



# **Financial Services Club Ireland**

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## **What will the Payments Industry look like in 2012?**

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# IPSO Role and Function

- Providing strategic leadership and direction to the industry
- Developing best practice guidelines for the payment schemes e.g. risk management, constitution, rules etc.
- Articulating the common voice of the payments industry
- Providing central programme management for industry initiatives
- Facilitating the sharing of non-competitive information about the industry
- Managing pan-industry issues such as systemic risk, crisis management
- Monitoring and promoting industry standards and facilitating innovation





# Key Programmes of Work

- Implementation of Single Euro Payments Area (SEPA) – delivery of Ireland’s National Plan
- National Payments Implementation Programme
- Communications’ Strategic Action Plan
- Lobbying on legislative / regulatory issues e.g. stamp duty, Section 149 etc.
- Final implementation of Competition Authority’s recommendations
- Cost / Benefit Analysis of Cheque Truncation / Cheque Elimination



# Role of Payments / Payment Behaviour

- Mix of payment mechanisms in an economy is a key indicator of economy's competitiveness

## **What's unique about Ireland?**

- Over-reliance on cash and cheques
- Cash is a major bleeder for banks
- Costing economy 1% of GDP
- 3<sup>rd</sup> highest cheque issuer in eurozone
- Large percentage of population do not have a payment account
- Stamp duty / Section 149 challenges



# What do we need to do?

We must bring about a step change in payment behaviour!

- Reduce reliance on cash and plan for its displacement
- Radically reduce volumes of cheques and ensure that efficient centralised processing of the cheque “rump”
- Make a successful transition to SEPA on a market by market basis
- Replace / decommission legacy payment schemes
- Help banks to evolve electronic product suites to meet the wider domestic market-place
- Ensure universal access to electronic payments



# SEPA – Key driver of payments

- SEPA is largely a programme about the electrification of payments across 29 European countries
- European Payments Council (EPC) is the decision making body managing this programme across some 8,000 banks, on a voluntary basis
- Key driver of payments development over next five years
- Three key developments
  - Pan European direct debit
  - Pan European credit transfer
  - New framework for cards improving acceptance of individual country cards in all SEPA countries
- From 1st January 2008 these products must be made available to customers by all banks



# What will be the key impacts of SEPA?

- SEPA will present radical change to payment infrastructures – rationalisation
- Huge cost to banks of change and huge drop in revenues
- SEPA will drive a big shakeout of banks
- Many banks will exit payments business
- Competition will intensify from 1<sup>st</sup> January, 2008 amongst European banks for the business of 29 countries
- Legacy, domestic payment systems will be decommissioned
- Fully integrated marketplace will exist?





# What are the key challenges for banks; 2007 – 2012?

- Deliver SEPA compliant products and make these available to customers from 01/01/2008
- Simplify and rationalise the number of products to reduce costs and optimise profitability (90% of sales come from 6 products – Accenture Study)
- Streamline payment processing and reduce costs through out-sourcing
- Increase revenue through product innovation, system innovation and service delivery
- Maintain strong focus on customer and the customer value proposition in the brave new world of SEPA
- Achieve reach and critical mass, essential in the pan-European business model





# The Clock is Ticking on SEPA

- 453 days left to SEPA – “gone in the blink of an eye”
- We must do a number of things, including for products / systems / infrastructure:-
  - Plan
  - Decide
  - Build
  - Test / test / test
  - Go live
  - And, then, maintain / improve / innovate

To deliver the single greatest paradigm shift in the payments landscape of all time

- SEPA is a stepping stone, not an end-goal in itself!
- We must think post 2010!
- What is our strategy for 2012 and what structure do we need to support it?





# In the Brave New World .....

## What do customers want? And how should the banks respond?

### Potential customer wants:

- Simplification
- Cost reduction



- Efficiency
- Flexibility



- Reach
- Reasonable Pricing



### Potential bank responses:

Enhance electronic product range  
– EBPP, digital payments & real time payments

Reduced costs through outsourcing of processing to allow differentiation of customer services

A single payment processing interface for 29 country Europe



# Twin objectives of next 5 years and beyond

- To substantially lower costs



## How to achieve?



- To significantly increase and replace revenue

- Centralised processing and outsourcing



- Channel costs, validation, error and exceptions management – huge costs for banks



- Outsourcing / centralisation can significantly reduce costs

- Product and system innovation  
For example:

- EBPP, e-invoicing and e-reconciliation
- e and m payments
- Other digital payments
- Real-time payments
- Remittances (huge growth area)

- Centralised processing and product innovation are critical and cannot be deferred



# What will the Irish Payments Industry look like in 2012?

## My Vision We will have:

1. Adopted by Government a revenue neutral, pro-efficiency alternative to stamp duty on cards (phased implementation 2006 – 2008)
  - Increase stamp duty on cheques (and impose duty on paper credit transfers) on a progressive basis from 2006
  - With corresponding reduction of stamp duty on cards over the period
  - Need an end-game strategy if cheque reduction is radical – impact on revenue
2. Significantly reduced cheque usage by Government and businesses
  - Agree reduction target to 2012
  - Positive incentives by banks to encourage migration
  - Stamp duty “effects”
  - Negative interchange fee “polluters pays” approach (NB: SEPA DD Interchange Proposal) {see also market research on cheques and consumers}



# What will the Irish Payments Industry look like in 2012? Cont.

3. Set up a central cheque processing utility with paying bank truncation) to be fully operational by Q1 2009
  - Potential scale benefits of centralised processing of a declining payment instrument
  - Cost / benefits of banks dismantling their own infrastructure
  - Efficient processing of cheque “rump”
  - All payments when they enter banking system become electronic payments
  - Utility can become electronic switch / gateway to Europe
  
4. Successfully programme managed SEPA and ensured delivery of compliant products by banks at milestones including 01/01/2008 and by end 2010 (2012)
  - Foster innovation and build on core products



# What will the Irish Payments Industry look like in 2012? Cont.

5. Influenced the urgent development (2007/2009) of electronic payment services by Social Welfare / PMG to their customers
  - Card based structure for Social Welfare
  - Electronic payments for PMG, Dept. of Agriculture, etc
6. Delivered by 2009 an inter-bank, real-time electronic payment scheme for internet and telephone based payments
  - UK faster payments schemes being introduced in November, 2007
  - Pri-euro scheme to be developed by EPC
  - Pressure will come on Irish banks to deliver
7. Developed and introduced micro-payment schemes and e- and m- payment schemes (touch cards, mobile payments, other digital payments)
  - To displace proportion of cash payments
  - Significant growth of contactless cards in USA (Coke, McDonalds etc.)



# What will the Irish Payments Industry look like in 2012? Cont.

8. Driven with immediate effect debit card as preferred solution at point of sale / promote cash-back
  - Laser advertising being tailored to this objective
  
9. Fostered early development of Universal Access to electronic payments to those who do not have payment accounts (Credit Unions / An Post – through Associate Membership of IPSO i.e. agency arrangements)



# What will the Irish Payments Industry look like in 2012? Cont.

10.

## A) Maximised electronic and on-line bill payment opportunities

- IPSO to become a Consumer Service Provider by running Electronic Bill Presentment and Payment (EBPP) software as a “white labelled” service to banks on behalf of multiple billers and will use billers’ websites as well as member banks’ sites to present multiple consolidated bills to consumers on one site, with bill payment through banks’ website (discussions already well advanced with OneVu in the UK)

## B) Developed with corporates a standard for e-invoicing and e-reconciliation to support growth of electronic payments

- Industry promotion and advertising of electronic credits and direct debits
- Banks opportunity to develop VAS