what is happening in Europe and in North America?

Jerry: Yes, that is correct. The reasons why we see many initiatives coming out of Europe is its investment in instant payment rails along with its open banking regulatory push. Neither Canada nor the U.S. have these now. This does not mean, however, that North America is barren when it comes to payments innovation. North America just has bigger constraints. For instance, there is Zell, which is a person-to-person valet service. Non-banks run Zell but some banks support it. So, there are things going on in the U.S. but I think it would be fair to say that the U.S. lags behind Europe.

Looking forward, what can banks do now to ensure they secure some of these potential new revenue streams?

Malcolm: To be honest, there has been talk about these services for quite some time; the opportunity is here. The challenge is a philosophical one for banks. They should change how they view their "walls"—i.e., view them as more permeable—and look outside of themselves for both inspiration and expertise.

To move quickly, we recommend banks gain a solid understanding of where the value is—i.e., where they will find the revenue. In looking at Request to Pay, for example, the value is in the invoice fraud. Once they have pinpointed this, it is easier to develop the service for the customer and push it internally. It can be obvious, but that is not always the case, so thinking needs to go into that.

Marc: On the one hand banks should take a closer look to the comprehensive payment chain and who is paying which charges today – in b2c it is often the merchant. In conclusion payment revenue cases cannot be separated between Corporate and Retail Banking departments only because both likes to gain an own fee for a payment transaction.

On the other hand banks with their open banking services should now be the first mover in delivering their corporate treasury customers digital services like a payment dashboards to better control cash flows.

Jerry: Of course, there is always the danger that someone will grab the initiative before the bank. Uber is a good example of where this has happened, and banks are now disintermediated from the payment.

Just like Barclays and their Grab and Go idea, banks should start experimenting. Experimentation may not be natural for banks but thinking about the future is critical for success.

Malcolm: Yes, they have to be prepared to fail in order to succeed.

Jerry: Exactly. The danger of disintermediation is high. Banks should try things out in order to make sure they stay relevant and part of the payments dialogue.

A partner for transformation

Since our founding in 1976, CGI has been at the heart of transformation in the banking industry. Today, we support more than 500 financial institutions worldwide, helping to deliver a broad range of digital IT and business strategies, services and solutions. Our deep understanding of the complex global challenges banks face coupled with our strong local relationships enable us to build long-term partnerships that drive success.

CGI's Digital Transformation Practice is anchored around helping clients create a more agile business, one that can continuously respond to changing market and customer needs. CGI has built its practice around providing the end-to-end capability that clients need to enable their transformation and agility. We have over 4 decades of experience in helping leading organizations across the world, move forward with their innovation and transformation agendas while helping them elevate their legacy infrastructures.

Interested to know how we can support you to transform? Speak to us today, one of our consultants will be happy to help you.

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