Out of Africa: The future of payments?

What are the most exciting, new, emerging technologies in the payments sector?

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CreDec
Taking Credit Where It's Due

The march to mobility: how existing technology is disrupting traditional business payment models

Mobile. Yes, it's that simple. The breadth of payment innovations in the mobile, contactless and wireless space and the scale of investment that is being devoted to new mobile payment solutions – in what is really a land grab - defy easy categorisation. These are the days of the pioneers (ranchers, cowboys and settlers come later) and it is too early to make any clear predictions as to eventual winners and losers, although some general trends are already discernible.

Changing expectations

A quick word of caution though. In financial services every provider talks their own book. CreDec, however, is a payment services provider and is therefore largely neutral in the debate on proprietary platforms and payment technologies - so we are perhaps better placed than most to offer a few insights into emerging trends in new payment technology.

The world is going mobile and consumer banking, and payments are racing to catch up. It is a huge subject and this article is not a survey, more a shared glimpse of payment technology trends and how we think UK SMEs and accountants can best make sense of the march to mobility.

Why mobile? Well it's not just the fact that this is the technology that underpins our lives - when did you last leave the house without your keys, purse/ wallet and mobile? – it's the fact that smart (mobile) phones have created, whether we like to admit it or not, an expectation of everything, here and now. We're not very good at waiting for anything much anymore. What's the point in payments instantly crediting your payees, if you have to wait till you get home to make the payment instruction? And our expectations as consumers inevitably influence us as business customers.

There is a caveat. While we expect convenience in banking, as everywhere else, our impatience is probably only exceeded by our wish to avoid financial loss. The matter of convenience has to be reconciled with security. Convenience versus security! They are not an obvious pairing.

Our altered expectations as consumers aside, mobile communications hasn't simply shaped a psychology of impatience it also provides the physical communications infrastructure – a wireless one – that makes truly mobile payment applications possible. Ours is a wireless world. And that means that Mobile Network Operators (MNOs), Vodafone, O2 Telefonica and Everything Everywhere (the clue's in the name) enjoy an inherent advantage over commercial banks in the world of mobile payments.

Setting payments free

You only have to look at the experience of M-Pesa in Keyna, ('M' for mobile, pesa is Swahili for money) which is the mobile money service of - Vodafone owned - MNO Safaricom, Kenya's largest and most valuable company, to see just how

Mobile networks are significantly better equipped to handle consumer churn than traditional banks thanks to years of intense competition

great this advantage is. An astonishing 31% of Kenya's GDP is spent through mobile phones. And M-Pesa's domination of mobile banking services, much to the fury of Kenya's banks, has by virtue of economic necessity been ignored by Kenyan regulators, who had little choice but to grant M-Pesa Safaricom a 'special' banking licence in all but name. The challenge Safaricom now poses to the Kenyan banks' core business is very real.

What has Kenyan experience got to do with the UK? Well, once you provide the payment mechanisms to allow your subscribers to pay anyone anywhere and can manage inbound credit amounts that accrue to subscribers' account balances, what need of a bank? But this ignores the highly significant issue of brand.

Building brands

It can't have escaped anyone's notice in the UK just how much damage the brand equity of UK banks, never mind their balance sheets, has suffered in the last 5 years. Who would you rather trust your cash to: a brand like Vodafone (with a banking licence) whose collection of global cellular networks provides a structural, portfolio approach to risk management; or, say, Barclays? It's a moot point but an important one. There are an ever growing number of trusted powerful brands with the balance sheet power to challenge traditional, tarnished banking brands with the provision of core banking and payment services. If Sainsbury's and Tesco can successfully provide banking services, then why not O2 Telefonica or Orange?

In fact, the extraordinary levels of competition that retailers have become accustomed to over a number of years gives them a further advantage over the incumbent bank brands. Mobility means portability; customers can walk, literally, and move their credit balances with them. Banks have traditionally faced very low levels of customer 'churn', as the Mobile Networks call it, but the advent of mobile payments is likely to increase consumer banking churn significantly. This is something the banks are just not used to coping with. The Vickers' banking reforms created for the first time in 2011 the same concept of true portability for BACS Service User Numbers, allowing bank customers to transfer their SUN numbers across all UK clearers when they change banks, in exactly the same way mobile users can port their mobile number across networks. The comparison doesn't end there.

The customer service experience of bank customers, as dealings with their banks become more and more automated, is converging with the always looser, more automated relationship mobile users have had with their mobile network provider brands. Ask yourself how the shared approach of banks to interaction with their customers differs from MNOs? They use the same interactive voice and menu responses in their call centres, text alerts and self-service internet access. Mobile phone monthly itemised call listing statements and invoices are downloadable from mobile providers' websites in just the same way as personal bank account statements are from current account providers. What need has an MNO of a PIN card-reader when they already have their SIM card and phone in your pocket?

The security challenge

And this is the single most powerful advantage Mobile Network Operators enjoy over the banks' own mobile payment applications, because the mobile networks have - in their SIM cards - a security trump card the banks can only dream of. This is because a SIM card is capable of protecting mobile transactions with a much higher level of security. For example, the SIM and any connected payment applications on the phone can be immediately disabled by the mobile network if the phone is stolen.

It's very difficult for the banks to compete at the technology level without a mobile device. Compare the capabilities of the SIM card with the banks' contactless card technology, whereby you simply swipe your bank card over a terminal without any PIN usage. It's being heavily promoted, by Barclays in particular, but security doubts remain. YouTube is littered with examples of concerned, publicly-minded tech whizzes showing how it's possible (illegally) to use a card reader to scan while standing behind someone in a queue the details of the contactless card in the purse of the person in the queue in front, through their handbag, and then going on to pay for a micro purchase using the same stolen card details. A CreDec member of staff admitted recently to not using the new contactless bank card received (unrequested) from Barclays because of these known security failings in contactless card technology. Smart card technology is not new.

Similarly, mobile payment solutions are seldom based on new, disruptive payment technologies; rather existing technology is disrupting traditional payment business models, as the banks feel compelled to reply to the ease and convenience of mobile payment solutions. In this context, it is significant that VocaLink, the UK's principal payment infrastructure provider, owned by the UK clearing banks, has invested in the creation of a universal UK database that links the mobile phone numbers of UK bank account holders with their account details to provide a universal resource to UK banks seeking to compete in mobile payments. Whether or not this is the right business or technology model isn't clear, but it certainly confirms the banks' recognition that linking payments to users' mobile identity is key.

Better for business?

And a further word of caution, there are just too many players piling into this place to be able to do more than hazard a guess as to the likely winners. But there's more to it than that. The general trends already discernible in consumer banking markets we've outlined are not present in the business payment market.

The world of business payments is entirely different because business to business payments occupy a different cultural milieu that is more cautious and demanding. Business payment markets are altogether slower moving. Why? Not simply because social trends lead business trends (although mobile telephony is a notable exception), but rather because of the complexity that surrounds the underlying transactions, more rigorous security arrangements, the greater requirement for audit and traceability and the need for faster interventions when required.

A great deal of contactless card technology is geared around eliminating cash transactions from micro purchases (your morning coffee and train ticket), but these are essentially binary transactions that do not sit within a complex accounting trail.

In business to business payments the stakes are higher and the sums invariably larger: payment processes must be robust and fully auditable

Business transactions are complex and seldom in real time. High commercial transaction volumes for businesses entail dedicated business accounting and banking functions and with them higher levels of security and audit trail. Dedicated business functions entail more personnel and so the involvement of (multiple) signatories in the purchase to pay cycle (often requiring dual authorisation). Simply, the stakes are higher and the sums are invariably larger.

What's more, in the commercial context it's not strictly all the business's own money that's being paid but typically, in part, it's made up of a supplier's working capital where they have extended credit. If the payer suffers a fraud of £10,000 on a 10% gross margin it has to achieve £100,000 of new sales, just to make good the loss to itself and its suppliers. The business credit cycle also has a dampening effect on payment frequency, where payments and payment runs are more highly structured and careful cash management (but not paying late!) are perceived as sound business habits. Business payments rarely need to be raised in real time - even if they are settled in real time once paid – even if this is a creditors' earnest wish in instances of late payment!

Accountants and auditors, and their professional indemnity insurers, need to see secure, auditable business process supporting payment functions. It's more than just good practice. It's a question of safeguarding the client's business, and your own reputation as a professional adviser.

To borrow a final familiar strap line from the world of telecoms, when you need help, "Who you gonna call?" The brave new world of mobile payments is essentially self-service and ephemeral. When things don't work it's either not worth pursuing the failure, for the equivalent cost of a cup of coffee, or there's no obvious mechanism for redress or rectifying the error or loss. And this is perhaps the ultimate differentiator for business users for future payment services; do they have the customer service support and standards that business users expect and demand when things go wrong.

Disaster recovery?

We describe the ultimate criteria for business payments as the three 'C's. **Convenience, Cost** and **Confidence**, where Confidence describes the business users' expectation of a payment provider's capability to sort things out fast when they go wrong. Early stage business payment solutions providing web and mobile based services are mostly sound innovations but these models are often 'support light': without the back office, contact centre support functions to manage errors and issues to a resolution. For all the increase in complaints against the banks, this is something that they remain good at: finding a customer service advocate to take ownership of a problem when it arises and to ensure it is managed to a successful conclusion.

And that is how CreDec works too. We strive to be world class in our customer service.

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