The future for automated clearing houses

Paul Taylor, managing director, Europe, at UK-based payments processor VocaLink, looks at the future of clearing and settlement mechanisms in Europe

What impact is the economic crisis having on clearing and settlement mechanisms and ACHs? Will there be more consolidation in this space in Europe and elsewhere?

Paul Taylor: Financial markets have undergone unprecedented turbulence in recent months and we still face a time of uncertainty for banks and their customers. CSMs and ACHs need to be responsive to market demands and support the banks in providing services that customers want through the recession. During these times of financial constraint there is an opportunity for CSMs to be valuable providers of cost effective outsourced services. There is increasing scrutiny on all costs and now more than ever, banking IT projects require sound business cases. With mandatory projects consuming more than 60 per cent of bank IT budgets, it makes sense for these costs to be shared by many banks, rather than individual banks duplicating effort, cost and risk.

In terms of consolidation, this trend was already starting to develop even before the current market difficulty. It will undoubtedly accelerate now. But consolidation is not the only option facing ACHs. The advent of the single euro payments area [Sepa] has already led to greater cooperation and collaboration among European ACHs such as the interoperability agreements that have been announced under the European Automated Clearing House Association umbrella. In late 2008 VocaLink signed an interoperability agreement with Equens and the industry can expect to see further collaboration in future. BGC has shown that there is a third way, by outsourcing its processing to us and focusing on providing excellent customer service to the Swedish banks, BGC has secured a strong and vital future for itself.

Paul Taylor, VocaLink

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Sepa credit transfers (SCTs) have been available for some time now. Are volumes rising? What is needed to encourage more use of SCTs?

PT: We did not expect that the initial SCT volumes would be large but we have been pleased to see steady growth since we went live at the beginning of 2008. SCT volumes will continue to rise steadily but the real opportunity is the introduction of Sepa direct debits (SDDs). While SCTs proved to be a significant challenge, SDDs will take the Sepa opportunity to a new level. SDDs will mandate the industry to deliver customer propositions with real value. If the industry is able to do this then the Sepa vision will truly become reality and with it we will see accelerated take-up of SCTs.

The concept of real-time payments has been around for a few years. How important is the launch of Faster Payments to the success of real-time payments?

PT: Making payments in real time has been around since the advent of cash, the first truly real-time payment. The difference with the UK Faster Payments Service is that the payments are individual, synchronous payments. All the other real-time or near real-time services are simply fast batch operations. The advantage of Faster Payments is that it eliminates the need for the majority of the back office functions. Individual, synchronous real-time payments either complete successfully or fail. If they fail, the end user is able to correct the detail and resubmit without bank intervention.

How do you think real-time payments will evolve? What needs to be in place, what role do banks, corporates and CSMs need to play?

PT: Since the Faster Payments service was launched in May 2008 volumes have exceeded all expectations and are now more than 1 million transactions a day. Banks and their customers clearly appreciate the immediacy and certainty of real-time payments. We are already seeing interest in our Real-Time Platform from around the world so we believe that we will see the growth of real-time payments capabilities globally.

Internationally some markets may be slow to adopt real-time payments but will find they are under increasing pressure to do so due to customer expectation and the need to keep pace with their competitors.

The VocaLink real-time technology also facilitates the rationalisation of bank and interbank infrastructures as it encompasses multiple channels including internet, telephone and ATM. In essence it offers the banking industry a new platform on which to build the next generation of payment and transaction services. The introduction of real-time technology is the first manifestation of our vision of transferring money for everyone, everywhere and at any time.

Do you think the role of CSMs and ACHs is changing? What will be required for success of these organisations in the future?

PT: Since the introduction of Sepa we have entered a new competitive market. Sepa and the PSD are giving banks the opportunity to source their services from a smaller number of consolidated market infrastructures. In due course, ACHs will not be distinguishable by the local markets that they serve but instead by the volume of transactions that they process and the additional services that they offer.

In the past, ACHs offered a secure and trusted basis for transactions processing – particularly in the non-competitive environment. As consolidation becomes a reality, these newly emerging payment processors will be able to offer superior scale economies, a better breadth of service and a more relevant range of value-added services – all via existing channels which have been proven over many years.

At present, what do you think are the main goals of your corporate clients and of your bank clients in terms of payments processing? How do you manage client expectations?

PT: The banks and their customers want speed, security and assurance especially in the current market climate. We can support banks in delivering the services that their customers demand. Last year we conducted research into the needs of corporate treasurers, our findings revealed that the top three requirements from corporate treasurers are:

- real-time payment information
- comprehensive reporting and reconciliation; and
- a single bank relationship

Corporate bank customers will also welcome the support of banks in providing new payment services including e-invoicing, e-payments and cash management facilities. The rollout of SCTs and SDDs provides an ideal opportunity for banks to open a dialogue with corporate customers to define the precise nature and scope of future services.

What is considered core and what is 'value added' in terms of the services you offer?

PT: Payment transaction processing is our core business whether this is ATM transaction switching, credit transfers or direct debits. The value-added services we have developed support these core offerings. So, for example, with our SDD solution we offer services that are CSM-independent and can be deployed individually according to business needs. These include:

- Payments Capture, a service which allows bank customers to inject payments directly into the clearing under the supervision of their bank sponsor;
- Mandate Management, a managed service utilising a hosted database to reduce the complexity of holding SDD mandates; and
- Payments Authorisation, which receives and validates incoming collections. This interfaces with back-office systems to improve straight-through processing levels.

All these services are bank-branded and are designed to add value along the entire value-chain.

Do you think the payments industry is ready for the November 2009 SDD and Payment Services Directive deadline? Are there any areas you think need more progress in the year ahead?

PT: There is a requirement for banks to implement SDDs by the end of 2009. However, many banks still have a long journey to reach a state of preparedness to meet this deadline. Some of our clients are already working with us and we are making excellent progress. We are piloting a B2B SDD service with Royal Bank of Scotland, ABN Amro and Bawag. This service is performing well and will be in production well ahead of the compliance deadline. A key benefit of the VocaLink solution is that banks do not have to find any capital investment to take advantage of the service. Our pay as you go model means we can match our clients' costs to their revenues and allow them to compete in this key market sector. **IP**