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Your 2020 guide to UK payments

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> **“The pace of innovation in payments can be overwhelming. New tech, new acronyms and radical new capabilities are casting UK payments into uncharted yet exciting territory.**

Even the long-standing payment schemes – Bacs, CHAPS and Faster Payments – are likely to evolve their roles as the New Payments Architecture comes into play in the coming years.

On top of this, new payment innovations are beginning to reach maturity at approximately the same time in the market. Regulation is opening the door to new market entrants, allowing new technologies and challenger business models to raise the bar of customer expectation ever higher. The result means customers – both business and consumer - are demanding more convenience, access and control in their finances.

And it has made financial services the most competitive it has ever been and, as with any complex system undergoing vast change, it is more important now than ever that businesses keep up and do not fall behind the changing industry.

There’s a lot to keep up with for those working directly or indirectly with payments and, as the pace of change is only set to increase, understanding payments is critical to the success of businesses today.

That’s why we’ve put together this eBook to be your one-stop guide to making sense of the bright new future that’s just around the corner. This eBook is intended for businesses across lending, FinTech, employment services, payroll, travel, accounting and many more services.

Add it to your bookmark bar for easy reference!

Ctrl + D or **⌘ + D**

Contents

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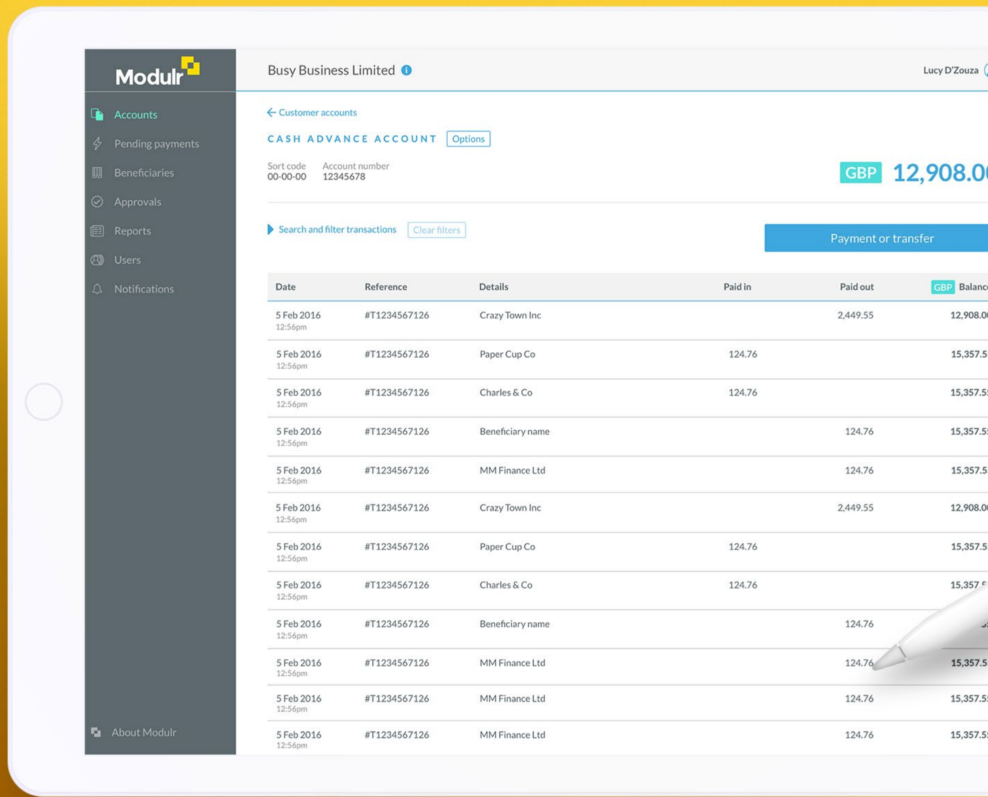
01

An overview of payments in the UK



Payments are changing, and changing fast.

Payments are changing, and changing fast.

Several new payments technologies are together coming to maturity in 2020, and it's not an overstatement to say they represent a new dawn in how companies and consumers do business in the UK.

And the pace of change is only likely to accelerate.

These radical changes have been the results of a combination of technical innovations, pull factors from increasing consumer and business expectations, and push factors from regulatory change.

However, the primary means for making payments between banks are undergoing a period of evolution rather than revolution.

The four principal options for bank transfers in the UK remain Bacs, CHAPS, Faster Payments and SWIFT payments for cross-border transactions.

Understanding the UK's main payment schemes

Each main payment system has its own characteristics: here's what you need to know.

Bacs features:

- Widely used
- Incomings & Outgoings
- 2 working days

What is Bacs?

The first incarnation of Bacs (Banker's Automated Clearing Services) began operating in 1968 and Bacs bank transfers are now part of the lives of most people in the UK.

Bacs direct debit payments are how many people in the UK pay their bills, and the direct credit service is how the majority of Britons in work receive their salaries.

How long does Bacs take?

Most Bacs payments are cleared within two working days – for example, a salary payment made on Monday would be in the employee's account by Wednesday.

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CHAPS features:

- Retail & wholesale markets
- Large payments
- No minimum or maximum value limit

What is CHAPS?

CHAPS

Set up in 1984, the Clearing House Automated Payment System (CHAPS) is used for large payments in both the UK's retail and wholesale markets.

There is no set minimum or maximum, but it is unusual for CHAPS payments to be for less than £10,000.

How long does CHAPS take?

Most are settled instantly, but it is possible for them to take one working day. CHAPS opens at 6am UK time but users must be able to receive by 8am, payments must be sent by 10am, and the system closes at 6pm for bank-to-bank payments. However, consumer payments must be submitted by 5:40pm.

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Faster Payments features:

- Faster than Bacs
- £250k maximum
- Less than 2 hours

What is Faster Payments?

Faster Payments

Faster Payments was launched in 2008 and has been instrumental in priming the UK to be at the cutting edge of payments innovation.

Introduced to meet a need for retail payments that would – as implied by the name – be faster than Bacs, the scheme is now offered by more than 30 financial institutions.

While they are intended for the everyday consumer market, the maximum amount you can exchange under Faster Payments is £250,000.

How long does Faster Payments take?

In real-world conditions they can take up to two hours, but they often take far less. Modulr's service level agreement is under 90 seconds.

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SWIFT Payments features:

- Secure international transfers
- 3-5 days

What are SWIFT payments?

SWIFT (the Society for Worldwide Interbank Financial Telecommunication) is a network that allows customers in the UK to make secure bank transfers to accounts in different countries.

This is done through correspondent banking, where a payment moves from one jurisdiction to another via a network of intermediary institutions.

How long do SWIFT payments take?

This can vary, but most SWIFT payments take between three and five days.

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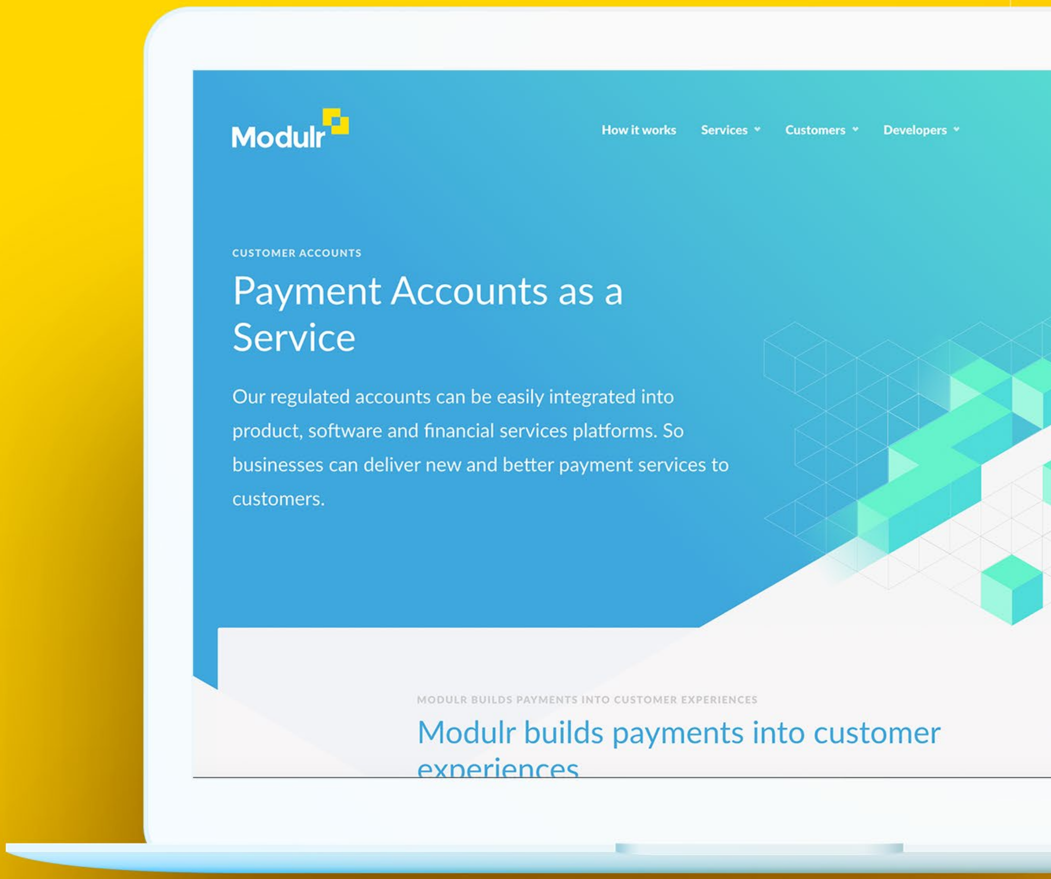
02

Regulatory changes



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Regulatory Changes

In the UK, there have been several key stages of payments regulation introduced in recent years.

While they differ in detail, the overall narrative has been to increase trust in the system, to increase competition by granting access to a wider range of companies, and to bring the UK closer to harmony in standards both with external markets and between domestic providers.

The key regulatory initiatives have been Open Banking, Payment Services Directive (PSD2) and the forthcoming NPA (New Payments Architecture).

What is Open Banking?

Introduced in January 2018, Open Banking has meant that the UK's largest banks are required to both share data on transactions with third parties and allow these third parties to initiate payments on behalf of their clients.

These services broadly break down into two channels;

- Account Information Service Providers (AISPs) are companies authorised to access an individual or business's data. They can be used to provide money management tools, for example personal financial monitoring apps, or to enable lenders to benefit from easier data access and borrowers to benefit from a streamlined experience and faster credit decisions.

- Payment Initiation Service Providers (PISPs) are firms that can both view an account's data and are authorised to make payments on behalf of their users. Applications include more sophisticated money management tools than AISPs can offer and faster, more flexible and more secure payment solutions for businesses.

What is PSD2?

The EU's second Payment Services Directive (PSD2) is broadly in alignment with the UK's Open Banking regulation and has been a key element in building a digital single market for the continent.

There is significant overlap with Open Banking in how the package of regulations is designed to make it easier both for consumers to access their own data and for businesses to access it on their behalf.

There are also provisions around stronger identity authentication to decrease fraud in digital transactions, and overall PSD2 is part of a wider narrative of increased competition and transparency arising from the digitisation of banking.

New Payments Architecture (NPA)

Taking a longer-term view, the NPA is the long-term strategic blueprint for the development of British retail payments infrastructure.

Managed by the UK's payment systems operator Pay.UK, it is intended to eventually replace the Bacs, Faster Payments and Cheque and Credit Clearing Services, foster greater competition in the payments space, and make new opportunities available for incumbents and challengers alike.

The NPA is currently planned to be fully deployed by 2030 and will be the biggest change to payments in the UK since the 1960s. Most of the recent innovations in the UK's payments are the earliest building blocks of the NPA to come online.

03

The future of UK payments

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The future of UK payments

2020 is set to be the year where the cutting edge goes mainstream and the new capabilities long promised by the fintech revolution finally come to fruition.

Payments have been and will continue to be one of the areas where these new technologies' impacts are most keenly felt; it's no exaggeration to say the UK is about to encounter and adapt to a whole new way of doing business.

Four key technologies or capabilities are driving these changes: Request to Pay (RtP), Confirmation of Payee (CoP) and Payment Initiation Services (PIS).

These are all at different stages of maturity as they spread throughout the UK's financial ecosystem.

Given the pace of innovation, it can be a challenge to just keep track of payment technologies, let alone thinking strategically about implications to your business.

What do you need to know? How are they important, what new efficiencies or capabilities do they deliver, and how can you and your team benefit?

Join us below as we answer these questions and more as we review the current state of play, and analyse what lies in store as we move into 2020.

Request to Pay

What is it?

Request to Pay (RtP) is a secure messaging service that connects consumers and merchants in advance of a transaction actually being made.

RtP gives more control and flexibility to consumers, while at the same time enabling businesses to gather information on how their customers prefer to pay that will allow them to refine their offer to better align with their users' needs.

Businesses can reach out to these consumers, who in turn have the following options:

- **Pay in full**
- **Pay in part**
- **Ask for an extension**
- **Decline the payment**
- **Send a message**

What benefits does it bring?

RtP is just one element among many in the financial industry's macro turn toward delivering more sophisticated digital provision for both business and consumer users – but it is one of the more important, and a huge potential source of value and competitive differentiation.

Businesses, by sending invoices in digital formats, are able to avoid paper-based 'analogue' procedures and the costs that arise from them. Transparency and greater visibility on when a payment should be expected carries obvious benefits, as does the development of a more straightforward payments reconciliation process.

In addition to the much greater flexibility in when they choose to make their payments, consumers also benefit from the ability to consolidate and view all their outgoing bills in one place, usually surfaced via their bank's digital platform. This means they no longer need to monitor separate biller websites, or retain bills received by email or post.

What does this mean in 2020?

This year will see a number of consumer-facing RtP schemes coming to fruition.

The flexibility the service delivers is likely to have several major impacts.

While it is unlikely to replace direct debits, and certainly not in 2020, consumers who have been reluctant or unable to use them will be able to choose a similar alternative. If greater control over outgoing payments is the hurdle to cross, the ability to pay 'just in time' before a RtP lapses, or to break up payments in a way mutually agreed, should deliver the flexibility these consumers desire.

Meanwhile, consumers who are unable to, say, pay for their utilities by direct debit now have an alternative and will no longer face the added fees of 'pay as you go' services.

In addition, with the more sophisticated approach to invoicing RtP offers, the benefits for SMEs and self-employed people working in the gig economy are clear. In this way, payments are 'catching up' not only to technological change, but to wider structural changes in the economy.

The overall delivery and/or uptake of the service has lagged behind its potential, however, in part due to limited regulatory pressure. This stands in contrast to the potential of the service as discussed above: now that an increasing number of schemes are becoming available, the challenge becomes about educating uses though a marketing push, rather than focusing on delivery of the technical capability alone.

This presents a significant opportunity to a provider who could become seen to 'own' the service.

Confirmation of Payee

What is it?

Confirmation of Payee (CoP) is a new service designed to reduce or prevent Authorised Push Payment (APP) fraud, a form of financial crime that according to UK Finance cost British consumers £207.5m in the first half of 2019 alone – of which only £39.3m was recovered.

It works by allowing a payment provider to check if the name of the individual or organisation entered by the payer matches the identifying information of the account paid.

- If the data checks out, the payer can then approve the procedure and the payment is made.
- If there is a discrepancy, one of two things will happen.
- If the names are similar – a 'fuzzy match' – the payer is provided with the opportunity to double check the correct name in case of error.
- If the name is totally wrong, the payer is advised to contact the individual or organisation in order to confirm their details.

One subtlety to grasp is that no value changes hands, even to an intermediary, before the payee is confirmed.

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What benefits does it bring?

Financial crime is a significant drain on the economy, whether it's from direct misappropriation of funds or its wider, more pernicious erosion of trust in the wider financial ecosystem.

CoP limits payments made in error, but more significantly, it creates a significant obstacle for fraudsters to overcome – and in the process acts as a powerful new weapon in the fight against crime.

One of the main ways in which bad actors extract funds is by impersonation. Previously, the only information required for a payment to go through was a six-figure sort code and an eight-figure account number.

The service represents an additional verification factor in the transactions it covers, and as such makes it significantly harder for any impersonation to occur, whether it's a fraudster purporting to be an organisation trusted by the payer or a senior member of staff instigating a payment by a company.

What does this mean in 2020?

Following a slow rollout and multiple delays, the UK Payment Systems Regulator has made it obligatory for the big banks to implement CoP by the end of the first quarter of 2020.

Given its clear potential in making life more difficult for fraudsters, CoP is a popular programme and offers significant inducements to its deployment.

However, while the institutions listed above cover 90% of the payments in the UK affected, there does exist a second tier of payments providers who are not under the same obligations.

This creates a risk for these companies where they could become seen as 'soft targets' for fraudsters. Given the factor distinguishing them from the giants listed above is often the ability to manage their IT infrastructure 24/7, this will create a significant incentive for them to seek out 'off the shelf' solutions from external providers.

Payment Initiation Service (PIS)

What are they?

Payment Initiation Service Providers (PISPs) are businesses that are authorised to ask for permission to connect to a user's bank account and initiate payments on their behalf.

Introduced under the UK's Open Banking reform package in 2018, the PISP model allows new firms to provide value-added services to corporates.

In practice, this means they can sit in the middle of the traditional relationship between clients and banks and themselves act as an intermediary institution in the value chain. They do this by initiating transfers directly to or from the payer's bank using the bank's own applications.

What benefits do they bring?

One of the chief benefits of the Open Banking package as a whole has been the opportunity to replace complex manual processes with applications that take full advantage of the data these processes yield when digitised.

The insights that can be gained from this transaction data can have potentially enormous benefits, but it depends heavily on the unique circumstances of each use case.

Online merchants, meanwhile, can save money on both card issuer and acquirer fees, and benefit from direct settlement. Instead of waiting days for payments to clear, they receive the funds in seconds, allowing more sophisticated cashflow and liquidity management.

For consumers, PISPs can deliver everything from a wider range of 'one-click' payment solutions to new financial management tools, for example apps that can redistribute funds between accounts according to their pre-determined wishes.

PIS as a service also streamlines and accelerates the consumer ecommerce experience.

They no longer need to enter their card details for every purchase, benefit from Strong Customer Authentication (SCA) and other security rules, and their data will be more secure.

Overall, consumers can benefit from much greater visibility than before over their finances as a whole, with it becoming far easier to access all their information through new user- friendly interfaces.

For businesses, PIS applications allow providers to integrate further with their back-office solutions to more securely manage payments, transfer payments faster, and offer greater transparency on each payment's status, adding up to a vastly more useful suite of capabilities for cashflow management.

The reduction in middlemen also means that savings in fees can be passed on to the consumer, building a more competitive offer for any firm adopting PIS.

What does this mean in 2020?

2020 is likely to see a significant acceleration in the mainstreaming of AISPs (Account Information Service Providers and PISPs as Open Banking enters its third year. While they are unlikely to become dominant or ubiquitous, this is the year when, after several delays in the delivery of various key parts of the ecosystem, the core package will continue to mature and yield significant benefits to the industry as a whole.

This maturity phase means that thought can now turn to expanding the capabilities which the underlying technologies have proven.

For example, this could involve a turn from Open Banking to 'open finance', where data is surfaced from financial products like cash savings accounts, mortgages, insurance policies and pensions. Access to data on a consumer's creditworthiness could lead to cheaper borrowing and more efficient access to credit.

Further services which financial institutions can explore under Open Banking and the capabilities PISPs deliver include lending services distinct from personal or business current accounts, the removal of excess and unnecessary intermediaries in payments of all kinds, and better financial inclusion thanks to the increased options available to those in financial difficulty.

Meanwhile, many of the APIs developed by various industry presences have been regulatory-mandated, meaning they cannot be monetised. Proprietary 'Premium APIs' allow companies to develop solutions in-house that will distinguish themselves from competitors.

The consumer is the ultimate beneficiary of this competition – the initial intent of the regulations in the first place.

What does this all this mean for 2020?

Very little of what we have described above is brand new for 2020.

What is new, however, is the cumulative effect of this suite of capabilities all reaching maturity at approximately the same time.

Together, they mark a radical paradigm shift in the financial capabilities now open to corporates, SMEs and consumers alike.

All the technologies and services mentioned above are powerful in and of themselves, but when they are fully implemented network effects will emerge and they will interact in unexpected and beneficial ways.

The nature of the market means that both new and existing companies have real incentives to explore the opportunities of this new era.

We are still only in the early days of the digital revolution's disruptive impact on the payments space, and we are only beginning to understand its implications.

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Technologies and services covered in this eBook

Provided by Modulr

- Bacs
- CHAPS
- Faster Payments
- SWIFT Payments
- Request to Pay
- Confirmation of Payee
- Payment Initiation Service

+ Many more, as detailed below...

Modulr is the digital alternative to commercial payments and provides the following services and innovations through one secure, scalable and automated API platform:

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Our platform

Payments made every second, the way you want

UK Payment Services

- Faster Payments
- Bacs Credits
- Direct Debit Collections
- Direct Debit Mandates
- CHAPS

European Payments

- SEPA Credit Transfer
- SEPA Instant
- SEPA Direct Debit Collections
- SEPA Direct Debit Mandates

Card Services

- Virtual cards
- Physical cards
- Visa
- Mastercard

Payment Innovation

- Request to Pay
- Confirmation of Payee
- Payment Initiation Services

International Payments

- Outbound FX Services

If you'd like to hear how the evolving UK payments landscape will affect your business, get in touch today for a payments strategy review:

info@modulrfinance.com

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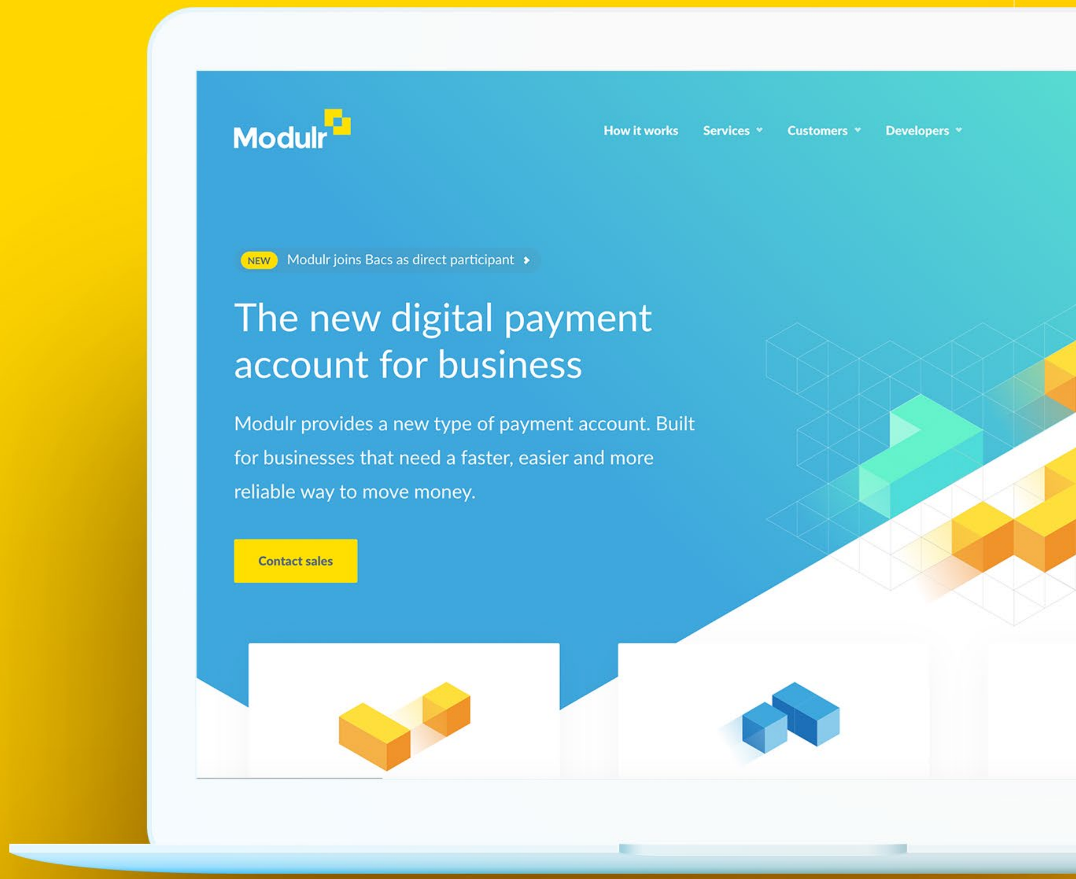
04

About Modulr



About Modulr

Modulr is the Payments as a Service API platform for digital businesses. It integrates into any product or system. Modulr's new type of payment accounts are built for businesses that need a faster, easier and more reliable way to move money.

Once integrated, businesses can instantly set up as many accounts as they need. Getting paid, reconciling and making payments is fully automated and can be managed in real-time, 24/7 through their existing software applications.

Modulr's API makes it easy for businesses to streamline existing services, launch new products and scale more efficiently. Modulr Finance Limited (FRN: 900699) is registered with the Financial Conduct Authority as an EMD Agent of Modulr FS Limited (FRN 900573). Modulr FS Limited is an Authorised Electronic Money Institution, regulated by the Financial Conduct Authority.

"I don't think we could run our business without someone like Modulr."

Garry Evans,
Chief Product Officer at Tully.