



Experience the commitment®

Making Money from Moving Money

Realizing the opportunities created by
global payments modernization initiatives





Where's the money?

National, regional and global payments modernization initiatives are in progress worldwide, with billions of dollars ploughed into making payments faster, more efficient, and more convenient, while providing richer data and greater security. Meanwhile, those spending the cash to make these things happen at the behest of politicians, central markets and regulators are left wondering, “How can I make money from my investment in payment systems?”

In this paper, CGI outlines a new way of looking at payments modernization, refocusing on the **payment service user**, typically the retail or commercial customer of a financial institution. We based this model on case studies and our work with financial institutions around the world, primarily those in jurisdictions having undergone or undergoing transformational payments modernization. Lessons learned assisted in the development of a model that applies to payments modernization programs within financial institutions, with the aim of guiding investment and enabling rapid realization of new revenues throughout and beyond the lifespan of the program.



USER NEEDS FOR PAYMENT SERVICES ARE CHANGING

An examination of any central payments market modernization program will see the same tired benefits listed as the rationale for billions of dollars of market investment. Typically, these benefits include:

- Greater speed and efficiency
- Richer data
- More convenience
- Interoperability
- Increased security, risk management and privacy

It is then up to the Financial Institutions to relay these benefits to their customers through bank-specific modernization programs and development of new products. During this process it becomes all too easy to focus on the act of modernization rather than delivering these benefits in a digestible format for the **payment services user**. There has to be a significant move from inside out development to outside in. Essentially, FIs have to be focused on what actual benefits payment service users realize from the massive capital investment in payment systems modernization.

By looking closely at past user behaviour in the payments sector, leveraging case studies from around the world, and examining changes in expectations driven by comparable non-payment services, a simple set of user needs has been defined to drive payment strategy programs from a customer perspective. We call this our Payments Customer Model.

This model encapsulates key client expectations, alongside the ambitions that most banks have for the modernization of their payments infrastructure. Given trends such as consumerization, delivery of a consistent experience across all channels, changing demographics and customer expectations driven by FinTechs and other tech giants, this model shows the need for financial institutions to approach the payments market with a fresh mind-set if they wish to remain the primary providers of payment services in the future.

We believe that in a post-modern world your customers will...





CHOOSE HOW TO FUND A PAYMENT



Our working definition of a payment is as follows; a payment is the reciprocal action to the receipt of goods or services in a commercial transaction, or the settlement of a societal debt or gift. This definition alone shows that the main driver for payment service users is the act of payment rather than the method or the source of funds.

However, one of the key enablers in modernized markets is the separation of the payment method from the funding source. Examples include Klarna, a Swedish company that offers simple payments with a variety of funding sources; numerous credit cards in France that offer the choice between revolving and installment credit lines; NETS and Mash credit offers at the point of sale; TransferWise remittances from and to a vast array of channels; and Revolut's multi-currency app. All of these demonstrate user uptake of a single payment channel leveraging numerous funding sources.

Once this function is embedded into the bank customer product model, it becomes clearer what needs to be included in their technology modernization roadmap. Primarily, there are two actions:

- Separate the funding source and rail
- Support rapid adjudication and decisioning for flexible financing arrangements

Separating the funding source and rail is probably the most complex step, particularly if you begin to consider the traditional link between specific funding sources and methods of payment. A strong example of this is the revolving credit card. In most credit card programs, systems within the bank tie the revolving credit line to a specific type of contract, and management of that line is handled traditionally by specific card management systems (CMS) rather than in the same general ledger as other loans. By unbundling the revolving credit line from the CMS, the line can be freed up to work better for the customer and could potentially be accessed using other methods of payment such as real time, credit transfers, or mobile P2P. In this way, it bears closer resemblance to a revolving line of credit than a simple card product.

Likewise, to facilitate offerings such as instant micro-credit or check replacement services, financial institutions need to be able to rapidly adjudicate existing clients within seconds, and new clients in a maximum of a few minutes, to meet the void left behind when checks go away (“I want to pay now, but can’t fund my payment for a few days.”). A bank can complete this adjudication in a number of ways such as by pre-qualifying its customer base, linking know your customer data across the bank, leveraging known data plus external scoring to facilitate quick decisioning, using outsourced adjudication services, or using implicit lines of credit. Whichever model suits your infrastructure, the ability to facilitate micro-length loans that last a small number of days or even hours will become increasingly important to your customers.

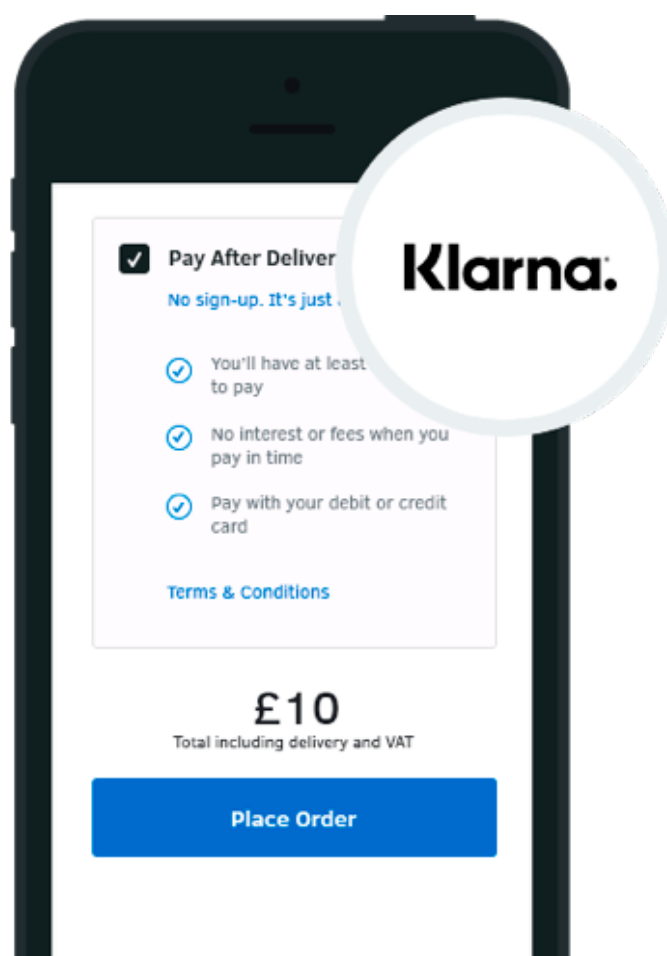
The absence of this awareness prevents markets from successfully twilighting legacy products, such as the paper check.

In many markets, billions of dollars have been spent attempting to digitize the check and remove the painful paper process, although, essentially in a modern banking environment, the check is no longer fit for purpose. This legacy renovation is like trying to keep a 20-year-old car running when customers are waiting for self-driving. In essence, what customers are missing is a viable digital alternative to the check.

In case you want to create an alternative, a check essentially performs four functions:

1. Properly used, it provides a tacit guarantee of payment to the recipient, with the recipient actually receiving the funds a few days later,
2. Prior to digitization, it allowed the payer to make a payment today, while delaying the need for liquid funds for a number of days, acting in effect like a short-term loan.
3. It shares the payer’s account details with the recipient and the recipient’s bank to enable reconciliation, regardless of market sensitivities.
4. It provides a method of payment compatible with remote transactions (i.e., the check is in the mail).

If you take these four functions into account when designing your new digital product and make it compatible with consumer habits of key check user demographics, you will have an effective solution.




CHOOSE HOW FAST MONEY SHOULD MOVE AND WHAT THEY'RE WILLING TO PAY FOR IT

Payments infrastructure around the world is moving towards global ubiquity of real-time payments. The extension of Europe's SEPA program to the SEPA Instant Credit Transfer scheme is a good example of this proliferation and greater availability. However, as explored in CGI's 2016 white paper, "[Exploring the Business Case for Immediate Payments](#)," a high percentage of payments take place without a real need for immediacy. The link between the transaction value, immediate payment guarantee, and interaction channel creates a theoretical triangle, which can define the appropriateness of the payment method to the transaction or its transaction payment relevance. In our Payments Customer Model, we elaborate further on this metric and introduce the aspect of willingness to pay.

The expectation of "speed costs" results from consumers' experience with giant online retailers (If I want my goods tomorrow, it will cost me more, but if I wait three days, then shipping is free). Likewise, they are willing to sign up for monthly or annual subscription packages that give them access to express services at no direct cost. This expectation directly correlates to the payments model.

In essence, the payment service users are demanding choice: the speed of the payment, the timing of the debit of the funds, the timing of the credit of the recipient and the fees to be paid for the service. In many places regulatory intervention in payment systems is exposing a version of the profit model for payments and this will drive payment services users' decision processes.

A number of new providers emerging in Europe's PSD2-enabled marketplace are exploring such models. There is no dominant model yet, but what is clear is that payment service users are responding positively to the feeling of control that choice offers them just as they are in the online retail space.

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Consumers are willing to pay subscriptions for access to express services at no direct cost

Another fundamental truth in the payments space is that, if something is free today, it is hard to charge for it later **without** adding significant new value. Consumer resistance to new fees for payments is similar to their resistance to a subscription service for Facebook or the long slow move towards paid-for streaming services after Napster first made music free. Only by increasing value were services such as Apple Music and Spotify able to make streaming a fee-based solution. The same is true for payment services. Until value of the solution increases, willingness to pay fees will continue to be zero.

Providing your payment service users with options at the point of payment creates new demands on your bank customer interface, whether app, browser or ATM. Traditionally, payment input screens have been tied to the payment type, but this will need to change, and so the infrastructure around it will need to be modified to support these options.



SELECTING SERVICES FROM A WIDE VARIETY OF OPTIONS

RENTMOOLA.COM/SIGNUP

SET YOURSELF UP IN 5 EASY STEPS

1 ENTER YOUR DETAILS
Go to rentmoola.com and submit your information.

2 FIND YOUR BUILDING
Enter your postcode to find your property and finish creating your RentMoola profile.

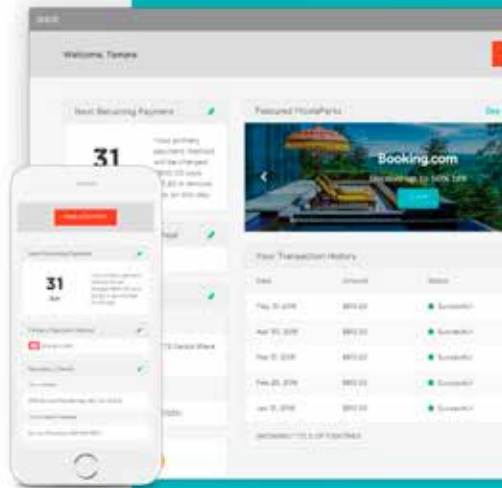
3 YOUR PROPERTY MANAGER CONFIRMS YOU
Your property manager will get notified to check that your details are correct.

4 START MAKING PAYMENTS
Seamlessly make one-time or recurring payments with your credit card, debit card, or chequing account.

5 STAY IN THE LOOP
Stay up-to-date and keep track of all your rent payments on our award-winning platform.

RENTMOOLA™
PAYING RENT IS REWARDING

GOODBYE
RENT CHEQUES.
HELLO
CONVENIENCE.



CONVENIENT OPTIONS TO ACHIEVE YOUR GOALS

GOAL	METHOD	FEES
No cost.	ReCHEQUE	FREE
Convenience. Build credit. Reward points.	VISA	1.65%
Save time. Pay on card. Low fees.	VISA <small>STREET</small>	0.65%

It is rare that a single product or service will meet the needs of all of your customers or all of their transactional needs. In the past, banks have attempted to use single methods of payment as a panacea for all payment situations. However, history shows us that, while card products were great for face-to-face retail, they remain poor in the e-commerce space. Emerging payment services must tackle smaller and smaller niches, solving small problems instead of large ones. Payment service users will decide which service best fits their needs.

This follows an evolving trend in the app space where apps target specific problems. As mobile device real estate is increasingly "commoditized" (with iPhone 6 8GB becoming iPhone XS 256GB), the need to reduce app space consumption becomes less and less. This means that, if a consumer wants to make a purchase at Starbucks, the consumer invariably get the Starbucks app, and likewise will have the McDonalds, Ritual, Tim Hortons, Uber Eats apps and a pile of others. All of these apps perform roughly the same function, but within the same ecosystem—a single mobile device. The rationale is that, while incredibly similar, these apps perform functions uniquely tied to a specific action and build their value around that function (i.e., ordering a custom latte from Starbucks).

From a payments market perspective, we already see some splintering in the payments experience, despite the underpinning dependence on the same payment rails. Providers of payment services should consider this as they develop future service portfolios. The offers need to be more targeted and valuable, while also built on a ubiquitous and configurable infrastructure.

Live market examples include payment portals built for specific markets, like Canada's RentMoola. RentMoola is a solution designed to facilitate payment of monthly rent for housing, facilitating payment for the tenant using a variety of payment methods, and enabling easier reconciliation for agents or landlords. The portal has developed a number of services around the humble payment transaction, creating value that moves users away from traditional alternative, post-dated checks and gives them something they are willing to pay for.

As we evolve payment services in the banking sector, the banking app, with its direct access to account balances and authentication of the user, is the ideal place to deliver these types of services through a "pay my rent" button or even an "order me an Uber" button. Services can be delivered by the bank themselves or in direct partnership with dynamic partners. The bank brings the customer base and access, while the partner brings niche knowledge that a bank needs to retain specific business in the new market economy. The benefit that the payment service user receives generates loyalty.



Nowhere is the race to deliver new value and service niches more exaggerated than in the corporate payments sector. While banks still monopolize interactions with major international corporations, beyond the SME sector the competition is heating up. EBPP and AR/AP specialists are extending beyond the reconciliation process into payments processing. This active disintermediation often begins in a single niche sector and then extends beyond, slowly reducing banking interaction from many to one.

DEMANDING TRANSPARENCY, VISIBILITY AND TRACKING

When people talk payments modernization, Uber is a word that is used on a frequent basis. However, when payments people look at Uber, all they tend to see is that the payment is transparent to the user, i.e., you get into the cab, you get out of the cab, and the driver is paid automatically. This much is true; while Uber has made the payment truly relevant to the experience of taking a cab ride, its impact on payments extends far beyond this. Uber has created an end-to-end user experience that has had a profound effect on the expectations of service app users.

Think about the Uber experience. When you open the app, it shows how many drivers are operating in your area, asks where you want to go and gives you pricing and service options. It confirms your intent and selects the best cab to fulfil your needs. It then shows your cab travelling toward you and the journey beyond. Finally, the app allows you to give instant feedback at the end and confirms completion.

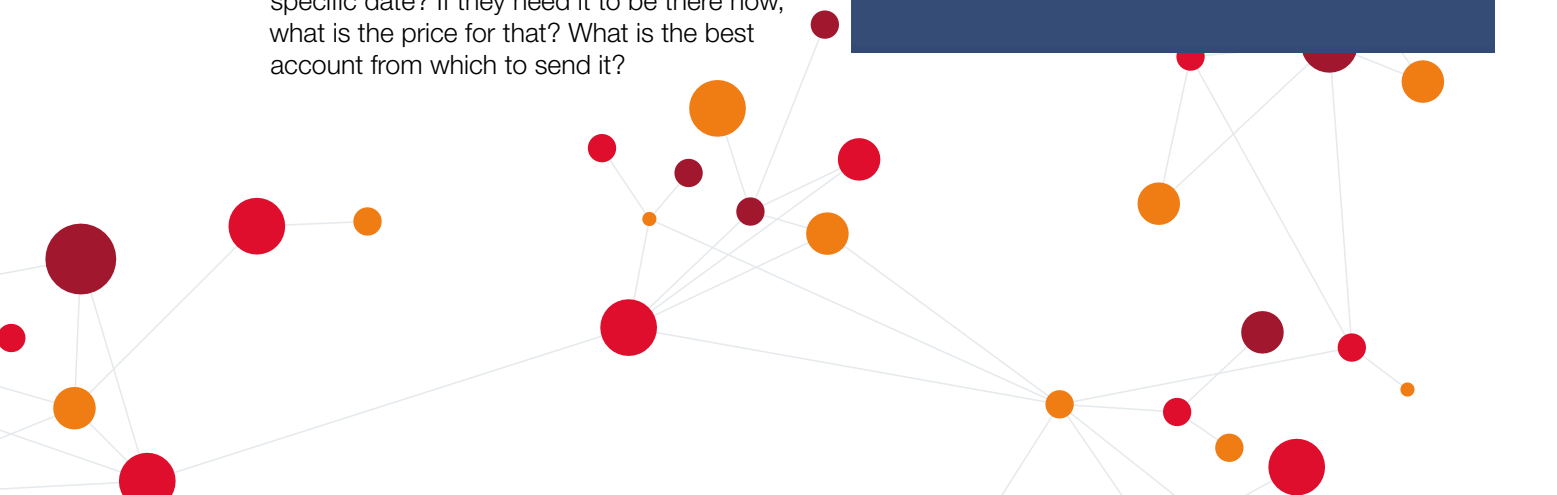
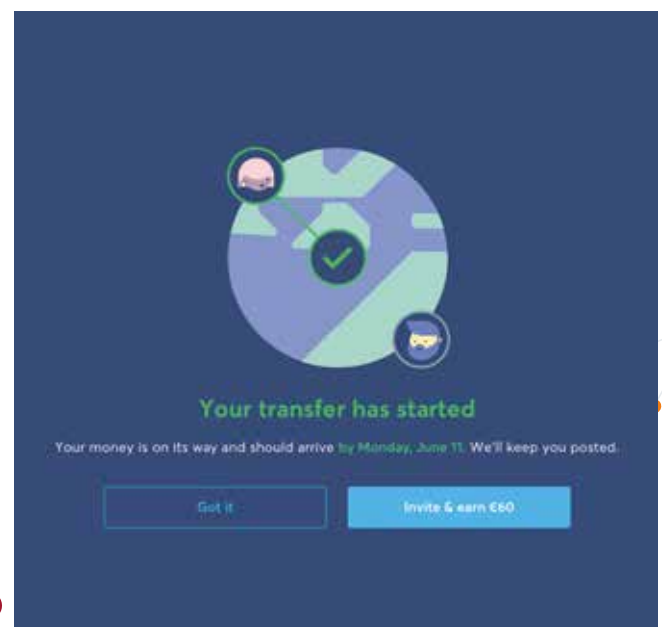
Now apply this to a typical bank payment transaction. Typical users opens their banking apps, but the apps have little clue about where they are and what they might be doing. Are they in their local supermarket? Are they at a hospital in another country? Are they sitting in the back of an Uber? The ability to do this is easily available and exploitable within most smartphones, yet seldom used by a bank app beyond security geolocation. Why should a bank worry about where its customers are? Because it can offer services specific to their location once they grant permission to do so.

Next, once the bank identifies user needs, the users can be given options. Are they sending money to a friend? How quickly do they want the friend to get it? Should it arrive on a specific date? If they need it to be there now, what is the price for that? What is the best account from which to send it?

Once the transaction and speed are accepted, users need to see that things are moving along. Where is their money now? How far does it have to go? When precisely will it arrive?

And, finally, when the money gets to where it is going, users need the bank to proactively notify them.

While the app to drive these kind of changes is relatively simple, and services such as SWIFT gpi make tracking some payments easier, some of these changes will be much more challenging for traditional bank infrastructure. Aligning the input screens for various payment types is difficult for banks without a unified channel infrastructure. Separating channel from processing also is harder for those supporting legacy payment systems. While reasonable results are achievable with middleware or skunkworks approaches, inevitably this change is one of the key drivers of payment system modernization within a bank.



EXPECT SERVICES AND ADVICE TO BETTER MANAGE THEIR MONEY

Consumers today are used to receiving recommendations as service providers leverage their data-driven understanding of each customer to deliver unique responses. In the payments space, a bank can deliver recommendations at the point of payment through analytics that derive insight into the customer's behaviour, including recommendations on how to best fund a payment. This definitely is a space where bank collaboration with FinTechs may deliver the best results.

A good example of this is in terms of major purchases. A user's primary bank, for example, knows the precise amount of the user's paycheck and its deposit dates. The bank also has good insight into the user's outgoing payments and the dates on which payments are due.

If your customer asks, "How do I best pay for my new sofa?" a quick review of the customer's data shows that the customer has insufficient income to pay the \$3,000 cost directly and needs financing. A check of the customer's credit card balance shows that there is \$1,000 available, but the customer's income and current debt levels would allow an approval for an extension of \$2,000 to cover the cost of the sofa.

Likewise, the customer may qualify for a line of credit, an overdraft, or an installment loan. However, the customer's browsing data, made available with the customer's permission, indicates the customer has been looking for a sofa at a retailer for which the bank underwrites credit and this would be the customer's cheapest financing option. The advice that the bank would offer is to use the retailer's credit with a caveat that this would involve potential checks against the customer's credit score, followed by a presentation of the other options available and their costs.

While presenting the retailer option in this case might seem counterintuitive, it not only strengthens the customer's bond with the bank, but also helps to build the credit portfolio of the retailer. As we move to an era where bank portability becomes easier and customer loyalty is tested, serving as a trusted advisor that offers the best advice from the customer's perspective helps to maintain trust.

Past policies of bank branch closures and redirection to unintelligent digital channels has eroded this trusted advisor position. Reinstalling banks as the payment provider of choice requires investment in customer intimacy, and integration of payments into digital solutions based on client insight.



WHAT DOES A BANK NEED TO DO?

As each bank progresses along its unique modernization journey, there are a number of actions required to prepare their infrastructure for the needs of tomorrow's payment service users. Logistically, there are few organizations that can tackle all of these simultaneously, but, at a minimum, a medium-term roadmap needs to ensure that it covers all of the key changes required to deliver services at the risk of falling behind bank and non-bank competitors, such as Klarna, Starbucks and TransferWise.



Choose how to fund a payment:

- Separate the funding source and rail
- Support rapid adjudication and decisioning for flexible financing arrangements



Choose when and how fast their money moves and how much they are willing to pay for it:

- Connect to as many payment rails as possible
- Develop simple, self-serve rail-independent customer interfaces
- Build least cost routing algorithms



Select services from a wide range of applications:

- Be prepared to manage external payment APIs to support commercial clients directly and all clients through new services or emerging partner opportunities



Demand transparency, visibility, and tracking:

- Know the status and cost of a payment and share them with customers



Expect services and advice to help customers better manage their money, cash flow and access to funds:

- Create channels to provide relevant, timely information to help customers manage their money
- Collect and use transaction data to deliver relevant banking recommendations and solutions that are integrated into consumer lives or end-to-end business flows

While these are seemingly simple actions, they can produce fundamental issues with legacy infrastructure. Working with an experienced IT services provider is the key to securing your long-term position as a payment services provider in the new payments market.



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