Whitepaper

How payments innovation can help you and your customers through the cost of living crisis

Alongside our clients, we hope that by investing in technology, amongst other things, we can help people to better overcome problems in their everyday lives and improve their overall wellbeing.

As providers of goods and services, few companies will have failed to notice changes in their customer's ability to meet their obligations and benefit from the goods and services they provide. In some sectors debt is becoming a challenge for both companies and their customers and the ability to manage debt has become a differentiator in both the performance of the companies and the perception of them by their customers.

So, can technology help in such a situation? On a personal level, it can't do much to influence income levels. However, it may be able to help us control outgoings and it can certainly help in cashflow, an area that becomes increasingly important when income is stretched.

There are two key technologies that an organisation can consider to help enable customers to better manage their cashflow and effectively service financial obligation and debt.

1. The first is collections technology, to more effectively spot accounts that are running into trouble before it is too late and then offer a more customer centric, customer specific approach to helping manage arrears.
2. The second is open banking payments technology, which addresses the cash flow issue and can help people manage their money, as well as providing flexible payment solutions that take fluctuating incomes into account.

Let's look at developments in each of these fields.

In the collections world, technology has traditionally been focused on management of accounts and more recently customer interaction, through the increasing use of chatbots, etc. in call centre optimisation. That worked well when the collections business was a relatively stable one, with businesses being able to rely on the number of customers who would go into arrears being fairly consistent. However, post pandemic and with the current cost of living crisis, we are seeing firms look to technology to help them more accurately predict who in their customer base might go into arrears well before they do, using predictive analytics, and then to define personalised strategies for those customers using machine learning and custom product generation.

In order for these technology tools to be used effectively, businesses now need to think differently about how data is entered into and extracted from their collections systems. That entails looking at not only how their collections systems operate, but how readily they can access, process and export data. Often this import and export of data may be outside the organisation, importing information from credit agencies or other financial institutions as well exporting data to 3rd parties who may be able to provide more suitable services for individual customers.

All of this requires looking at collections as more of a platform business than a siloed operation within one organisation. To successfully build a platform business though, a couple of things have to be true; firstly, the platform must be accessible outside of the organisation, leveraging industry standards like open banking, but essentially by having a model that allows 3rd parties to build their own solutions on top of the core platform operation. Secondly, the platform must be able to react to the rapidly changing needs of the external 3rd parties. Taken together, these principles allow organisations to not only generate new revenue streams through the 3rd parties they are connected to, but to enable internal teams to also change rapidly in order to better service their customer needs.

Let's turn to open banking. As you may be aware, **over the last eight years or so regulation in the UK and Europe has allowed for greater innovation in payments. This started in 2015 with the introductions of PSD2 (implemented by the CMA in 2016 in nine biggest banks in the UK) and Request to Pay.** Then more recently in 2022, the introduction of open banking Variable Recurring Payments (VRPs) has allowed users to authorise a series of payments to go from one of their accounts to another, and is likely to be extended to allow them to authorise a series of payments to a biller.

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In our conversations with billers we have identified some themes that may be useful to share. Firstly, as the old saying goes, **"if it ain't broken don't fix it".** If your customers are comfortable paying by Direct Debit and you are comfortable with receiving payments this way then that's fine, open banking payments does not claim to be the only solution any more than cash or cards do. This will account for a lot of your customers, but not all of them. This paper, in discussing indebtedness, is addressing those for whom the assumption of a regular income sufficient to meet all their financial obligations is not applicable.

As we know, debt is still increasing, in September 2022 the UK Debt Service reported: 311 people per day were declared bankrupt or insolvent in England and Wales from June to August. This equates to one person every 4 minutes and 38 seconds. This figure has risen from 297 people per day.

It is then perhaps not a surprise that 40% of direct debit users plan to cancel at least one direct debit in part in an effort to save money but also to take more direct control of their outgoings as cashflow becomes tighter.

As a biller this is a concern as the alternatives to Direct Debit have traditionally been payment cards, which are more expensive than Direct Debit, or cheques or cash which are considerably more expensive. Open banking provides billers with a new opportunity to offer a secure, cheap and importantly, flexible payment alternative to these customers at little implementation cost to the biller and no cost to the customer. The key advantage to the biller is that the per transaction cost is usually cheaper than the comparable card fee.

Open banking payments can be offered either to initiate a single payment or multiple payments (known as VRPs), Both initiate a secure, customer authorised, bank to bank payment which is immediate, irrevocable and usually cheaper than the similar card payment. Whilst variable recurring payments are currently limited in their scope to moving money between customer bank accounts (so called "sweeping") it thought by many in the industry that this will be expanded to payment of recurring bills. For example, I can pay my gym membership this way but unlike Direct Debit I have control over how much can be taken, I can control the duration of the agreement and the agreement can be set up immediately.

Adoption of open banking payments has certainly gathered momentum. The OBIE report (in June 22) that adoption has continued to grow, with 10–11% of digitally-enabled consumers now estimated to be active users of at least one open banking service. This is up from 6–7% in March 2021. Data on transaction throughput shows month-on-month growth running at around 10%.

However, there are still obstacles. We have had conversations with our clients in relation to old technology at the billing end making the path to integration (API driven) of new payment methods less clear both technically and from a business standpoint. We have been having conversations with our clients for several years now and have helped many through the right path to adoption whether through the provision of technical or business case assistance.

In summary, we believe that there are many advantages that well implemented and targeted technology can bring to both the biller and the end consumer to manage debt, payments, and smooth cash flow. We are having exciting conversations with our clients about how sophisticated collections tools and flexible, cheap, payments offer real advantage to both them and their customers.

We would love to share further insight and discuss options that might be of advantage to your organisation if you would like to contact us on the details below.

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