



# Open Banking and the (continuing) evolution of Account to Account Payments





## Account to Account Payments have been around for a long time. Bank transfer is, after all, pretty much as old as banking.

Open Banking has recently breathed new life into Account to Account Payments (A2A) or, Pay by Bank Account as many including HMRC are beginning to call it, through the overlay service known simply as Open Banking Payments. This adds to the traditional “push” payment (from Payer to Biller) with an Open Banking powered “pull” payment (Biller to Payer) that gives Billers the ability to request payment for a bill rather than simply sending an invoice and waiting for the payment to be initiated by the payer.

Most of the publicity around Open Banking Payments initially came from stories around it being used as a way to pay your friends and neighbours during the pandemic. All good, but the real story of course is in how it can transform the biller/payer relationship for medium to large scale billers across all sectors.

In the last year we have seen this acorn beginning to grow into an oak tree as organisations as diverse as Car Dealers JCT600 and HMRC offer Open Banking Payments to their customers as part of an ecommerce journey. With our partner Ordo we have been part of this growth and perhaps more interestingly the continued evolution of Open Banking Payments.



We have had a number of practical conversations with our customers about implementation and ROI, all of which make sense, but also some insightful conversation about ways to use Open Banking payment innovation, which I thought would be worth sharing. In part, this is simply spreading more widely some interesting and hopefully useful ideas (things that might be of use now) but my aim is also to encourage wider thought and conversation on what we believe is Open Banking's considerable potential.



## Making instant payments to our customers

A strength of Open Banking Payments is its inbuilt capacity to verify the account details of the parties involved in the transaction. For example, in Open Banking Payments the name of the Payer and the Biller are defined (exactly) as they are on their respective bank accounts. They cannot be altered or mistyped. As such, one of the first innovations we have seen was to turn the Payment Request back on itself as it were, and use it to pay money from the biller to the payer. With

the permission of the customer, the paying organisation can generate (within its own systems) a request from their customer and then pay it. The advantages to this are many, firstly because the biller uses Open Banking to authenticate the bank and payee details they can be sure that they are paying into the right bank account and that the name of the person that they are paying is the name on the bank account. Secondly, there is a greatly reduced opportunity for fraud because you can't alter the beneficiary amount etc. Thirdly there is, of course, the reduction of mistakes in typing the account number and personal details as this is now automated. Payment to the right person, at low cost through Faster Payments become less prone to error.

## Better data for billers

This has been overlooked in many of the articles on Open Banking which tend to focus on the customer journey or cost saving. Open Banking Payments gives billers a great deal better data than simply invoicing and then inviting a card payment. A biller issuing a request can see if the request has been received, they can see if it has been opened (wouldn't it be nice if you could do this with paper bills) and can even invite a dialogue with selected customers. Do you need more time to pay? Would you like to make several payments before the due date? New insight and new opportunities in a market where keeping your customers attention is paramount.

Of course, internal processing is also much easier in that the Open Banking Payment request has a unique reference number included and this is reported on the payment description so reconciliation should become automatic. More broadly, the biller can collect analytical data on propensity to pay, take up of part payment, propensity to pay when part payment is offered and so on. This is made easier by the fact that the unique reference on the bill flows automatically through to the payment and ties the two together far more reliably than an invoice number and card payment.



And it doesn't end there. The unique reference on the bill and the payment allows the seller to innovate in identifying the product in more detail than existing Merchant Category Codes with the knowledge that the reference on the invoice will be full reconcilable against the reference on the incoming payment. As a Biller I might know that Card number 12345678 spent £200 in my shop but do I know what products they bought? and could I contact them with relevant marketing about future applicable offers?

# Improving the relationship with your customers

So, this final section is an open book - how far, as a retailer or a corporate or a bank, am I going to go in tailoring the interaction I have with my customer to the individual customer. For example, I may just stick to sending out a bill with a due date. The customer either pays on time or can't pay in which case the account goes into recovery. However, the kind of payment interaction made possible by Open Banking and discussed in this paper, provides us with alternatives. I

could let my customer ask for more time to pay, or pay in a number of parts before the due date – the flexibility is there and, with Open Banking Payments, is native to the process. When Variable Recurring Payments (VRPs) become available later this year that flexibility will increase still further. The challenge in part is whether the biller will identify this as a way of differentiating their relationship with their customer – I think that this is where the conversation becomes exciting.



# Conclusion and some further considerations

Amongst the advances and future plans for Open Banking Payments and Open Banking generally there remain some interesting questions. From the Biller view point problems with fraud are most likely to decrease – stolen and cloned cards are not a problem with Open Banking payments. From a consumer perspective however, the question of consumer protection needs to be resolved. It's probably more relevant for some purchases than others. Most likely, if I am paying my local authority for a one-off refuse collection I am less concerned about my ability to get a refund than if I am buying goods, such as tickets, online. When products bought on line with a card either don't arrive or are defective there is an element of consumer protection afforded to me as the purchaser that doesn't yet exist in Open Banking transfers. Protection applies to Direct Debits through the Direct debit Guarantee, which will not be available in the initial implementation of VRPs, but some of these protections may not be required due to the way that VRPs will operate, however some protection is still required. This issue of the right level of consumer protection needs to be resolved to get the widespread take up that Request to Pay and account to account transfers deserve.

From a Bank perspective there is a question of how issuers will retain their revenue streams should card interchange revenues decline – will we see the reintroduction of transaction charges for retail customers? On the other side of the equation, cards increasingly offer loyalty schemes, how will banks and other drive loyalty through Open Banking Payments?



As a consumer am I going to make a payment through an Open Banking mechanism if I lose out on points from a loyalty scheme I may have on my card.

There is the question of inclusivity. Surely, with all of the flexibility and lower cost that Open Banking brings there is a greater opportunity to make the account fit the customer rather than the customer fit the account. Will unbanked customers become a thing of the past?

We are enjoying continuing and contributing to these conversations and innovations with our customers and would be delighted to discuss your views on this topic if you would like to contact me on [philip.skinner@cgi.com](mailto:philip.skinner@cgi.com).





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