

# Building resilience

## A focus on payments



99%

of businesses will make changes to deliver social distancing and use PPE

(Source: Office for National Statistics survey results released 4 June 2020)

80%

agreed that technology had been a vital support for them through the crisis.

(Source: Lloyds Bank UK Consumer Digital Index 2020)



78%



Year-on-year rise in supermarket E-commerce reported in April

50%

reduction in cash withdrawals as lockdown commenced



Adjusting as lockdown eases, demands that measures are taken to refine business models and prepare for the future. Whether your business is re-inventing itself or adopting new ways of working, the intention should be to become **more sustainable, more efficient** and **more productive**.



Accepting payments in a socially distanced economy



Digital becomes the prime channel



Focus on the future

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LLOYDS BANK

By the side of business



# Building resilience: a focus on payments

## Key highlights:

- **It is critical to review** how payments are both taken and made to reflect social distancing and deliver improved resilience;
- **The focus on alternate technologies**, free of the contactless limit, will increase including QR codes, pre-ordering, pay by bank and URL solutions;
- **E-commerce may become the prime channel** and be a vital component needed to build a resilient business whilst also offering a richer client experience .

## Accepting payments in a socially distanced economy

**Social distancing will have a material impact on all businesses.** The concerns of consumers and employees across sectors are having a significant impact on all face-to-face interactions, in the workplace and beyond. 99% of businesses who responded to a recent ONS survey said they would make changes to deliver social distancing and use PPE in their businesses.

Payments are a critical element to all businesses, and how they can best operate in a socially distanced world needs review. A review now will add resilience for any potential future period of lockdown or other restrictive measures.

## The response to the pandemic has been an extraordinary challenge for businesses and has exposed weaknesses and fragilities that could not have been foreseen just a few months ago.

As mandatory restrictive measures are further eased, and activity resumes in more areas of the economy, some established business models may prove to be less effective or even unsustainable. Businesses in all sectors will need to review their approach to ensure they are resilient and able to survive and thrive in the new environment to restore customer and employee confidence.

Social distancing and the potential risk of future lockdowns demands immediate action. E-commerce and digitisation have been on the agenda for many firms, but the urgency has increased.

We reflect on insight drawn from **Lloyds Banking Group's involvement in 1 in 3 of UK payments** and from our conversations with clients, to set out our views on what has changed, and why a new approach to the taking and making of payments is an imperative for all businesses.



In a socially distanced environment, even the pin pad becomes a challenge as it creates the need for unwelcome proximity and contact.



**Ed Thurman**  
Managing Director,  
Head of Global Transaction Banking,  
Lloyds Bank Commercial Banking

**Businesses have already seen major changes in how they accept payments during the lockdown period.** The use of cash, already in decline by around 4% per year, has fallen sharply. Our data on cash withdrawals shows a fall of 50% within days of the lockdown and usage has remained at these reduced levels. A recent LINK survey found that 75% of respondents are using cash less than before the crisis. In addition, our data shows retailers, such as the large supermarkets have seen card use rise by 78% year on year. This move away from cash as a safe means of payment may well endure beyond the current crisis.

In a socially distanced environment, **even the pin pad becomes a challenge** as it creates the need for unwelcome proximity and contact. A move to contactless has been the first logical step. With limits now increased to £45, this method offers the simplest change to create some degree of separation for smaller transactions. Our data shows the average value of a contactless transaction has increased from £8 to £15 in the last two months. However, many businesses including restaurants, medical practices, as well as most retailers, have an average transaction value above £45 and here alternative solutions to reduce contact will be needed.

We have also seen **card not present** transactions rise by 9% year on year during the crisis as telephone-based sales increased. Providing the chance to take payment from customers over the phone and to arrange delivery has offered businesses a means to maintain activity.

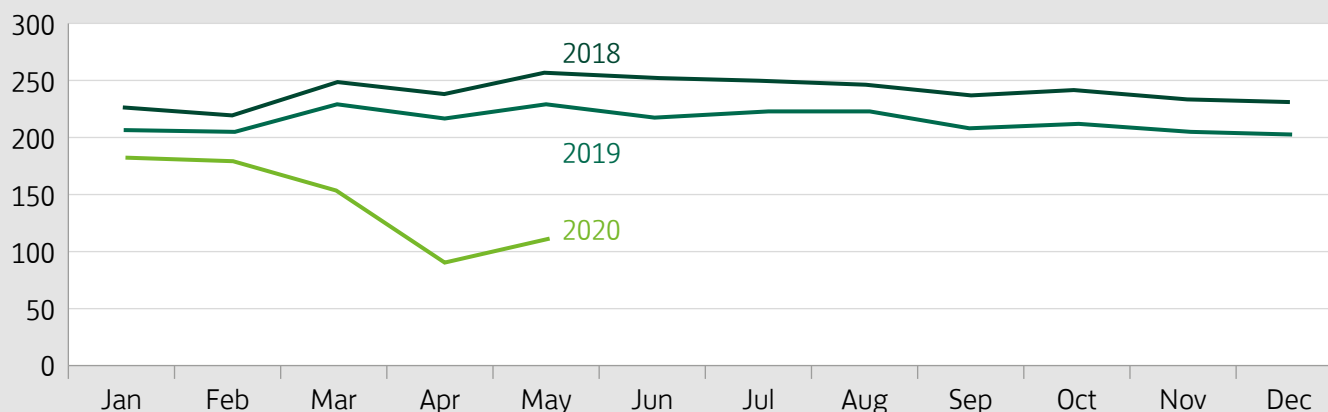
The almost ubiquitous use of **smart phones** offers one accessible route through the development and the use of “**tokenisation**”; services like Apple and Android Pay allow for higher value transactions of up to and beyond £100 depending on where they are used.



Supermarkets saw e-commerce surge by 78% year on year during April as customers both ordered online and used mobile apps to pay in store

## The Covid-19 crisis has accentuated the move away from cash and brought new challenges

UK ATM network transactions (Monthly transaction volumes, millions)




Source: LINK website: Statistics and Trends

Note: These figures include enquires and rejected transactions made through the LINK network, but do not include transactions made by customers at their own banks' or building societies' ATMs.

Alternatively, **payment by URL** functionality allows a link to be provided to customers, by email to a virtual terminal. Similarly, WhatsApp, SMS or QR code can take the customer to a webpage where they can securely make the payment, with their preferred payment method, when convenient for them.

In addition, growth in **Pay-by-Bank** functionality allows customers to pay a merchant direct using their mobile banking app. This approach releases the customer from limits placed on contactless transactions and utilises consumers' existing banking apps. This enables it to offer fast settlement, lower costs and makes it easier for consumers to adopt.



Pay-by-Bank offers businesses a potentially lower cost option that settles immediately and is easy for consumers to adopt.



## Case Study

### Lockdown solutions to maintain critical services

Working with a district council, Lloyds Bank Cardnet® was able to provide the council teams with the ability to take payments over the phone.

This capability adopted centrally within the council meant that they could take payments from local residents over the phone and arrange for the provision of key outreach services to support them during lockdown.

The council engaged with businesses helping to deliver essential services for vulnerable residents and arranged for them to be able to process payments without the cardholder present. The goods purchased were then delivered by the local community hubs helping people to self-isolate.

In most situations where payments are taken face-to-face, changes are needed. Solutions that worked in February may now not be appropriate/feasible in a socially-distanced world.

### Digital becomes the prime channel

The importance of an e-commerce solution to combat the effects of lockdown for many businesses has grown, becoming a vital component to build a resilient business. A truly remote solution also better meets the needs of clients perhaps more reticent to return to face-to-face channels in the near term or wanting to do business on their own terms.

Creating a new or augmented online channel not only addresses social distancing, but can drive new or incremental revenues, and alongside the additional interactions, it can deliver an improved customer experience and help maintain activity should we face a similar crisis in the future.

Changes in how customers purchased groceries during lockdown provides potential examples of how amendments made in haste, and by necessity, may become the new normal.

Our data shows that supermarkets saw e-commerce surge by 78% year on year during April. Customers both ordered online and used app-based means to **pay via mobile** in store, removing the need to interact at the till point or use touch screen technology at self-service checkouts.

Other large retailers permitted to operate during lockdown also moved to e-commerce as a way to create separation at the point of purchase. DIY or hardware stores stayed open by switching to a “click and collect” model with customers ordering online and collecting at a prearranged time.



The challenges of lockdown have not just impacted businesses; consumers too have changed.



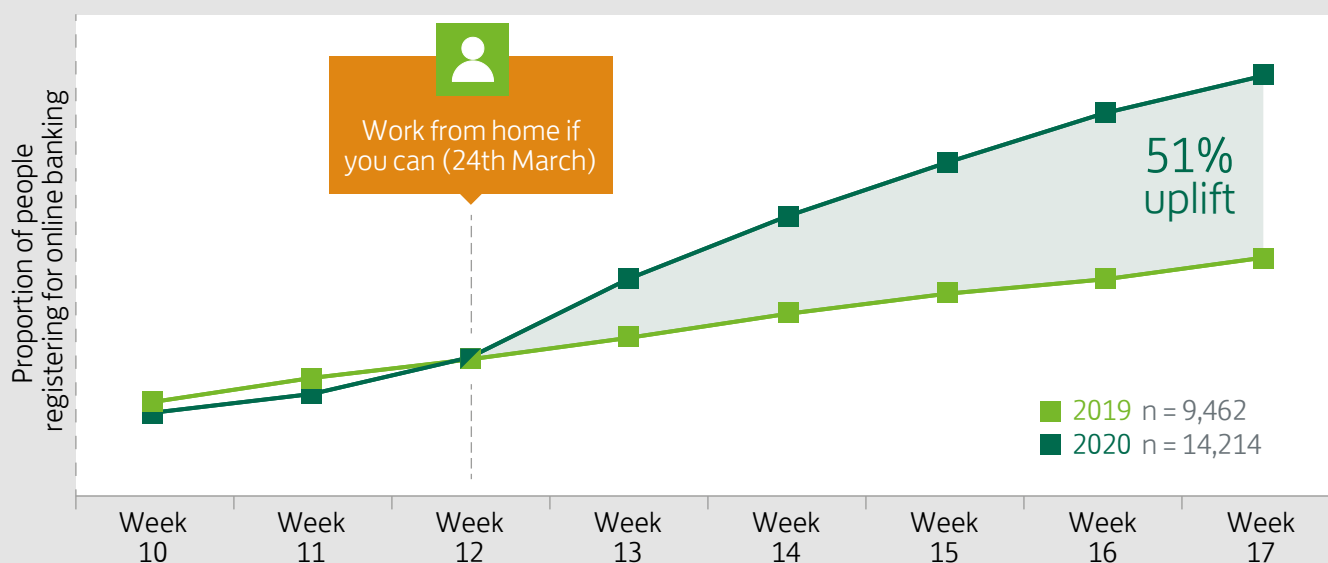
Tony Nash

Managing Director, Head of Cardnet,  
Lloyds Bank Commercial Banking

The concept of **pre-ordering** has the potential to become much more important. The ability to pre-order and pre-pay before arrival can become very attractive. It can limit dwell time and the limit the duration of face to face interactions. Many consumers have used this approach to limit the need to queue for a coffee, but it now has many more potential applications. Such capabilities can be applied to services just as much as to goods, including vehicle maintenance, medical practices as well as restaurants and bars.

The **Lloyds Bank Digital Index** shows that, since the lockdown period began in the UK, there has been a 51% uplift in registrations for online banking with key growth areas being those traditionally seen as late or low adopters. For all age segments above 50, adoption has shown a material uplift on the prior year. Our data shows that consumers in the over 65 age bracket have moved online throughout lockdown, with online transactions funded by debit cards up from 20% to 40% year on year.

### Proportion of people registering for online banking year-to-date (From week 10 to week 17)



Source: Lloyds Bank UK Consumer Digital Index 2020



## Case Study

### The power of APIs

Lloyds Bank has partnered with a healthcare provider to harness the power of APIs to generate instant payments to care staff using a flexible pay benefit API.

The innovation allows their 9,000-strong workforce to access their pay as it is earned, rather than waiting for their monthly pay day.

This new flexible approach was developed and enabled by the Lloyds Bank API platform and incorporated into the client's internal applications, used by their workforce to book shifts, request holiday and now request early payment of salary for shifts worked.

Employees can request as little as £10 or up to 50% of the pay earned during their completed shifts. The ability to provide salary advances for each shift completed, enables the staff to access a fast, simple and cost effective source of cash; available to them on a 24/7 basis 365 days per year with funds deposited in their bank account as soon as their shift has been validated and the early payment request submitted.

### Changing how payments are made

The challenge is not just for the taking of payments, the making of them is also impacted by the need for additional resilience in process and execution. We have seen a move to enable digital signatures to avoid the need for businesses to visit branches or send traditional wet signatures to authorise payments.

Developments in technology play a vital role in the continued expansion in payment options. As an example, the increasing use of Application Programming Interfaces (APIs) is gathering pace offering speed and new levels of automation.

The **Lloyds Bank Payables API** allows machine-to-machine instructions for the initiation of faster payments, as the clients system instructs the bank systems via an API, significantly reducing the need for human intervention. The ability to make multiple payments in seconds has so far been used in the provision of car finance, salary advances to employees, and the rapid return of funds on the sale of investments, with many more use cases under consideration.

The switch to online also offers the potential for reductions in operational costs albeit with the need for upfront investment. The digital route also offers the chance to build out richer and more accessible client journeys, offering a better and more interactive client experiences.

**The demands made by the crisis are a catalyst for change and innovation that can be quickly launched, adopted, and adapted for future use.**



The digitisation of payments and receivables offers speed, reduced human interaction and a new or improved client experience.



**Steve Everett**

Managing Director, Head of Payments,  
Lloyds Bank Commercial Banking

## Looking ahead

The Payments landscape in the UK has been evolving at pace in recent years as a result of a pro-active regulatory climate, developments in technology and evolving consumer behaviour. Consequently, our payments infrastructure is well-developed and forward-thinking. This leaves the UK well placed to respond to the new payment's challenges posed by Covid-19.



Businesses can now move to build sustainable and value add payments solutions that deliver on social distancing and provide a high-quality client experience

If the immediate reactions relied on existing capabilities, what follows will reflect emerging capabilities that can now be accelerated. The proactive regulatory environment and the aims of both the second Payment Services Directive (PSD2) and Open Banking legislation in the UK offer a range of potential options.

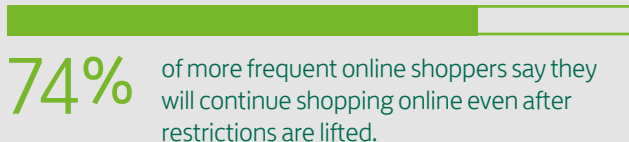
More traditional payment methods have been given new possibilities, including the adoption of **cheque imaging** as a means of paying in cheques via a mobile phone or bespoke scanner. With a faster clearing time and a far better environmental impact, this solution also removes the need to travel to a bank branch. Similarly, the advent of **intelligent safes** allows cash to be stored on a client's premises and be collected when necessary, but to be added to their bank balance on the day it is received. Both solutions help to maintain social distancing.

Whilst the dominant **mobile wallet** solutions in the UK, Apple Pay and Android Pay, are based on Near Field Communications (NFC), the use of the mobile also permits

The impacts of the crisis has changed attitudes to the use and adoption of online and e-commerce and the potential now exist for these new activities to become habitual.



Critically, the adoption of online channels may be sustained.



app-based adoption of Quick Reaction (QR) codes to enable payment on a bank-to-bank basis. Simple to use and free from the £45 contactless limit, the crisis will only accelerate their adoption. A **QR code** is displayed alongside the product and this enables and online payment via the customers' online banking app. The solution is flexible and can also be linked to a card or wallet.

With such mass adoption of smartphone and the similar usage of app-based solutions, additional payment methods are already appearing. Fuel filling stations now offer motorists apps that mean you can refuel and **pay by app** from your car. Previously driven by ease and convenience, this now delivers a socially distanced solution with mass appeal.



Previously driven by ease and convenience, pay by app now delivers a socially distanced solution with mass appeal.



Andrea Melville

Managing Director, Head of Commercialisation & Propositions, Lloyds Bank Commercial Banking

Similar app or QR code-based solutions can also be used in hospitality settings and further reduce the need for staff-to-customer interaction. Restaurants and bars can use apps to provide customers with menus, take orders and settle their bills on leaving. Developments even allow for video chats between staff and diners and links to booking systems to help stagger client arrival times.

The impetus created by the crisis, the forward-thinking regulatory stance and the availability of new technologies allow for new and creative ways to deliver traditional face-to-face solutions by other means. This forward-thinking environment also means that increased use can be made of APIs and host-to-host channels to provide improved resilience, flexibility and choice for payments and receivables.

With a robust and active Fintech sector in the UK and effective collaboration with Banks and other payment providers, there are a wealth of opportunities to enhance the making and taking of payments for businesses.

The future will see additional options driven by advances in Distributed Ledger Technology (DLT). This can enable solutions which could revolutionise how settlement

occurs today through creating new infrastructure for the settlement of payments. One example is the work that Fnality International are doing. Lloyds Banking Group took an equity stake in the business last year, alongside fourteen other institutions. With Fnality we are working towards developing a digital currency and a new infrastructure to reap the benefits of DLT, such as increased transparency of payments and atomic settlement.

Prompted by the mandatory restrictions, consumer behaviour has shifted during the crisis, with rapid adoption of different methods of both buying and paying for goods and services. **Businesses should embrace these changes, and move to create improved client experiences that can be sustained into the future.**



## Case Study

### The cashless campus

As universities reflect on how to operate their campus in a way that delivers effective social distancing Lloyds Bank have been working with a Russell Group university to develop a cashless solution.

The solution will incorporate an all-encompassing payment App designed to deliver a wide-ranging pre-ordering capability. This will enable students to pay for goods and services for all areas of the campus through their mobile phone in the library, stationary shop, student canteen, bar, or even paying tuition and accommodation fees. The payment options to the students will include via a card within their wallet or directly from their bank account.

The changes will be critical to delivering a sustainable solution on campus that provides students with confidence and support the maintenance of effective social distancing.



## Conclusion

The Covid-19 crisis has created a huge challenge for businesses across all aspects of their operation.

Their ability to make and receive payments, to operate in times of lockdown and to deliver a social distancing solution for their customers, employees and suppliers has become crucial.

Potential solutions to many of these new challenges already exist using existing and rapidly emerging solutions.

As businesses of all kinds understand what the new operating environment means for them, reviewing how, and where, they take payments and interact with their customers will be crucial.

### Key actions will be:

-  **Review the payments** solutions available to your customers both in new-normal trading and in potential future lockdown scenarios;
-  Move to adopt solutions that **deliver effective social distancing** to reassure both customers and employees;
-  Optimise solutions not just to deliver social distancing, but to also **offer an enhanced client experience** that delivers enhanced value for customers;
-  Consider how your payments are made and the opportunities to adopt digital solutions that **build resilience and automation** for domestic and international payments.

## Our Payments solutions

Our integrated payments and receivable solutions can:

- Help you make and receive electronic payments securely in the UK and internationally and in face-to-face, online as well as over the phone;
- Provide a comprehensive range of solutions to safely and securely manage both cash and cheques Including our intelligent safe options;
- Deliver solutions so your consumers can pre-order using their mobile device and pay directly for the good and services using your bank account or debit / credit card;
- Deliver API based solutions to help you both make and collect payments without manual interventions on a 24/7 basis;
- Help you set up a website or add payments services to your existing web presence.

Your Relationship Manager and our specialist teams are on hand to help and guide you and to help ensure you have the right solutions to ensure your business is supported and resilient as we move into the next phase of the crisis.

### Covid-19 support and guidance

As the impact of coronavirus (COVID-19) is felt across the UK, you may have concerns about how it could affect your business.



### Lloyds Bank Cardnet

We go beyond card machines and payment processing to offer ongoing, comprehensive support when you need it.



### Our service promise

If you experience a problem, we will always try to resolve it as quickly as possible. Please bring it to the attention of any member of staff. Our complaints procedures for businesses with an annual turnover of up to £25m are published at [lloydsbank.com/business/contactus](https://lloydsbank.com/business/contactus) and for businesses with an annual turnover of £25m or more they can be found at [commercialbanking.lloydsbanking.com/contact-us/](https://commercialbanking.lloydsbanking.com/contact-us/)



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