

# UK Payments Landscape

## Customer needs, technology & regulation are shaping the future

### The only constant is change

Change has never been this fast, and will never be this slow again. Every minute of every day an average of 72,000<sup>1</sup> payments are made in the UK. Consumers make up around 90% of this volume but represent only 20% of the value – unsurprisingly business payments are the lion's share of value.

Payments in the UK are moving from physical to digital; cash is now used for fewer than half of all payments made by consumers, a trend that is set to continue as new ways to pay are developed and adopted.

RBS is a cornerstone of the UK payment market; we process around one in four of all UK payments and we are a leading player in the core UK payment systems including CHAPS, BACS and Faster Payments.

The UK payments market is spearheading innovative change, supported by Government, regulators and other payment service providers, both the traditional players and new challengers in the market. This exciting mix is being driven by three mega trends that are set to intensify, namely customer needs, regulation and technology.

### Customer needs

Most millennials cannot imagine a time before the internet and have grown up expecting their needs to be met simply and effortlessly by always “on” digital channels. This is not only an age-related phenomenon, all customer expectations are changing. And this applies to payments too. Faster



payments was launched eight years ago and millions of millennials have known nothing else. UK consumers are relatively quick to adopt new payment propositions, a good example is contactless payments. In the UK over £1.5bn a month is spent using contactless and in June 2016 UK consumers had made more contactless transactions than they had in all of 2015.

Even this relatively new technology is changing the way consumers behave as retailers report customers are increasingly asking to pay using contactless leaving retailers that do not offer this way to pay at risk of being seen as out of date and possibly dropped by customers as a place to shop.

A decade ago around 70% of all consumer payments were made by cash; while cash utilisation is useful for

budgeting, privacy and financial inclusion, the UK is one of five countries where digital payments have out grown cash payments. This is due partly to the growth of “e” and “m” commerce where cash cannot be used. In 2015 over 43m Britons made an online purchase with almost a quarter of these buying 30 or more items. Shopping is now what you do, not where you go.

Over 70% of UK adults now use a smartphone; mobile usage provides quick and easy online access in sync with customers’ lives. Use of our retail banking mobile banking app is growing because customers are switching from PC and laptops to smartphone banking enjoying the speed, ease and convenience.

Some customer needs are identical, all customers want safe, simple and secure systems. Thereafter needs differ,

consumers want proportionate friction in how they make payments however a corporate treasurer will want a larger degree of friction and control for payments of a certain type to manage liquidity and cashflow.

Customers want the security associated with bank accounts; research shows that banks are trusted over non-bank providers. This gives banks a solid foundation to enhance capability, winning and retaining customer loyalty whilst the non-bank challengers work to establish their wider money management reputations.

## Regulation

In the past regulatory changes have sometimes been viewed as compliance or technical issues; however, UK Government initiatives and the current wave of national and EU<sup>2</sup> regulatory changes have been designed to promote innovation, competition and choice. Key regulation affecting the UK Payments market includes:

- The EU-wide Payments Services Directive 2 (PSD2). PSD2 is wide ranging with many elements; one notable aspect is Access to Accounts. From 2018, with a customer's consent, Third Party Providers (TPPs) will be able to access a customer's account, initiate payments and collect account information on their behalf. Emerging propositions and services are likely to be delivered using APIs (Application Programming Interfaces), making customers' lives easier.
- In the UK, The Competition Markets Authority has mandated that the largest nine UK banks, which includes RBS, must adopt and maintain common API<sup>3</sup> standards through which they will share data with third parties, such as comparison sites.

Non-financial services companies<sup>4</sup>, including FinTechs, large retailers and Telcos, will be able to access data, make payments and aggregate the information from multiple accounts and providers. This will mean customers will be able to view information from all of their accounts regardless of where they hold them on a single app or online service. New propositions will emerge as banks and other service providers will be able to compete by making suggestions for appropriate products suitable for the customer based on their account transaction information.

Retailers could establish direct links with banks via APIs allowing them to receive payments directly from their customers' account reducing the number of intermediaries and with potential cost savings.

## Technology

People are increasingly paying online, via mobile and with ecommerce payments at point-of-sale. From mobile wallets to industry schemes, such as Paym, developments underway are changing how customers make and receive payments.

Within large enterprises the effect of technology adoption on payment activities is clear. Corporate treasurers are now using smartphones and tablets to access a single platform for services such as payments, cash management and liquidity management. In the future, mobile devices will enable seamless authentication and identification that is faster and even more secure than existing solutions.

The impact of the digital age is also being felt in the processing of payments, with the demand for real-time processing to match real-time value exchange. As the demand for services to be real-time increases, interest in

new solutions such as distributed ledger technology has moved to the fore. Online banking, smartphones and the introduction of contactless technology have revolutionised the way we pay, shop and bank. Compared to ten years ago, the choices available to make payments have increased significantly, as technological advances have brought payments that are fast, simple and provide us with easy access to information about our spending.

## The future UK payments landscape

This rapid evolution in payments will continue. Transition to the future landscape will be challenging, however for those wishing to remain relevant as part of a customer's day-to-day financial needs, standing still is not an option. By staying close to the customer and partnering with like minded FinTechs, banks and other providers can leverage new technology and business models to build new, innovative payment solutions for the future.

<sup>1</sup> Payments UK's 2016 UK Payment Markets report

<sup>2</sup> Brexit will not remove the requirement to adopt as the UK will still be an EU member in 2018

<sup>3</sup> API (application program interface) a set of routines and tools that detail how software should interact with programming user interfaces

<sup>4</sup> Although they will need to be regulated (in the UK by the FCA)