

Changes in UK Payments



GAVIN
MACLEAN,

Director,
Payments Product,
Global Transaction
Banking, Lloyds Bank

From the implementation of the second Payments Services Directive to the new Image Clearing Scheme which enables digital images of cheques and credits to be exchanged, it is evident that technology and regulation are rapidly responding to consumer driven needs.

With all the change affecting the UK payments landscape, it is important to focus on what this means for banks and other payment service providers. The way consumers expect to receive goods and services has changed and payments are no different; businesses and consumers are using payment propositions that are fast, efficient and real-time, with some businesses using payments to change the way they deliver their goods and services.

Regulators are also playing a key role in this change with the introduction of Open Banking regulation, driving increased competition and the ability for comparison of services between providers. We have seen this successfully happen in other industries e.g. the changes to regulation of the energy markets in the UK in the late 90s encouraged increased competition and more consumer choice.

Further changes to the payments landscape in the UK are planned with the New Payments Architecture and the Bank of England's renewal of RTGS. This overhaul of the current infrastructure used to support the UK's major payment systems will bring new propositional enhancements for banks and corporates,

particularly in the area of common international messaging standards and overlay services such as Enhanced Data, Request to Pay and Confirmation of Payee. You can find more detail about some of these regulatory changes in two articles from Otto Benz, Payments Technical Services Director, Lloyds Bank, and Matthew Hunt, COO, Pay.UK, here on our [website](#).

What do the New Payments Architecture changes mean for business?

Common international messaging standards

ISO 20022 is a globally-developed messaging standard for transmitting data. The introduction of ISO 20022 for all UK payment types will help interoperability between platforms and also between financial institutions. By having clearly defined fields with specific purposes, data can be captured in a structured way that leaves little room for misinterpretation, error, and exclusion. If we take a client street address as an example; in a free text format, key information can be excluded by mistake, e.g. inputting 'Mr Smith' rather than 'Bill Smith', and place names can be easily misinterpreted between street name, city and county/



LLOYDS BANK

state. Dedicated fields bring clarity to each individual item of data within the string of the address, and so alignment and consistency between each different client address can be captured. Having this common structure to data will enable the automation of many manual processes, including complex screening, sanctions, billing, and client notifications.

Enhanced data

The field length of financial messages will be increased, allowing for more data about a payment to be included in a consistent way to aid reconciliation. For example, the reference field of Bacs payments will likely increase from 18 characters to 140; and for CHAPS it may eventually increase to 420. This will enable not just an increase in the amount of data provided with the payment, but more meaningful information. Senders will be able to provide more detail such as the invoice ID, product description, and even accurate instructions to the beneficiary; 'Hold goods' for instance. This will create operational efficiencies and potentially improve business relationships by reducing confusion and disputes through enriched reconciliation.

However, if this enhancement is to bear any benefit, it will be incumbent on the banks and payment service providers to ensure that the data included at the initiation of the payment is carried all the way through the journey of the payment to the end beneficiary, in its entirety and without being changed.

Confirmation of Payee

This enhancement will match the account number and sort code to the account name, giving greater certainty that a payment is going to the right person, which helps protect end users from Authorised Push Payment (APP) fraud.

But Confirmation of Payee has potential to benefit payment service providers and other service businesses as well. By confirming that you have the correct beneficiary on the first payment at the beginning of the customer relationship, you can avoid potential complications

later. Knowing who you're paying first time can reduce the cost of compliance, and avoid administrative rework and disputes due to mistaken identity.

Request to Pay

This overlay service will allow corporates to push a notification to customers, prompting them to make a payment. If they accept, they will be directed to authorise that payment from their bank account, giving consumers and businesses greater choice around their method of payment and providing new flexibility such as paying some of the bill now and some at an agreed later date.

By notifying consumers, the service offers them more control and certainty in managing their household cash flow, as it highlights when bills need to be paid and in doing so reduces the potential to be caught short by unexpected bills. Couple this with the option to pay some now and some later, and we may see good uptake of the service resulting in fewer customers cancelling Direct Debits because they don't have enough funds to cover them. This will have a positive impact on businesses which use Request to Pay as it may mean fewer customers falling behind payments, meaning more confidence over incoming cash flow, and a reduction of costs associated with managing customers who have fallen into arrears.

What are the opportunities and concerns of this change?

There are many opportunities for corporates with both banks and payment service providers leveraging these changes to create new propositions in the payments market. This increased focus on competition and innovation will create reconciliation, security and propositional benefits for corporates. The New Payments Architecture will be vital to future-proof the ability of the UK payments market to respond to and innovate in line with future consumer needs. If the uptake of automated payment methods goes up then banks and payment service providers may see cost reductions, process efficiencies and



The New Payments Architecture will be vital to future-proof the ability of the UK payments market to respond to and innovate in line with future consumer needs.



Gavin Maclean,
Director, Payments Product,
Global Transaction Banking,
Lloyds Bank

propositional improvements. Their operations will see a reduction in payment errors and repairs, fewer manual interventions, and benefit from electronic audit trails for compliance requirements.

The pace and volume of change in the UK payments market is potentially concerning for corporates and banks as they try and navigate what these changes mean for them alongside consumer expectation and speed of technological developments. Businesses are finding they only have months to understand these changes, not years.

What is Lloyds Bank doing to help clients?

We are engaging with our clients to keep them informed and educated about how they can be ready for, and indeed leverage, these changes. Lloyds Bank is committed to meeting these changes, as

evidenced by our £3bn group-wide investment. We are working alongside clients in 'labs' to develop new and innovative payment solutions together, including the use of Application Programming Interfaces (APIs) and the creation of our new cash management and payments platform.

Built with data at its heart, our new platform is underpinned by ISO 20022, which prepares us well for the UK's RTGS replacement. This coupled with APIs, means that we can respond not only to the enhancements we see today, such as Request to Pay, but also enables us and our clients to adapt quickly to developments in the future.



We are working alongside clients in 'labs' to develop new and innovative payment solutions together, including the use of Application Programming Interfaces (APIs) and the creation of our new cash management and payments platform.



Gavin Maclean,
Director, Payments Product,
Global Transaction Banking,
Lloyds Bank



Online
lloydsbank.com/financial-institutions



Call your Relationship Director

Please contact us if you would like this information in an alternative format such as Braille, large print or audio.

Lloyds Bank plc. Registered Office: 25 Gresham Street, London EC2V 7HN. Registered in England and Wales no. 2065. Telephone: 0207 626 1500. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under registration number 119278.