

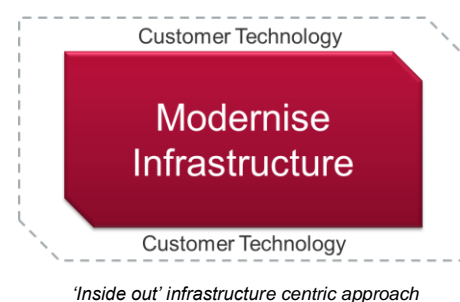
WHITE PAPER

Future Payments

Payment regulators & authorities across the world are demanding that change must happen in payments. New entrants and challengers are spearheading the change by offering the end customer new ways to pay and at the same time pressuring the regulators and authorities to allow such change. Banks meanwhile must not only respond to the competition but are also expected to foot the bill for any modernizing of the underlying infrastructure. The conundrum for a bank is clear, how do you continue to be relevant to your customer and maintain your payments franchise against those challengers and at the same time create new infrastructure which the authorities are designing to aid the very same challengers?

So how should banks respond to that conundrum? In fact banks have always been at the forefront of payments innovation - from ATMs to electronic inter-bank payments, from machine readable cheques to chip & pin based cards. This time it may be easier for a non-bank to play but actually there is still unprecedented opportunity for banks and plenty of scope to participate. There are two fundamental approaches - the introduction of new infrastructure and the deployment of new customer technology. These not only create major roles for banks but also allow them to lay the path to redefining the competitive space. At CGI we have named the infrastructure centric approach "inside out" and the customer technology approach "outside in".

- Infrastructure modernization:** Infrastructure modernization is the key to unlocking innovation in payments and that key belongs to banks. Globally, there is now a trend for countries to adopt new low value, real time clearing, 24/7 infrastructures normally to facilitate web and mobile payments. The payments carried by such infrastructures are non-repudiable and move money between bank accounts, not reliant on a card instrument or card infrastructure. Once in place, the innovation agenda can be addressed through the introduction of new payment types, “value added” payments and new technology to meet the customer demand of “buy anything, pay anyone, bank anywhere anytime”. These infrastructures are already in operation in the UK as Faster Payments, Sweden as Payments in Real-time and Singapore as FAST (formerly known as G3) with banks in all countries introducing mobile person-to-person payments to make use of the new facilities. Interestingly, most non-bank challengers want to use these payments “rails”, but not to build or own them. So the banks have to ensure that while investing in these infrastructures they must take the opportunity to modernize and ultimately reconnect with their customer, whether corporate or consumer. By delivering account to account payments the banks will then have full visibility of the transaction details, and by using analytics gain real insight into their customers.
- In a similar way many countries need to upgrade their clearing services to enable the new account to account instruments, features and services. In this case next generation ACH solutions can provide a host of additional benefits, not just to the ACH provider but also to all the participant members. Reducing risk and cost while enabling new services to be offered to members through standardization of processes and messages. For example for corporates new flexible message formats can provide major reconciliation automation benefits.
- Customer technology:** Not only are customers faced with multiple channels of interaction with their banks but also with many new, non-bank providers of payment services. With choice comes competition and with the regulatory push towards account switching and price transparency, customer churn is likely to increase. Often the consumer customer is not interested in the provider of the channel but just take the easiest accessible payment option, thereby allowing the new non-bank providers to disintermediate the consumer from the bank. Exemplary mobile banking services, delivering real customer experience & new payment flexibility are all front facing themes a bank must consider. Banks must become mobile destinations in their own right and offer not just mobile banking and mobile money but enable full mobile commerce too.



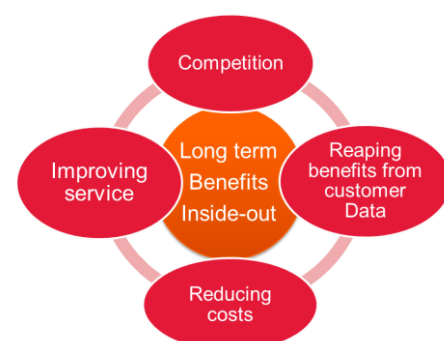
Many banks have recently embarked on their digital strategies and of the two approaches to innovation, many have only considered the front facing customer element and often in an elementary way. This obviously has its advantages for end customers in the short term, however longer term the successful combination of both approaches will ensure more fundamental change.

THE BENEFITS

Whatever the initial approach, banks must act now, fight back and move full steam ahead on innovating their payment systems. There are several underlying benefits to why Banks should consider this in their game plan.

COMPETITION

The competitive landscape is as challenging as ever, with banks and new non-bank competitors increasing their focus on the front end customer experience. For many this means the development of mobile channels, mobile applications and flexible product & service offerings. Consumers are seeing product & service offerings by banks as



Benefits to 'Inside Out' approach

differentiators in the market. Banks now have the struggle on hand to retain their customer base by ensuring they keep up with the demand for interesting, smart applications. However, by investing in the inside out payments innovation, banks can pave the way for the longer term innovative front end customer experience. The buy now, pay now and get now consumer attitude towards consumption and more specifically banking, is something which modernizing the payments infrastructure will provide. This is a key future initiative which much of the new competition will find difficulty to compete against.

REAPING THE BENEFITS FROM CUSTOMER DATA

The current outside in approach offers another disadvantage to banks when non-banks take charge - customer data is not accessible by or not available to the banks. This model means the dis-intermediator who manages the front end takes ownership of the consumer data.

This is a significant loss - customer data is more important than ever for businesses. Understanding your customers is vital in your relationship. Being able to tailor experiences, position products & services correctly & generally maintain your relationship requires business intelligence & insight which can only be reaped from consumer data.

For this reason alone banks must adopt the new customer technologies but moving to the inside out approach to payments innovation will ensure banks are fully connected and in control of their customer data.

REDUCING YOUR COSTS

The regulators and competition authorities will expect further price transparency in payments and competitors will try and drive those prices down. Simplifying bank payment systems, making access easier to payment infrastructures and switching to low cost real-time payments will help reduce banks' payment costs. Adding volume through customer acquisition and encouraging the substitution of lower cost payment types from other, potentially higher costing types such as cheques, will improve efficiency. Accounts to account transfers are key as they also bypass other infrastructures such as cards which all carry transaction costs.

IMPROVING SERVICE

Customers have increasing expectations that when a payment is made the value is transferred immediately; many merchants expect their accounts to be credited when the sale is made and many businesses want their customers to make payments conveniently. With an outside in approach all these options are possible. These innovations are needed now and are expected by customers. Banks have it within their power to provide these innovations and when they do, they will invert the market and become the new challengers.

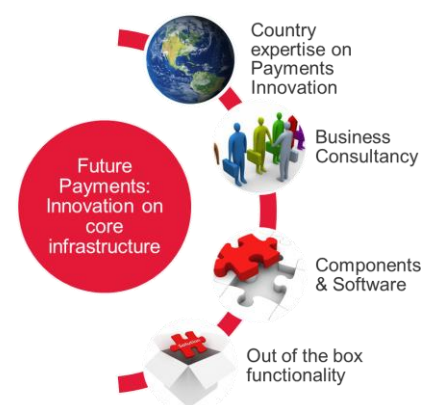
CGI - PARTNERS IN INNOVATION

With over 35 years' experience in the payments field we are at the heart of payments innovation & change. From the inception of SWIFT to the provision of SEPA, our experts understand the market and the initiatives required to support your business.

We hold a strong breadth of expertise to provide full e-2-e support on a payments innovation program. From consultancy to an out of the box solution, CGI have experts located across 40 countries to assist.

If you are considering mobile innovation, our domain expertise helps financial organisations understand the impact and direction that digital banking is headed. We bring our cross sector knowledge of mobile to help you create, determine and harden your mobile strategy. Our strategic alliance with global leader in Mobile, Monitise, combines CGI's established IT and consulting services, payments expertise and local market knowledge in Europe with Monitise's bank-grade Mobile Money capabilities. .

If you would like to learn more on how we can assist with the full e-2-e payments innovation strategy, please contact banking.solutions@cgi.com.



ABOUT CGI

Founded in 1976, CGI is a global IT and business process services provider delivering high-quality business consulting, systems integration and managed services. With 68,000 professionals in 40 countries, CGI has an industry-leading track record of delivering 95 percent of projects on-time and on-budget, aligning our teams with clients' business strategies to achieve top-to-bottom line results.

CGI offers a comprehensive portfolio of payments products and services, from high-end consulting to solutions for ACH, wires, financial messaging, and automated watch-lists filtering and sanctions scanning. CGI is committed to the advancement of electronic B2B transactions and straight-through processing, working with regulatory bodies and central market infrastructures. We actively collaborate and engage with peers on forums that include the Remittance Coalition co-chaired by the U.S. Federal Reserve Banks and X9, and the standardization efforts of the Common Global Implementation (CGI) initiative.

For more information about CGI, visit www.cgi.com.