

A year in payments



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The past year has seen significant challenges for all those making and taking payments, how has the UK been impacted?

The past twelve months have been genuinely unprecedented and the reaction to the global health crisis created by the pandemic has had a significant impact on the global payment landscape.

The payments industry had become used to change over the past decade and changes in regulation, developments in technology and changing consumer behaviour drove the need for sustained change which has left the industry well prepared and ready to respond to the challenges of the pandemic.

With 1 in 3 of UK payments passing across Lloyds Banking Group infrastructure we have first-hand insight into the scale and nature of the challenges faced this year.

The UK Government's response to the global health emergency has, as in many countries, seen national lockdowns and alternate regional restrictions that have severely impacted the economy and the payment needs of businesses and individuals.

Despite unprecedented government interventions and, in common with most countries, the impact on key sectors such as leisure, hospitality, retail, and travel have been significant, and the measures needed to operate in these sectors have created huge changes in their approach to payments and receivables.

The UK was well equipped to respond as the roll out of Open Banking, the presence of a well-established immediate payments system and the rapid change

in technology and consumer behaviour had already created a range of new capabilities, albeit with relatively low adoption at the outset.

Many of these solutions have now played a material part in solving the challenges brought on by the crisis and their adoption rates have climbed as events have unfolded.

Where have the biggest impacts been felt?

All forms of face-to-face transactions have come under intense pressure. The use of cash and cheques have seen peak reductions of up to 50% during lockdown and card transactions have also suffered both as economic activity has been curtailed and as users sort to avoid payments demanding physical contact.

All forms of e-commerce have seen growth and at peak, 40% of retail sales moved to online channels. Socially distanced forms of payment have seen dramatic changes; with a 78% increase in e-commerce usage by supermarkets as a leading example as customers used home delivery, 'click and collect' and switched to making mobile payments in store, rather than interacting with physical checkouts.

Card usage in the UK was supported by a move to a contactless limit of £45, up from £30, again to limit the need for chip and pin interactions and has kept contactless usage ahead of cash through the crisis. It is very likely we will see a further increase this year.



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The solutions adopted through the pandemic all existed before it began and had failed at that time to make the hoped for, or expected, impact. The crisis response has accelerated their adoption and moved many from the periphery to the mainstream.

The use of Pay by URL, driven by QR code adoption in hospitality venues, has also grown as consumers and businesses alike moved to remove social contact. When travel was possible, I recall a 2019 restaurant visit in South Africa where I was able to use a QR code to both order and pay. At the time, this means of payments was very rare in the UK. However, in hospitality and leisure it is now more than common as socially distanced means find support from businesses and consumers.

As digital solutions have become ever more in focus, open banking activity has seen an uplift in traffic. The change in open banking has been marked and driven by increased adoption of services offered by Payment Initiation Service Providers (PISPs). We are now seeing a doubling of payments traffic over open banking rails every 8-10 weeks.

Over the coming months it will be interesting to monitor if this is the kick start that the open banking capabilities needed, or if consumers retrench to more traditional means.

What do you see happening in 2021 and what are your key objectives for the year ahead?

The past year has acted to accelerate the adoption of new means of payment and accelerates the drive to digital.

Despite the challenges of the past 12 months, we have maintained our investment levels and the build out of our capabilities.

Through 2020, we completed a hat-trick of deliveries in the roll out of our new cash management and payments platform, Lloyds Bank Gem®, with all three planned 2020 releases going in on schedule, despite the challenging environment. News of our new platform was first announced at Sibos in Toronto and it's great to think that it will be complete and fully operational before we perhaps journey to Singapore.

A recent Lloyds Bank client survey* indicated the trends of the pandemic will be retained.

Increased use of electronic payments



35% expect to increase their use of electronic payments when sending them

39% expect to increase their use of electronic payments when receiving them

Reduction in physical payment acceptance



51% expect to reduce or stop using cash when receiving payments

49% expect to reduce or stop acceptance of cheques

Increased acceptance of card payments



32% expect to increase or start using cards to receive payments

26% expect an increase in using them when sending payments

* Lloyds Bank Payments Covid-19 Survey, August 2020



We have now delivered a full domestic and international capability for Corporate, Non-Bank, Indirect, and Bank clients



We have now delivered a full domestic and international capability for Corporate, Non-Bank, Indirect, and Bank clients and embedded the 4 core pillars of the end-state capability we designed:

- **Lloyds Bank Gem APIs** – for payment initiation and reporting;
- **Lloyds Bank Gem Connect** - our attended channel;
- **Lloyds Bank Gem Direct** – our unattended Host-2-Host channel that is ISO 20022 ready;
- **Lloyds Bank Gem Analytics** - our analytics tool for clients.

In addition, we have made rapid progress in our deployment of our range of API solutions. We now have increasing use of our payments API's immediate payments and two receivables solutions, all running over the open banking rails.

We are now also in the process of deploying a new omni-channel payment gateway, to combine a wide array of payment acceptance methods covering all consumer shopping channels.

These developments are now the focus of our 2021 activities and, because of the changes driven by the crisis, we have additional ambition for the adoption through 2021.

The drive to digital is more important than ever as consumers demand improved payment experiences that help them feel safe; and businesses need more resilient means to both take and make payments in a changed landscape.



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