Kill two birds with one stone – less risk more value*

Transaction Banking Compass

*connectedthinking

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The business of payments continues to be subject to sustained 'external change', and this trend shows no signs of abating. The current situation is one where multiple mandatory demands on scarce development capital combine with high-market visibility of important political and regulatory obligations. It is unsurprising, therefore, that some organisations are struggling to achieve their discretionary aspirations.

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The internal payments infrastructure of many banks is often old, usually difficult to change and therefore fragile to both demand and incident. Although payment infrastructures have held up well throughout the recent financial crisis, the inherent risk of failure is therefore now much greater. New, complex and challenging industry demands, including the introduction of near-real-time payments under the Faster Payments Scheme (launched 27 May 2008) and the forthcoming enactment of the Payment Services Directive are keeping some chief executives, chief operating officers and compliance directors awake at night. This need not be the case.

Transaction banking

Many banks have overcome the barriers to 'next level performance' by creating commercially oriented and transaction banking profit centres out of their payments areas: displacing typically distributed, utility-oriented and cost-centre-driven predecessor structures.

Infrastructure investment is notoriously difficult to unlock in complex organisations. Transactions systems often support many different internal organisational structures, and externally originated change makes timely business cases hard to construct and harder still to agree. It is particularly difficult where transactions systems are run as a cost centre and the sponsorship of change needs to be collegiate. These factors often combine to result in underinvestment and scope curtailment.

By following the profit centre route and also the precedent set by the market leaders:

- Economic profit is easier to manage.
- It is easier to have key strategic issues debated at board level.
- Investment decisions are simplified.
- Accountabilities are clarified.
- Supply-side change can be better managed.

Customer-facing business requirements are also more easily accommodated, and if these principles are applied, operational productivity and operating performance can both be raised.

Retail customer expectations

Retail customers expect their banking service providers to get their transactional needs right – right first time and right every time. With little tolerance for error, politicians and regulators championing consumer rights and 'red top' editors being ever ready to run headlines about banking mistakes, it is essential that banks have resilient, available and effective transactions processing and management systems. These systems and the change environments within which they are maintained must also be capable of meeting the needs of the current and emerging market.

The need to get it right can best be seen in what it means to get it wrong.

On 30 March 2007, the participants of the Bankers Automated Clearing Services (BACS) payments scheme were forced to issue a statement[1] to the market, admitting problems with the processing of salary payments. On that particular Friday, circa 400k customers did not receive their salary payments as they expected.

The consequence for the affected customers was potentially significant; missed mortgage payments, bounced cheques, insufficient cash for weekend activities, overdraft charges and damaged credit rating implications. The consequence for the affected banks was certainly significant: damage to their reputation, opportunity loss of future revenue and also the cost of mitigation and remediation. For the people involved in managing the incident, it was an uncomfortable time: dealing with imperfect and incomplete data while trying to provide coherent and reliable information to many internal and external stakeholders.

If a similar incident were to occur on 30 March 2009, the implications could be significantly different and the implications much more severe. Rumours about the solvency of the paying companies, concerns about possible financial meltdown and excited headlines about an industry in further crisis could easily be the order of the day.

There are clear, operational and business synergies to be obtained by bringing the transactions management together, and these scale efficiencies also apply to effective risk and incident management.

1 Association of Payments and Clearing Services press release – 30.03.07.

Retail customer demand

Customer demand at the basic level remains constant. For a retail customer it is essentially the ability to undertake a transaction using an instrument of choice, in a channel of choice and at the time of choice. At the more advanced level, this means the ability to self-serve and transparency of key terms and information throughout the process. It also means being serviced in new channels and with new technologies, such as mobile telephony or contactless payment cards.

The key to sustainable success is in having a truly great customer interface and an iconic experience, especially something that:

- Recognises the need to offer people/individuals something they want to be identified with;
- Fits in with their own brand choices;
- Gives them a sense of control; and
- Is easy for them to use at the time that they want to use it.

Downstream business areas need to be freed from infrastructure issues to focus on segmented customer marketing, their commercial propositions and their relationship management.

Valuable customer data

All organisations understand how important it is to know their customers as individually and uniquely as possible. Typically, this means understanding individual needs and then being able to relate those individual needs to the actual priorities of each customer at any given point in time. Within a bank, few systems have an ability to provide insight into a customer life cycle or into current customer priorities as their transactions' systems do.

In mature markets, particularly markets with high barriers to entry and which exhibit stable market share, data mining can be immensely effective in generating new revenue streams and in establishing a differentiated service proposition. Successful data mining is not simply a data warehouse, the use of sophisticated interrogation tools and a periodic ad hoc analysis. Success is determined by integrated process management, detailed transactions analysis and alignment with a clear customer segmentation and strategy.

Non-banks are achieving very high levels of personalisation in their engagement with customers, and new entrants to the retail market such as PayPal have clearly raised the competitive standard. Although PayPal is now a bank, it achieved a financial performance to rival that of a global bank's transactions business. It has achieved this by providing an interface to bank services, having an effective launch strategy and giving to customers the things that they valued: convenience and the ability to keep their financial accounts private.

It is worth noting in tough market conditions that customers are clearly happy paying for a compelling proposition.

Transactions banking, once formed, should be challenged to unlock the value in its possession. No other part of the banking business sees so much customer activity, or sees it as often as the transactional processor does.

The Payments Council in the UK

Retail transactions have been a particular focus of regulatory attention and review within both the UK and also more broadly within the European Union. The Payments Council undertakes a strategic role in the development of payments in the UK, and it was set up by the payments sector in response to a number of general reviews[2] in the UK, and to address specific recommendations of the Office of Fair Trading (OFT) Payment Systems Task Force.

On 14 May 2008, the Payments Council published the UK's first National Payment Plan, and this document sets out the way forward for payments in the UK to 2018. As retail banking leadership teams now assess their potential business strategies, the National Payments Plan sets boundaries and issues that must be understood and taken into account.

2 Cruikshank D, Competition in UK Banking. A Report to the Chancellor of the Exchequer (2000); Office of Fair Trading, UK payment systems (2003).

A burgeoning portfolio of change

The UK National Payments Plan is not the only agenda item that retail banks need to 'have on their radar'. Europe is a prodigious source of change and the implications of many interventions are being felt right across the transactions supply chain. This is particularly evident in both the vision and formation of the Single Euro Payments Area, which is redefining the European marketplace.

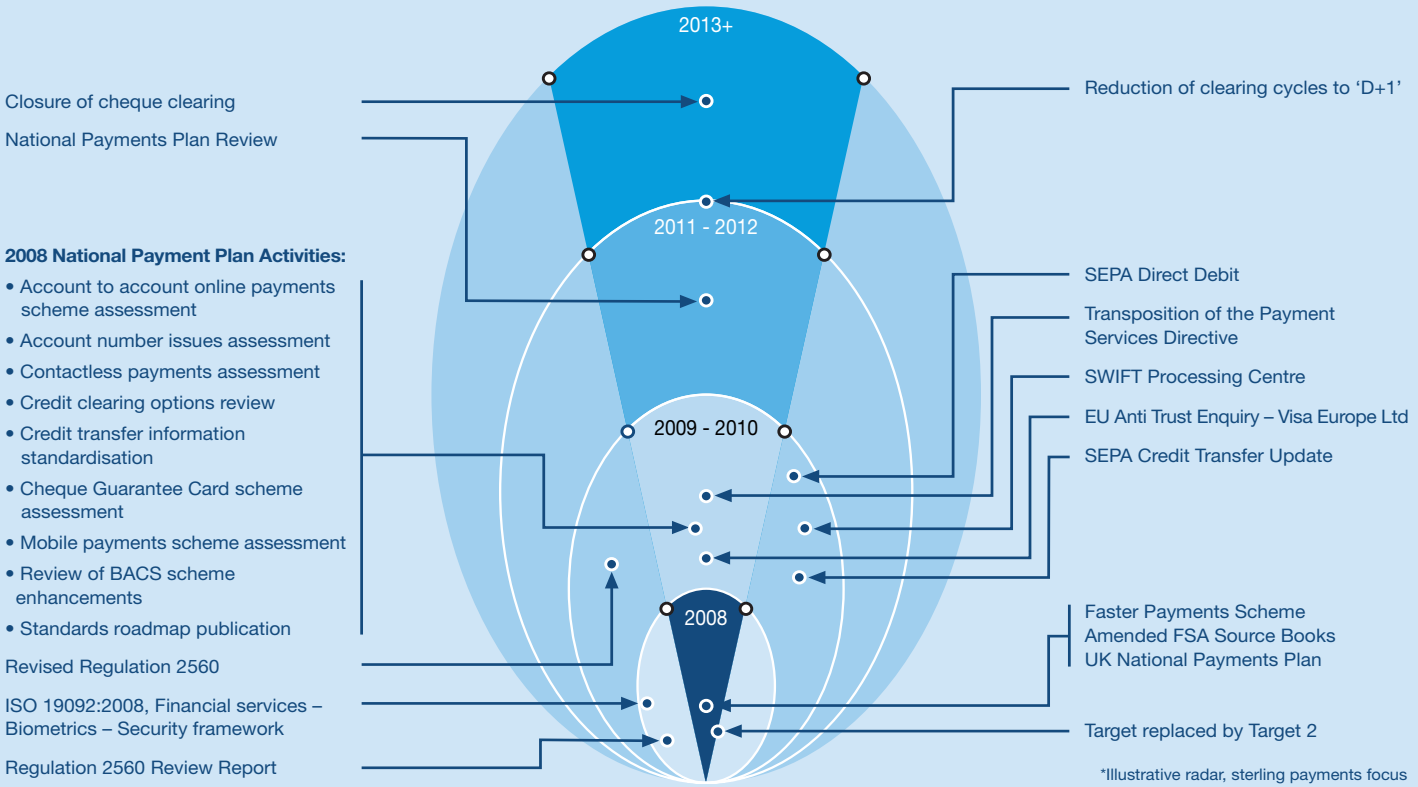
Figure 1 provides a graphic illustration of the scope and scale of some of the changes that banks need to manage. Some changes will clearly be at the top of the management agenda, but all changes require effective governance, analysis and responses.

Regular review of a retail payments radar helps to ensure that nothing is missed, that decisions can be taken at the right time and that strategies can be optimised. 'What should I have on my radar?' is a common refrain of management.

By effectively linking industry, regulatory and public policy management to change management, there is no need for managers to be unclear about what they should have on their agenda and in their plans.

In short, early visibility and better linkage of change would allow more sleep to be had.

Figure 1 – What's on the radar: retail payments?*



*Illustrative radar, sterling payments focus

Source: PricewaterhouseCoopers

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