

The UK Payments Landscape



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The UK payments landscape has been subject to extensive change for more than a decade driven by a progressive regulatory agenda, rapid technological development, and continually evolving consumer expectations.

This extended period of change created an innovative and forward-thinking environment that placed the UK in a great position to respond to the new challenges brought on by the Covid-19 pandemic.

As the UK's largest retail and commercial financial services provider, Lloyds Banking Group has been at the centre of the UK's response. With 26 million customers across the UK, the group has a presence in nearly every community. This has enabled us to play a central role supporting both our clients and the UK economy as well as monitoring and learning from the impacts that the response to Covid-19 has had on the UK payments landscape.

The challenge now is to understand how the impact of the pandemic will act on the change process and what this will mean for the future of payments in the UK and globally.

A decade of change

Regulation has played a key role over the last decade, seeing not only the second payment services directive, but also the roll out of Open Banking legislation in the UK. These interventions, designed to encourage competition and enable new entrants to the market, have had a very positive effect. New client-centric solutions are emerging as new

marketplaces and ecosystems are created, offering clients across all segments of the market new options and choices in how they make and receive payments.

There are further changes to the payments landscape in the UK planned with the New Payments Architecture and the Bank of England's renewal of RTGS. An overhaul of the infrastructure currently used to support the UK's major payments systems is underway. This consolidation will bring Faster Payments, Bacs, Cheques and clearing, along with the administration of UK payments, under the control of Pay.UK.

These changes will enable new propositional enhancements for banks and corporates, particularly in the area of common international messaging standards through the adoption of ISO20022 and overlay services such as Enhanced Data, Request to Pay and Confirmation of Payee.

Payments in the UK have, and will, continue to become faster and more resilient as a result of these changes and provide businesses with greater control over their payables and receivables. Enhanced technology, improved connectivity and the better use of data have enriched security and helped to reduce fraud.



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All combine to create a payments landscape in the UK where change is normal. This context provided an environment where the UK could respond rapidly to the effects of the global pandemic whilst maintaining and enhancing services for customers as the situation developed.

What do these changes mean for clients?

The changes already in progress will bring material benefits for clients as well as banks and payment providers. Key developments have included:

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.

Confirmation of Payee also has the 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 businesses 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.

Common international messaging standards

ISO20022 is a globally-developed messaging standard for transmitting data. The introduction of ISO20022 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. 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. This will enable not just an increase in the amount of data provided with the payment, but more meaningful information. 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.



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In addition, **immediate payments** have become the new normal for many in the UK with the **Faster Payment Service** continuing to grow in terms of both payment volumes and values. The adoption of faster payments has increased steadily with four out of ten business-to-business payments being made via faster payments or other remote banking schemes in 2019.

Lloyds Bank already offers Financial Institutions the opportunity to access the Faster Payments Service for Cross Border flow and as a keen advocate and live member of **SWIFTgpi**, encourages the opportunity to extend SWIFTgpi to the Faster Payments scheme in the UK.

Open Banking legislation, launched in January of 2018, has also enabled change creating new market participants and driving competition to the betterment of customers. Critically, open banking has enabled the use of **Application Programming Interfaces or APIs** and opened up a new range of solutions that are now delivering for clients.

How has Covid-19 changed things?

The arrival of the virus, and the need to adopt socially distanced means of payments, have had a material impact on physical payments methods and driven still more impetus in the growth of electronic solutions.

At the height of the lockdown period in the UK, within Lloyds Banking Group, we saw a 60% reduction in branch cash activity and a 50% reduction in cheque activity. Physical Card Payments also dropped by 70%.

As face-to-face payment methods fell, digital and e-commerce solutions rose with supermarkets seeing a 78% year-on-year growth as customers ordered online or used pay-by-mobile solutions in store.

We also saw a 9% uplift in the volumes of card-not-present transactions as telephone based sales grew in importance. With the industry increase of the contactless limit from £30 to £45, the average value of contactless transactions rose from £8 to £15 in just two months.

From a Lloyds Banking Group perspective, we made immediate changes to some of our clients' digital banking propositions, enabling Faster Payment initiation up to the scheme limit of £250k for SME clients and increased the limits for mobile cheque deposits, allowing for individual cheque values to rise to £1,000.

Preparing for the future

Reflecting on the change trajectory before Covid-19, the drive to digitise and automate was set to continue, recent challenges appear only to have accelerated those changes. Clients will demand more, and the payments infrastructure must develop to be fit for purpose to deliver.

Payments are the life blood of any economy and any business, the ability to make and receive them is critical. The pandemic has created new risks and challenges unimagined even a few months before and demand a response from the industry and from our clients to build resilience and ensure the free flow of payments can be maintained whatever happens next.

What have Lloyds Bank been doing to embrace these changes and opportunities?

We are engaging with our clients to keep them informed and educated about how they can be ready for, and indeed leverage, these changes. Read our '[road to recovery](#)' articles here.

Lloyds Bank have been investing in our core capabilities and we are now rolling out new propositions that provide a step change in our ability to meet the needs of our clients and their customers.

As we live with Covid-19 and adapt to a new normal, payments will need to evolve to both address the need for social distancing and to deliver enhanced client experiences that are digital at their heart.

Going forward, consumers will increasingly expect payments to be integrated into the overall proposition, to be safe and friction free.

An **omnichannel** approach to payments provides a seamless customer experience across all channels whether they transact through a branch, over the phone or via mobile or web-based applications.

Lloyds Bank Cardnet can now unite all payment pathways and methods under one single roof. With all payment pathways funnelled into a single gateway customers retain the option to use from a number of different payment methods and benefit from a simple and secure way to make payments across the channel of their choice.

With digital transformation a core objective for businesses of all shapes and sizes, the role of **APIs** will expand. Realtime Payment APIs will be core to digital transformation; and in both consumer facing and B2B operations they present an ever-expanding range of possibilities.

APIs are already transforming customer experiences in the wider consumer and commercial landscape, often working behind the scenes to change how data is exchanged, how experiences are delivered and how value is created. Now their role in payments is set to expand at pace.

Seeing payments as a service will be important and APIs should not be seen in isolation or as individual products, they can be used in combination and create real value-add when linked together or as part of a wider and more holistic solution.

Our Lloyds Bank PayTo proposition has seen a 30-fold increase in payment values per month over the course of 2020 as the range and speed of adoption exceeds expectations.

We have also identified a series of use cases to aid receivables. **Lloyds Bank FundBy** allows our clients to initiate payments direct from their end customers bank account to their Lloyds Bank account on a 24/7 basis via the Faster Payments Service enabling them to receive immediate value. A variant, using the same technology, **Lloyds Bank PayFrom** is designed to take payments for goods and services and will be well suited across a number of industries.

These APIs are enabling our clients to transform and differentiate their service and make their customers lives easier.

Our most significant change has been to create a new cash management and payments platform, **Lloyds Bank Gem®**. Developed in conjunction with SAP and Finastra, this **API Native platform** brings the full power of **cloud computing** together with data led solutions to provide clients with new levels of control and flexibility.

Throughout 2020 we have continued to enhance the capabilities of the platform and have successfully delivered two releases, safely and on time, with colleagues across the organisation working remotely.



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Our first release of 2020 delivered a full domestic corporate and Non-Bank Financial Institution payments proposition and release two, a full suite of complex liquidity solutions. Our third release will deliver the functionality needed to meet the needs of **financial institutions** including Immediate payments for FI's, GBP and EUR clearing, as well as domestic bank services for Financial Institutions (Agency Banks).

Looking forward, we are also excited to be exploring opportunities to innovate with new technologies such as Distributed Ledger Technology (DLT). Last year, along with 14 other financial institutions, we invested in Fnality International who are looking to use the capabilities of DLT to enhance the way that interbank settlement happens today. Their solution will enable the transfer of fast and secure wholesale payments, whilst also mitigating the levels of risk associated with these processes today.

Conclusion

The payments industry has been experiencing change for more than a decade in response to our regulatory agenda, the advancements in technology and the evolving needs of our clients and their customers.

At Lloyds Bank we have maintained a period of investment motivated by these changes and brought forward increasing numbers of new capabilities and propositions designed to enable our clients to succeed. This has meant that when the COVID-19 crisis hit, our platforms and operations were able to adapt and respond to the challenges and find new ways to support customers as they managed their own businesses through the crisis.

Going forward, our business is well prepared to maintain this rate of change and to work with our clients to continually develop additional solutions that deliver for them in a future that remains uncertain and subject to rapid change.

The payments landscape has evolved, will continue to evolve, and will require all providers to ensure they review and improve their capability in order to keep pace with customer demand.



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