

FUTURE PAYMENTS FORUM

Meeting Review

May 14th 2024

In the second meeting of 2024, the Forum met to consider what it will take to create a competitor to the dominant retail payment methods in the UK and what needs to be done to encourage effective competition.

The first contributor, **Mr Dan Feaheny, Principal, Feeney Fintech** emphasised the nature and scope of the challenge that lies ahead of the payments industry. He described a world in which we have moved over the last 20 years, from a lived-experience based on the tangible things in a slow-moving world, into a world of immediacy and instant gratification – the dopamine culture. In this environment payment services must be adapted to be purely digital, fraud free by design, instant and cost-effective. Dan encouraged the forum to consider the example of hive-minded creatures such as the bumblebee and the absolute need to collaborate more closely to achieve the outcomes in payment services that are needed. He also highlighted the failings in the attempts made so far to achieve the level of change that is needed in both underlying design approaches and how to deliver them.

The issue of identity was emphasised and the lack of effective mechanisms to establish and validate the identity of parties during a transaction. Dan highlighted the multiple and often conflicting efforts of various UK government functions in this area. The forum agreed that this was a fundamental component of success for the future of payments without which it will be hard to deliver the services needed in our imminent future. It was agreed that much of the challenge of today's payments and banking industry is dealing with the lack of a reliable, shared infrastructure for identity.

Mr Hamish Blythe, CEO, Trilo showed the forum the state-of-the art for Open Banking based payment services. He emphasised the challenges that smaller, independent merchants face in terms of knowing their customers and being able to incentivise them to do more business with them. Trilo's ability to add value through enhanced information about the customer and their activity with a retailer and zero cost payment transactions using Open Banking, gives retailers the chance to compete with corporate retail competition.

Hamish was keen to emphasise the importance and potential power of the Open Banking initiative to drive change and create a competitor to the existing retail payment schemes. However, he was also sure that the current implementation by individual banks made relying on it difficult. He noted that some banks had managed to produce a well-engineered consumer journey from Trilo's app to confirmation of payment in the bank's app. However, some banks had not, and Open Banking could not be used to support the customer's activity.

It would clearly benefit competition if there was a standard for banking apps in this regard to which all banks must comply.

Owned and operated by Smartex Limited

Postal address: 3 Frant Court, Frant, Tunbridge Wells TN3 9DW

Registered address: 8A The Mount, High Street, Toft, Cambridgeshire CB23 2RL, England

Registered number: 02758219

Other factors that limit the power of Open Banking were the lack of an acceptance brand. However, Hamish plans that Trilo will become synonymous with it and dominate the market. The Forum discussed the economics of the Open Banking service and noted that whilst the current rule is that a bank may only charge for an Open Banking pull payment - what they currently charge retail customers for a Faster Payment transaction (currently nothing) - there was no long-term certainty that this would remain the case once rival payment service providers gained significant market share. It was noted that attempts to produce a common pricing model for Open Banking that could be depended on by Trilo and its competitors, have not produced results so far.

Mr Rob Heasman, Owner, Indian Summer gave the forum a fascinating insight to the challenges of owning and operating a restaurant and the factors he looks for in a payment service. Rob described the impact of the government's response to Covid on his business and the challenges of the recent economic environment, and why he had decided to adopt the Musqet payment service that combines card acceptance with the ability to accept Bitcoin as a currency. **Mr David Parkinson, CEO Musqet** explained the Musqet proposition to the forum and Rob stated that using it has already had some useful impacts on his business, especially his digital profile, which has risen dramatically and encouraged visitors from far-and-wide to seek out his restaurant. It is an example of the potential of payments innovation to support retailer growth.

Rob and David described the fiercely competitive market for provision of debit card services in the UK and that he had secured transaction pricing in the range of 25 to 30bps with no fixed fee per transaction. This provided a sobering baseline for the challenge that any rival to the card schemes must face. Whilst Open Banking transactions are free at present there are still costs for the service providers that deliver them and these are in addition to the fixed cost of card and cash acceptance that must be borne until Open Banking becomes ubiquitous.

Finally, **Mr Adrian Cannon, Chair, FPF** presented a synthesis of the findings of the FPF over the last 18 months and made recommendations of ways to increase innovation for payment services at PoS. His focus was the displacement of the current debit card schemes that dominate payments and for which the economics are not clouded by the provision of credit and the cost of risk that it carries. In summary the recommendations were that:

1. Using bank clearing infrastructure to support small value payments real time would not be cost effective compared to the aggregated, net settlement model of the card schemes. An aggregation capability was important to create cost effective competition.
2. Differential pricing in the form of retailer discounts from list price for their preferred payment methods would create a drive for change but requires regulatory change.
3. Payment method choice when adopting a current account and during the life of the account should be mandated.
4. The EMV payment terminal acts as an accidental barrier to competition at PoS and it should be possible to remove this barrier and make it much easier for new payment methods to be serviced through this channel.

Owned and operated by Smartex Limited

Postal address: 3 Frant Court, Frant, Tunbridge Wells TN3 9DW

Registered address: 8A The Mount, High Street, Toft, Cambridgeshire CB23 2RL, England

Registered number: 02758219



5. Disaggregate transaction data from movement of funds so that aggregation can be supported and an evolutionary approach to the New Payments Architecture can be used to drive change.
6. That all aspects of delivering a payment scheme must be addressed and that changing the clearing and access to it will not deliver an alternative to the highly effective dominant methods we have today.

Finally, Adrian reflected on the fact that the cost of doing all these things and deploying a national alternative may not achieve any change in the economics of payments for retailers or their customers, given the competitive nature of debit card services in the UK today.

Attendees of the meeting represented the following companies:

Barclays UK	Feeney Fintech	Musqet	Trilo
British Retail Consortium	HM Treasury	Payment Systems Regulator	UCDx CIC
Consult Hyperion	Identity Assurance Systems	pingNpay	Unit21
CJS Consultancy	Indian Summer	Smartex	Visa
Debit My Mobile	LINK	Technology Strategy	Witstock

Next Future Payments Forum Meeting: September 17th, London

If your organisation would like to present at a future meeting please contact Annabel Cartwright at annabel@smartex.com

Owned and operated by Smartex Limited

Postal address: 3 Frant Court, Frant, Tunbridge Wells TN3 9DW

Registered address: 8A The Mount, High Street, Toft, Cambridgeshire CB23 2RL, England

Registered number: 02758219