

Economics of Request for Payment

Prepared for Faster Payments
Scheme Ltd by Accenture



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1.

Foreword



A little over a year ago Faster Payments set out to understand how the payments industry could better serve the needs of financially challenged consumers and small businesses. These are individuals who, like the population in general, have a set of regular financial outgoings, but increasingly cannot rely on equally regular income. They may be on zero hour's contracts, or simply self-employed and becoming part of the 'Gig economy'. For this growing group of citizens, existing electronic payment methods such as Direct Debit do not give them enough control, and payments by cash or cheque increasingly come with a premium charge from suppliers, further compounding their financial stress.

At the start of the year we decided that we need to start 'at the beginning' and try and much better understand the unmet needs of consumers, and also billers – the people and institutions that need to be paid for the products and services they provide. To do this we partnered with Eclipse Experience to undertake a user led review of the requirements. The findings of this research, which included the development of mocked up user apps, to really test consumer needs, are published in a sister document – Request for Payment – A user-centred service concept.

Having developed a much deeper understanding of consumer and business needs, and realising that while a 'Request for Payment' service, as we have christened it, could provide real benefits to our target market of financially stressed consumers, we concluded that built properly, this service could have much broader appeal and value to the UK economy.

This value has been confirmed by the work Accenture has done for us, described in this document, to evaluate the financial benefits to our economy of a Request for Payment service of the form we have articulated with consumers and billers.

Faster Payment's work in this important service user area has not be going on in isolation. Payments UK's World Class Payments project had already flagged this as an important area to be developed, and the Payments Strategy Forum End User Needs Working Group, who we have been working with extensively, has come to the same conclusion.

With the clarity we have gained from our user led proposition design work at the start of the year, and the comfort provided by this economic analysis from Accenture, we look forward to collaborating with the Payments Strategy Forum to bringing these ideas to life to meet a real and urgent end user need, and to continue drive the world leading innovation in payments that we have been at the heart of with the growth and adoption of Faster Payments over the last eight years, and more recently the Paym new mobile payments overlay service.

Businesses and consumers in our economy need to be able to easily, securely and digitally make a request for a payment for a product or service to any or all of their customers. Likewise, customers need to be able to have a complete, up to date and reliable view of all the bills they need to settle and choose how and when they are going to settle each of them to most effectively manage their own short and long term finances and their relationships with their suppliers for long term mutual benefit.



Craig Tillotson

Chief Executive,
Faster Payments Scheme Limited

2.

Executive Summary



Background and Purpose

- The purpose of Request for Payment is to address the need of Payers to have a more flexible payment option that complement existing payment methods and the need of small Billers, clubs and charities to benefit from the convenience of receiving automated / digital payments.
- Faster Payments is investigating, on behalf of the industry, the feasibility of offering this payment method. A first prototype of the application based solution has been developed in partnership with Eclipse Experience and now Faster Payments has engaged with Accenture to understand the benefits associated with the adoption of Request for Payment (RfP).

UK Economy Potential Benefits

- The total volume of Person to Business Regular payments in 2015 was c. 4.9 billion. We estimate that c. 1 billion of these payments could be replaced by RfP.
- We assume that 53% of the P2B Regular payments are addressed to large companies and 47% to SMEs, therefore, based on the per unit average Biller cost saving calculated in the Billers business case, the UK market potential is c. £1.3 billion per annum in reduced billing costs.

Benefits for Payers

- For individuals as Payers, RfP could help to address the issues related to spend management, credit score protection, fraud and some misdirected payments. These are not quantified in this analysis.
- For SMEs as Payers, RfP could reduce the unit cost of receiving and paying an invoice by up to 60%.

Benefits for Billers

- For SMEs as Billers, the cost reduction driven by the adoption of RfP could be c. 36p per transaction which equals to 8% of their current unit cost for the invoice-to-pay process.
- For Large Companies as Billers, RfP could reduce the unit cost of the invoice-to-pay process by c. 18p per transaction
- Additional unquantified benefits for Billers are related to the improvement in customer service, client relationship and to the reduction of debt management cost.

Implementing Request for Payment

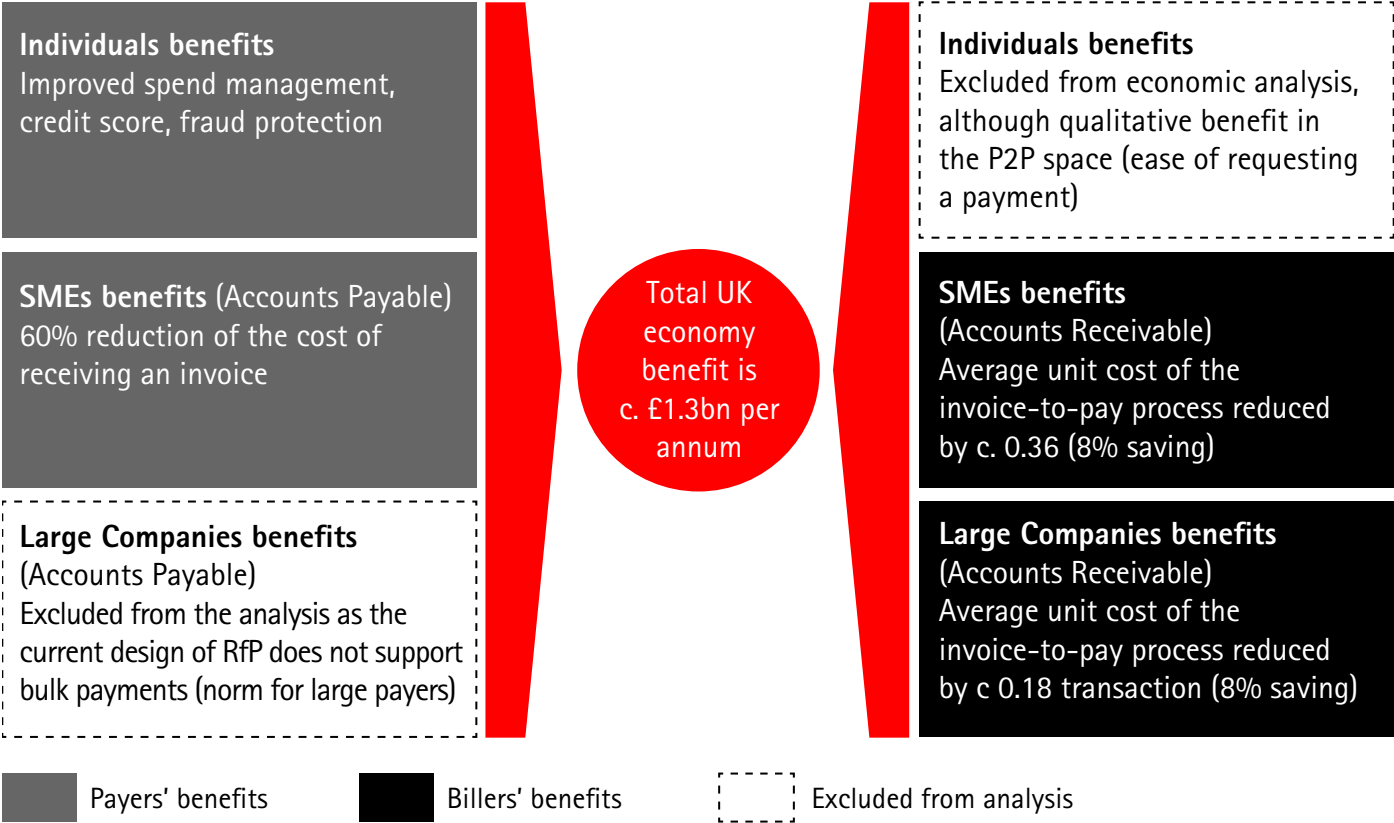
- The analysis of the current market showed that RfP type solutions have already been implemented in other countries; these designs could be used as a predictor when determining the future adoption rate.
- Initial thinking around the implementation solution of RfP has already taken place and shows, for a solution developed on top of PSD2 regulation changes, as an overlay service could result in relatively low costs of implementation with little change required by PSPs who serve consumers, and some evolutionary changes to the Bacs DD submission process as a possible entry point for larger Billers.

Figure 2. Overview of Request for Payment benefits

GBP Billion

Payers

Billers



3.

Introduction and Methodology



3.1. Purpose of the Report

- The purpose of this report is to analyse the benefits of the adoption of Request for Payment for Payers and Billers in the UK economy.
- The intent of the Request for Payment solution is to address the need of Payers to have a more flexible payment option that complements existing payment methods, and the need of small Billers, clubs and charities to benefit from the convenience of receiving automated / digital payments as well as improved cash flow foresight.
- Faster Payments is investigating, on behalf of the industry, the feasibility of offering this payment method. A first prototype of the application based solution has been designed in partnership with Eclipse Experience and now Faster Payment has engaged with Accenture to understand the benefits associated with the adoption of Request for Payment.

3.2. Scope of the Report

- The report focuses on business cases for Payers, Billers and the overall UK economy. The report analyses for each payment type (Direct Debit, cheque, cash, Faster Payments, cards) the percentage of transactions made by consumers that could move to Request for Payment.

Key Assumptions

- The first and most important influencer of the adoption rate for Request for Payment is the change of the consumers' payment behaviour.
- The Payers who move to RfP would move to e-invoicing (e-statements), therefore Billers would have a subsequent reduction in paper based processes.

- The UK business case is based on the adoption of RfP for Person to Business regular payments.

Payers benefit case

- The Payers' benefit case includes a qualitative analysis of the potential benefits for both individuals and SMEs as Payer

Billers benefit case

- The Biller benefits case focuses on large companies and SMEs.
- To calculate the benefits related to the adoption of Request for Payment by customers, we have analysed the "As-is" unit cost of the following key invoice-to-pay cost elements (for both large companies and SMEs):
 - Send paper invoices
 - Chase late payments
 - Fee payable to the bank in the processing of different payment types
 - Process and Reconcile payments
- Following this, we have estimated the likely "To-be" unit cost of the same cost elements assuming a variance in volumes of payments and paper invoices sent to Payers; this is based on the expected adoption rate of Request for Payment. Finally the unit cost reduction has been calculated by subtracting the "To-be" unit cost from the "As-is" unit cost.
- In addition to the quantitative analysis, we have looked at other benefits which are difficult to quantify but are equally important in the Request for Payment analysis, such as customer service, client relationship improvements and reduced debt management costs.

UK economy benefit case

- To define the payments in scope for Request for Payment, we have looked at three different transaction types based on the current design of RfP:
 - Person to Business regular payments
 - Person to Person one-off payments
 - Business to Business SMEs payments
- We have then broken down the volumes of each type of transaction by payment type (Direct Debit, cheque, cash, Faster Payments, cards). To determine which of these transactions could be replaced by RfP we have applied the expected adoption rate per payment type.
- To avoid additional complexity, the Market size analysis assumes no growth in payment volumes from 2015 levels.

3.3. Approach to the gathering of information

- We have used different types of information for each of the three business cases in the report.

Payers benefit case data gathering

- The benefit case for individuals as Payers is based on data gathered by Eclipse Experience, Faster Payments and Accenture primary research (see below).

Billers benefit case data gathering

- The source for the Billers' benefit case is primary research and desktop research conducted by Accenture.
- Primary Research: we have interviewed Billers of different size (large companies, government, SMEs, charities) and industry (telecoms, insurance, utilities, law firms, credit cards). Full list below:

Large Company	SME	Club	Government
Telecommunications Accounts Manager	Law Firm Billing and Collections Analyst	London Based Club Organiser	Regional Council Accounts Receivable
Credit Cards Head of Payments	Marketing Agency Finance Assistant	Sports / Adventure Club Owner	
Insurance Reconciliation Team	Mobile Company Business Owner		
Utilities Billing and Payments	Yoga Studio Owner		
European B2B Billing			

- During the interviews, the following questions were asked:
 - What is the volume of invoices that you send per month?
 - Of these invoices, what percentage are paper based?
 - What is the cost related to sending paper invoices to you customers?
 - Do you spend time reconciling payments received with customer accounts?
 - What is the cost related to chasing late payments?
 - What is the cost related to debt management?
 - What fees do you pay to your bank to receive payments?
 - Any other thoughts on RfP with regards to potential risks, other benefits, design, functionalities?

UK economy benefit case data gathering

The payment volumes assumptions are based on data from Payment Markets report published by Payments UK in May 2016.



4.

Context – Regular Payments in the UK



4.1. Landscape of payment methods and volumes currently used to make regular payments

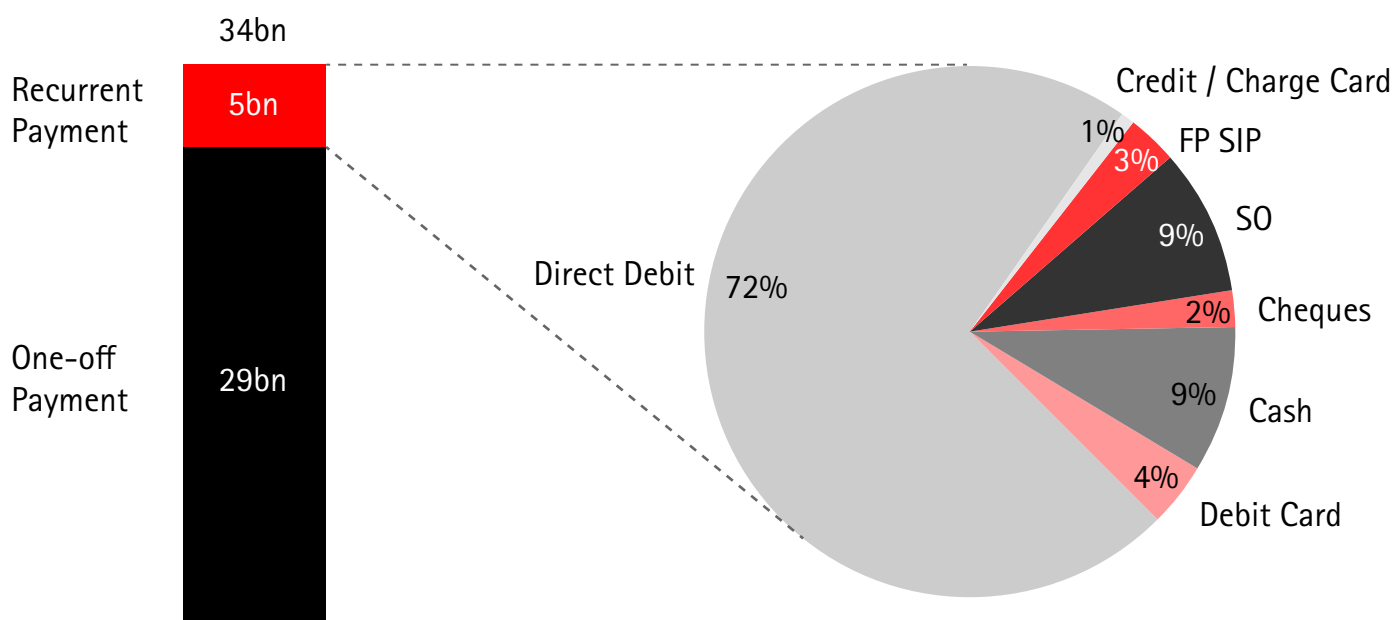
- The volume of regular payments made by consumers in 2015 was c. 4.9 billion.¹ Regular payments are defined as those payments which are made at consistent intervals such as yearly, monthly or weekly, and which consumers are committed in advance to pay. The value of payments may vary over time, but there remains a commitment to make these payments, often reinforced by an agreement with the payee. This includes regular payments that arise for the purchase of a good or service, for example utility bill payments, TV subscription, regular charity donations, insurance premiums and credit cards

bills. The most common payment method for regular payments was Direct Debit which accounted for c. 72% of all regular payments. Payments made through Faster Payments include single immediate payments which made up 3% of total regular payment volume and standing orders constituted 9%. Cash accounted for 9% of the volumes of regular payments and the remaining 7% is made up by cards payments, cheques and other remote banking (e.g. telephone banking).

- Payments that are frequent in nature but do not fall under the regular payments definition because they have not been committed to in advance, have not been included in the analysis.

Figure 4.1. UK Volume of Consumer Payments

Billions of payments



4.2. Issues identified with regular payments in the UK

- A 2015 study conducted by Payments UK outlined that, although existing payment options work very well, the feedback from customers is that they would appreciate more choice and control over the timing and method of their payments – both for one-off payments and those which are set up to be made from their account on a regular basis.²
- Consumers that use Direct Debit are generally high / medium income individuals who value the automatic and interference free nature of Direct Debits when making a payment. Low income individuals generally prefer to make payments using cash, 62% of customers that are reliant on cash have an annual income lower than £10,000,³ which could be attributed to the fact that cash allows for better monitoring and management of budgeted funds.
- Recent research conducted by Bacs⁴ outlined that among the Direct Debit users, 7% only use it because it is cheaper to do so but not a practical payment method and 16% prefer to use it only selectively, the main reason being they do not wish to lose control of their bank account. In other words, 23% of Bacs Direct Debits (or users) can be assumed to be RfP candidates.
- From the Biller perspective, Direct Debit is convenient as it is an automated payment that allows Billers to prepopulate payment request details, therefore reducing the time spent on reconciling payments received. Not all Billers can benefit from the Direct Debit service, in fact many societies, clubs, SMEs often lack the credit history to set up a Direct Debit and outsourcing it to third parties would be expensive.



5.

Request for Payment Functionality



A number of prototypes of RfP have been developed by Faster Payments in collaboration with Eclipse Experience, this section summarises the functionality.⁵

5.1. RfP provides Payers with the flexibility to defer the payments or to make partial payments

Functionality based on current design of RfP⁶

The current design of Request for Payment prototype is mainly intended for Person to Business regular payments, in which the initial request message is delivered through a mobile app with the following functionalities:

Make Real-time payments

Request for Payment should leverage the Faster Payments real-time payments infrastructure to facilitate the transfer of funds between Payer and Biller accounts.

Make partial or deferred payments

Request for Payment would allow Payers to pay a portion of the payment, deferring the rest of the amount to a later date.

Discuss or decline

Request for Payment can enable Payers to begin a conversation with the Biller directly through the mobile banking application.

Cash flow projections

Request for Payment could visualise the potential impact of the payment on their cash flow and the balance of the request amount.

Future dated reminders and requests

The service would offer Payers opportunities to schedule reminders for payments and follow up requests on partial or deferred payments.

Capturing customer's preferences

The Request for Payment service can help capture the Payers' communication preferences.

Payments detail auto-fill

Request for Payment must populate all the individual payment details for each request such as account name, reference number and account details.

Contact Information updates

Request for Payment could help Billers collect and maintain up to date records of ways to contact Payers.

Integrated communication

Request for Payment would help connect Payer actions within the Request for Payment service with the appropriate departments inside Biller organisations.

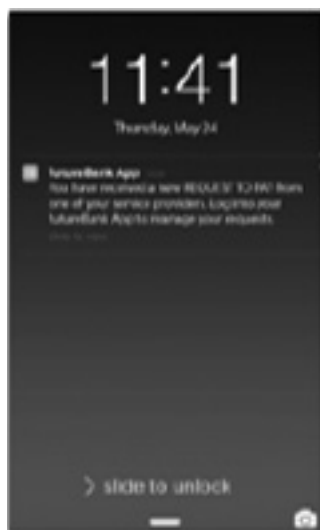
Biller vetting

All Billers should be cross-checked and verified by their account holding PSP, as legitimate business entities to ensure Payers can trust that the requests coming in through Request for Payment are legitimate.

Integrated account number access

Request for Payment could provide Payers access to all connected accounts and reference numbers in one place.

Figure 5.1. Screenshots of the Request for Payment prototype⁷



Direct channel for Billers to reach their customers and for Payers to stay on top of payments



Visualising upcoming payment requests and notifications for better financial management



Flexible payment options deliver a balance between Payer's and Biller's benefit

5.2. Additional functionalities and solutions

This report has also assumed additional functionalities and solutions

Direct link with e-invoice (e-statements)

The Request for Payment sent from Billers to the customer would include the link to the respective e-invoice (e-statement), removing the need for paper based documents.

RfP P2P

Individuals would be able to request a payment to other individuals by using their telephone number (in the same way as Paym supports today).

RfP B2B

Businesses would be able to send / receive the Request for Payment to / from other businesses.



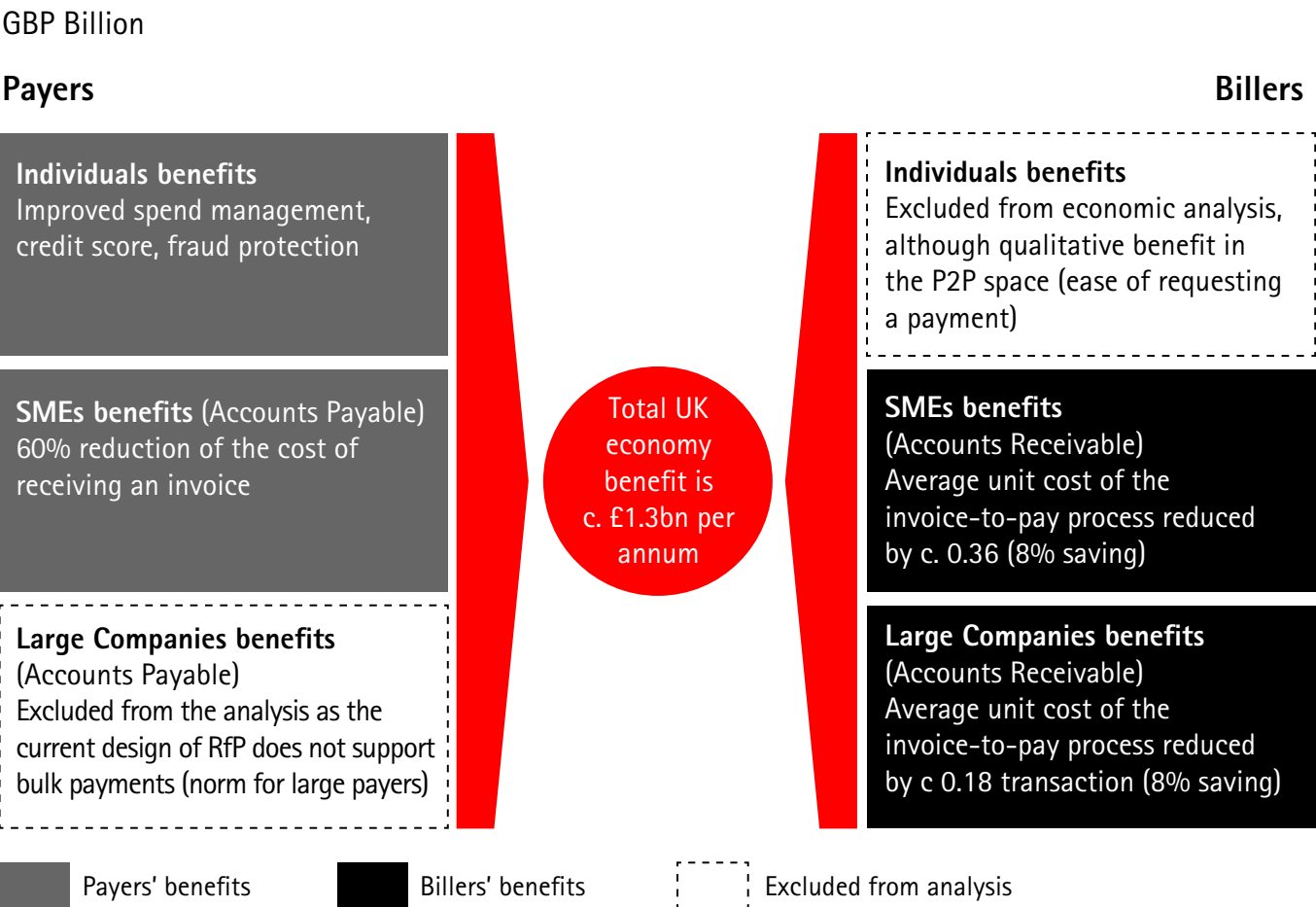
6.

Overall Benefits



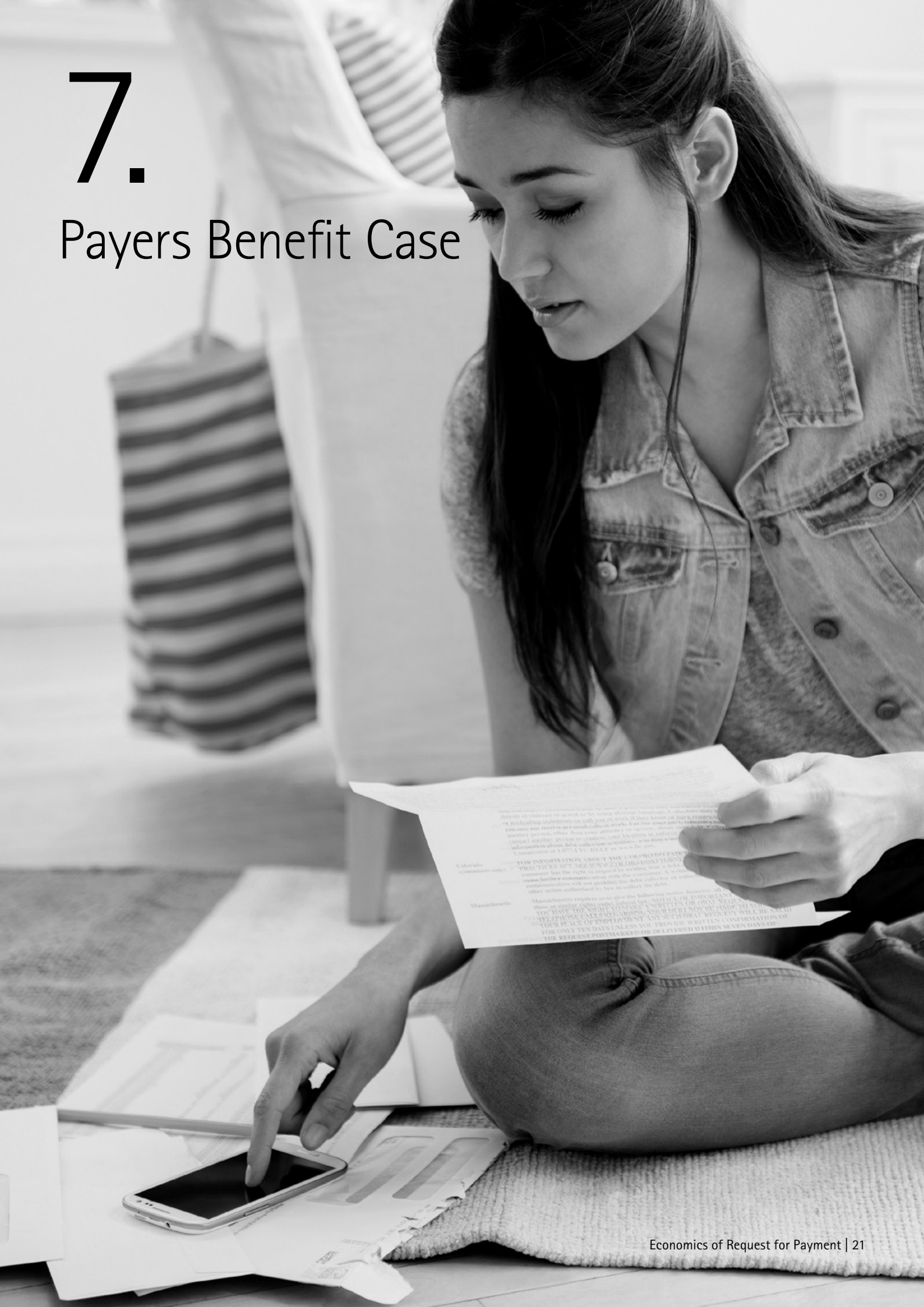
- In the following analysis we highlight the benefits split between Payers and Billers resulting in a monetary benefit of £1.3bn to the UK as a whole (Figure 6). However the benefits are expected to be in excess of this amount, especially as the benefits received by Payers are complex to quantify.
- Large companies as Payers and individuals as Billers have been excluded from the business case analysis as the current RfP design doesn't offer them full functionality at the moment. However, as the RfP solution develops it may be the case that these use cases could be brought into scope. We discuss the benefits associated with other use cases below.

Figure 6. Overview of Request for Payment benefits



7.

Payers Benefit Case



7.1. There are multiple use cases for Payers to adopt RfP

Ease of bill payment

Daniel has a contract with a phone company. Each month he gets a £50 credit limit, if he goes over this he must pay an excess to the phone company. Ad hoc top-ups are difficult to pay by Direct Debit as the credit limit may be exceeded while the Direct Debit is being processed. Instead, Daniel has to log onto his account with the phone provider and manually top up his account by Debit Card. Daniel would benefit from an RfP app where his mobile provider would send a payment request based on his usage above the stated monthly limit.⁸

Individuals and SMEs with irregular cash flows

Karen is a freelance writer who earns a high income and is relatively well off. Despite this, she often relies on her savings to pay for large bills, such as her mortgage and credit card, because her work comes in waves and clients do not always pay her on time. Whilst she prefers the convenient, 'out of sight, out of mind' nature of Direct Debit, she recognises that, at times, it can cause unnecessary problems for people like her with irregular cash flows.

Low income individual use case

Nicole is a young student who is developing her financial management skills. She regularly checks her account balance and keeps an Excel spreadsheet of her expenditure to see what she can and can't afford each week. Whilst this works, she would like to access this information in real-time and in one place to make quicker and more accurate financial decisions.

7.2. For individual as Payers, RfP could improve their spend management and fraud protection

Improved Control over Cash Flow

- With more people moving to zero hour contracts and into the gig economy, regular income is also not always guaranteed. These cash flow fluctuations cause difficulties in making regular payments and Payers may resort to cancelling services, delaying payment or complete avoidance of payment requests. On the other hand, Billers apply penalties and interest to late payments to dissuade late payments and to recover costs they assume may not be

paid back fully.⁹ These penalties can be considered unsympathetic to the Payers financial situation.

- RfP starts the dialogue between Billers and Payers and improves communication when it seems likely that a payment may be missed. The Payer can discuss the payment with their Biller to help them understand when payment would likely be made – this is likely to lead to more flexible terms being offered by Billers. Research has shown that Billers see Request for Payment as a safer and more responsible way for Payers to deal with these unfortunate realities of life. Therefore recognising the importance that Payers should place on spend management.

Better Visibility of Finances

- Many individuals have limited financial awareness and struggle to stay on top of the numerous payment requests that come in at different times. This can lead to situations in which they find themselves owing money they cannot pay back.
- RfP would give easy access to key financial information that may impact their payment decisions. For example, RfP could visualise the potential impact of the payment on their cash flow and the balance of the request amount. RfP would also leverage known behavioural principles to offer better choices that help Payers make responsible financial decisions. Also, banks or third parties could develop apps / services that advise payees when to pay bills in order to optimise their cash flow.

Improved Credit Score

- By going overdrawn to make payments which offer the minimum amount of flexibility, the Payer's credit score is impacted in two ways.
 - Firstly it would impact payment history which tracks the Payers record of paying back debts on time.
 - Secondly it would increase amounts owed or credit utilisation.
- RfP could help assist individuals to better manage spend and promotes more flexible credit terms. Therefore it is likely that people with irregular and low incomes would benefit from an improved credit score. An improved credit score can lead to multiple financial benefits for the Payer:
 - Lower interest rates
 - Access to favourable loan terms

Example 1 - Improved housing affordability where a better credit rating could result in lower mortgage payments and lower rent cost (through improved background checks).

Example 2 - Improved insurance affordability as rates may be lower.

- If the Payer has a poor credit rating, then they may forgo quality housing and insurance altogether. This would undoubtedly impact the standard of living and quality of life of the individual. This in turn could put them in to a downward spiral of greater financial risk. RfP could offer a support mechanism to individuals who may otherwise be forced down the route of accepting a bad credit score in return for making payments.

Better Protection against Fraud

- Financial Fraud Action UK describe Phishing as the act of sending emails and invoices at random, purporting to come from a genuine entity such as a bank or increasingly other organisations like
- HMRC. The number of phishing websites targeted against UK Banks and Building Societies was 16,462 in 2015.¹⁰
- RfP would have a number of mechanisms to combat this type of fraud, firstly Billers would be vetted and secondly Payers would be able to look up the Payee's details in order to authenticate the payment. For this reason, relative to sending a Single Immediate Payment, RfP would have a number of benefits that can potentially reduce fraud. Finally because the communications system between Billers and Payers is a closed loop, it means the industry can implement controls more easily.

7.3. For SMEs that decide to adopt RfP to pay other businesses, the major benefit would be related to the automation of the invoice process

SMEs Supply Chain Benefits

- Receiving an electronic invoice and making an electronic payment may reduce costs versus a more manual and paper based process for companies.
- Electronic invoicing can remove many of the complications of processing an invoice for payment. Some estimates show that electronic invoicing can reduce the unit cost by up to 60% in the SMEs' supply chain.¹¹ The savings on the recipient side of an invoice include reduced time and effort in dispute management and capturing supplier discounts for receiving and processing the invoice more quickly.

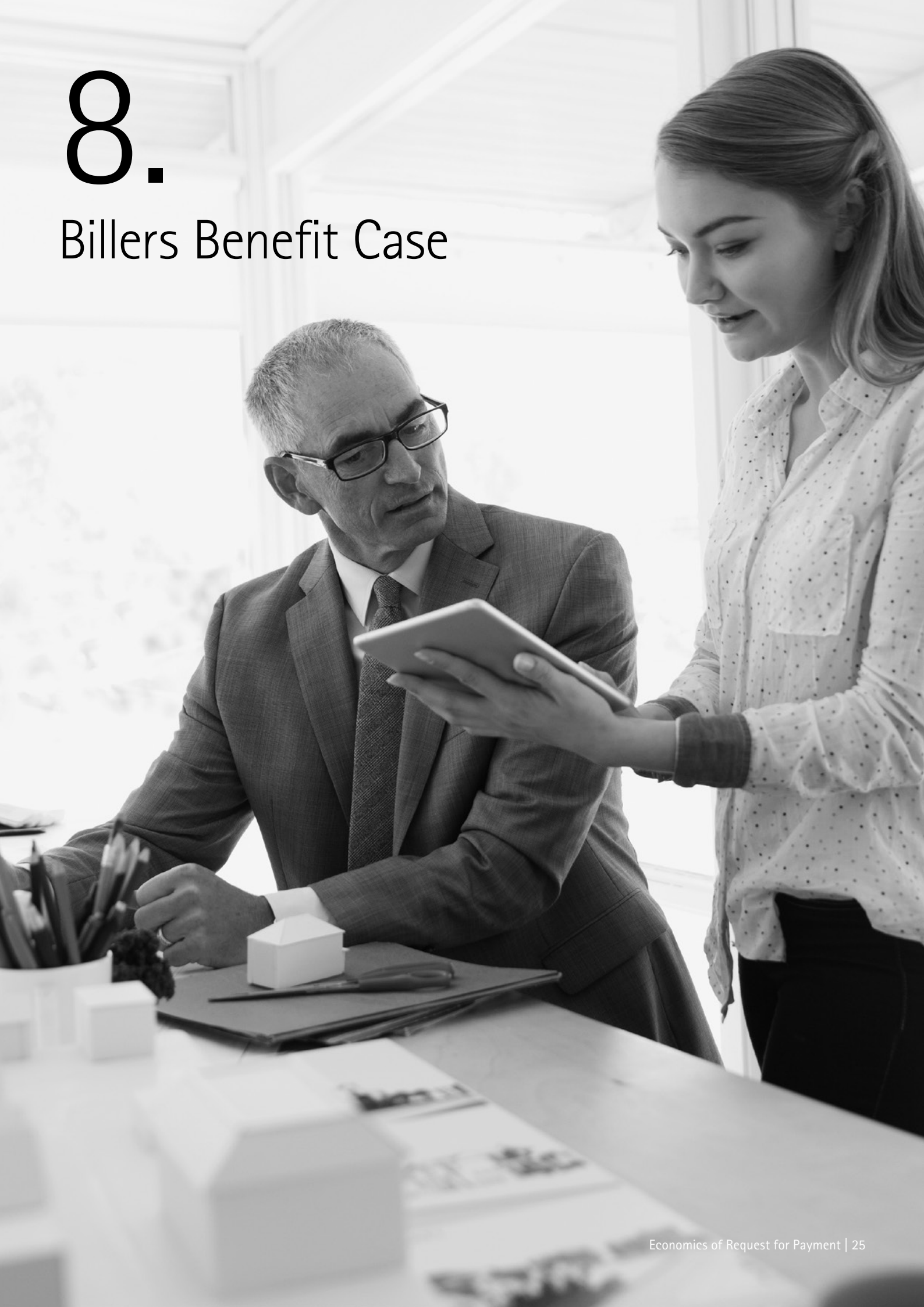
Large Companies Supply Chain

- In our discussions with large companies they have explained that many payments are done in bulk e.g. using Bacs, as a result they are unlikely to accept Request for Payment (unless it could be readily integrated with the accounts payable process).



8.

Billers Benefit Case



8.1. Based on Billers' interviews, we have identified different RfP use cases for each type of Biller

Clubs

Tim wants to renew his membership at the local gym. The gym currently only accepts Direct Debits to initiate a contract. This is inconvenient as it can take up to 3 weeks to process a new payment. In this case, the gym has to wait until the Direct Debit is set up before starting the new gym membership. In the meantime, Tim will have to pay as he goes to access the gym services, which is often charged at a higher rate per use.

With RfP, the gym can send an invoice for the annual membership directly to Tim. He can then decide when and how much he wants to pay. The gym benefits from reduced administration and paper work, faster payments and a record of the transactions (beneficial for reconciliation).

Educational Institutions

The tuition payment process at a university is very manual. Students at the university are expected to pay the annual tuition fees in three instalments. However, a number of them forget the due dates for payments. On the other hand, the students who have paid their tuition fees need to keep track of the payment or follow-up with the Accounts team for a paid receipt.

RfP could be used by the university to send a payment request for tuition fees. The Accounts team can send reminders for payments and reconcile the payment more easily. The students have the added benefit of being able to discuss repayment timelines.

Charities

Sally makes monthly Direct Debit donations to her local charity, recently she has cancelled the Direct Debit instruction as she is switching between jobs and is on a limited budget. She hopes to re-instate the donations when she finds a new job.

With RfP the charity requests a donation from Sally each month; Sally has an option to reject the payments or reduce the amount she pays during the period when she is unemployed and her cash flow is limited and to accept it when she has more financial stability. Through RfP, charities can build better relationships with their donors. They can benefit from increase in donations and/or donors as the people have better control of the payment, and they can keep the relationship with the donor, which could be lost as the result of cancelling a Direct Debit.

Sole Trader

John is a plumber who is self-employed and runs his own business. He uses online and mobile banking channels. Every time he provides his service, he has to text or email customers his bank details for them to be able to transfer the payment. This takes time for both John to manually text his details without making a mistake and he is often too busy to follow up on late payments from customers.

With RfP John can send a request for payment which is both quick and less likely to be entered incorrectly. He can also keep track of who has paid and would be able to send reminders via the service. John now has more time to complete new jobs rather than chase late payments.

SMEs

Harris and Laura are co-owners of a small digital marketing agency of 50 people that works with start-ups and other small and medium sized companies to design their websites. Their contracts specify a payment schedule that allows their clients to make monthly payments. Since the marketing agency doesn't have a dedicated billing function, it has been a challenge for the duo to follow up on late payments, which has led to cash flow constraints.

RfP allows the agency to request payments from their clients by e-invoice. The client can review the invoice and accept the payment immediately or schedule it for later. Either way the marketing agency is notified of the Payers decision regarding payment schedule. This improves cash flow management as the marketing agency has better foresight of customer payments.

8.2. RfP would improve the entire invoice-to-pay process flow of a company, although the biggest cost saving would be achieved by replacing paper invoices with e-invoices

- Request for Payment could impact multiple steps of the invoice-to-pay process of a company. The traditional process (see figure 8.2.a) starts with the calculation of the invoice amount, then an invoice is

printed, put into an envelope and sent out. In the case when the customer promptly pays the invoice, the payment is collected by the company's bank that then apply a fee dependent on the type of payment received. The company will then have to reconcile the payment reference with the customer account number and finally archive the invoice. If the customer does not pay the invoice promptly, the company will need to notify the customer of the late payment via calls and / or letters (incurring additional cost).

Figure 8.2.a. Billers' invoice-to-pay process – current state

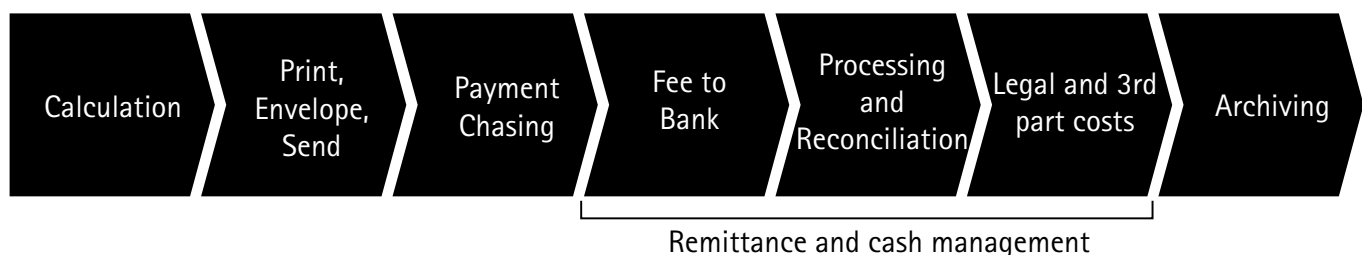
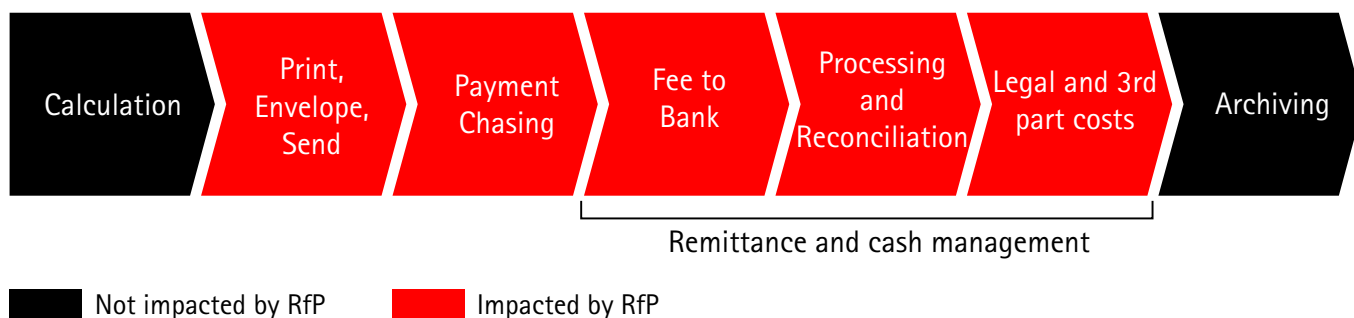


Figure 8.2.b shows which of the invoice-to-pay process steps would be the most impacted by Request for Payment.

Figure 8.2.b. Impact of RfP on the Billers' invoice-to-pay process



- **Print, Envelope, Send**
The Request for Payment message that the Biller sends to the customer would include the link to an e-invoice (e-statement). The adoption of RfP would increase the number of e-invoices and reduce the cost associated to processing and sending paper invoices.
- **Payment Chasing**
Allowing the Payer to give notice as to when they expect to pay back the full amount of the invoice, reduces the need for payment chasing. The Biller benefits from not having to send follow up letters and making calls, as well as from improved the cash flow forecasting. The customer would be able to defer the payment a finite amount of time within the request period.
- **Fee to the Bank**
Request for Payment would be delivered as a Faster Payments Single Immediate Payment which generally is charged at a lower rate compared to other payments type such cash, cheques, credit cards. For those companies that do not receive a high number of Direct Debits, there is a potential cost reduction.
- **Processing and Reconciliation**
Request for Payment would populate all the individual payment details for each request such as account name, reference number, and account details. This would reduce the manual input error on the customers' side and ensure delivery of payment to the right place.
- The cost savings associate to the Request for Payment process will vary depending on the degree of automation and digitalisation of the companies.

8.3. For large companies, the adoption of RfP could equal a cost saving of c. 18p per transaction

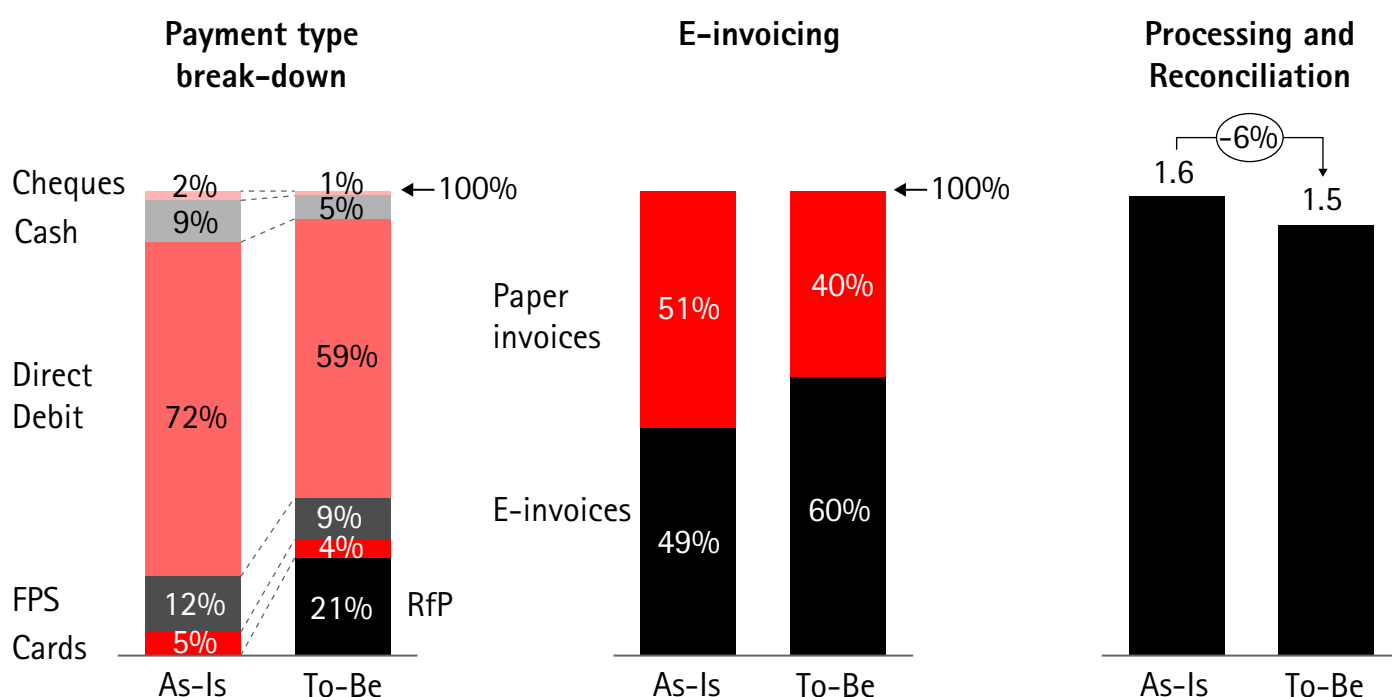
Assumptions

- 21% RfP adoption rate for Person to Business regular payments (see section 9.3 for details)
- RfP fee charged by the bank is the same as a Faster Payments SIP
- Key drivers of the business case are shown in Figure 8.3.a

Business Case findings

- E-invoicing – The increase of e-invoicing volumes contributes somewhat to the cost savings for large companies, however given large companies have already moved to high levels of e-invoicing the benefits are limited.
- Payment type – The benefit driven by the change in the split of payment type received is low due to the assumption that currently c. 70% of the payments received by Billers are Direct Debit payments. RfP could reduce the fee paid to the bank when replacing cash, cards and cheque payments, however it would increase the fee currently paid for Direct Debits payments which is c. 1p per transaction.

Figure 8.3.a Large Companies – Key benefit drivers



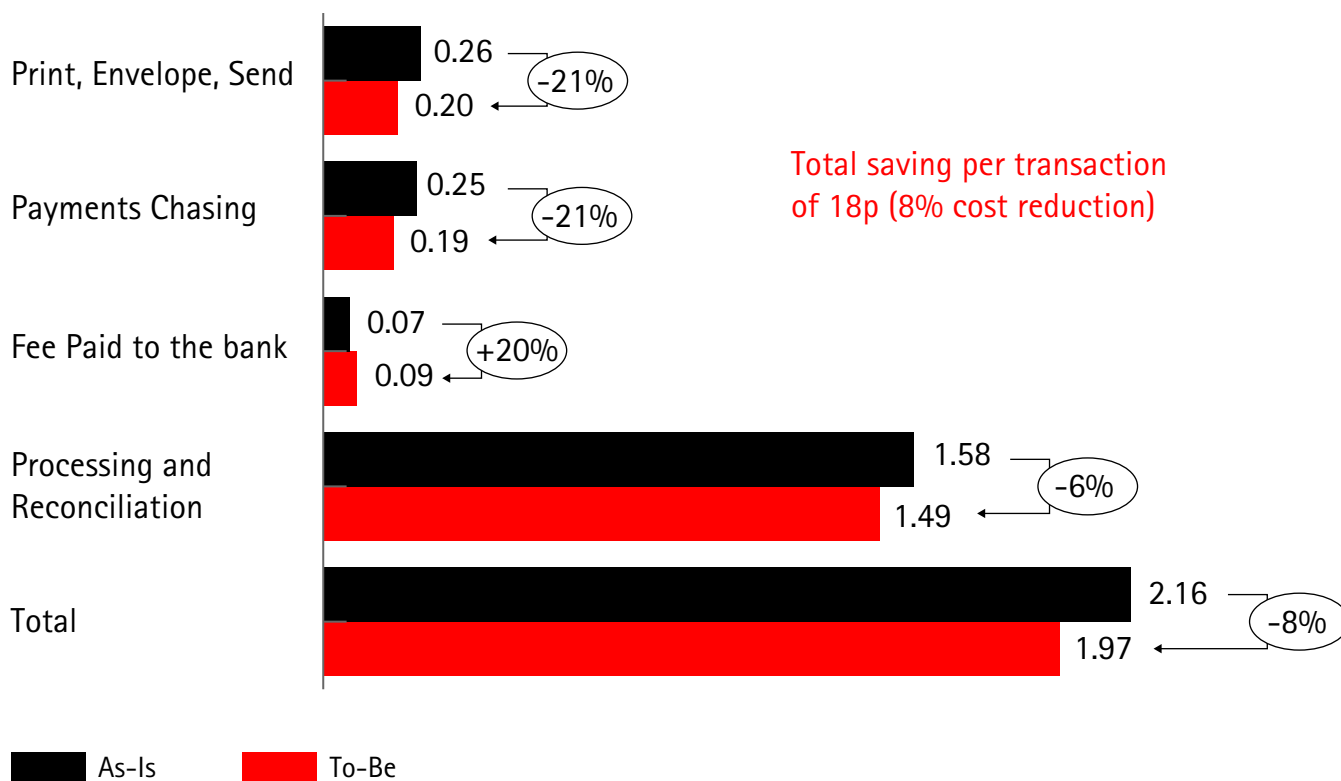
- Processing and Reconciliation – Reconciliation costs are in part impacted by the type of payment received. The assumption is that non electronic payments (i.e. cash and cheque payments) take more effort to reconcile versus electronic payments (i.e. Direct Debit, Faster Payments and cards). Therefore since the adoption of RfP would increase the volume of electronic payments received by large companies, the total cost for reconciliation could decrease. It is worth mentioning,

that for companies with highly automated reconciliation systems, the effort to reconcile retail customers payments is relatively low compared to the effort to reconcile business customers payments, which RfP would not improve.

- Based on our analysis the potential cost saving for large companies, post the adoption of RfP, is c. 18p (8%) per transaction.

Figure 8.3.b Large company as a Biller - Invoice to pay cost saving

GBP per transaction



8.4. For SMEs, the adoption of RfP could equal a cost saving of c. 40p per transaction

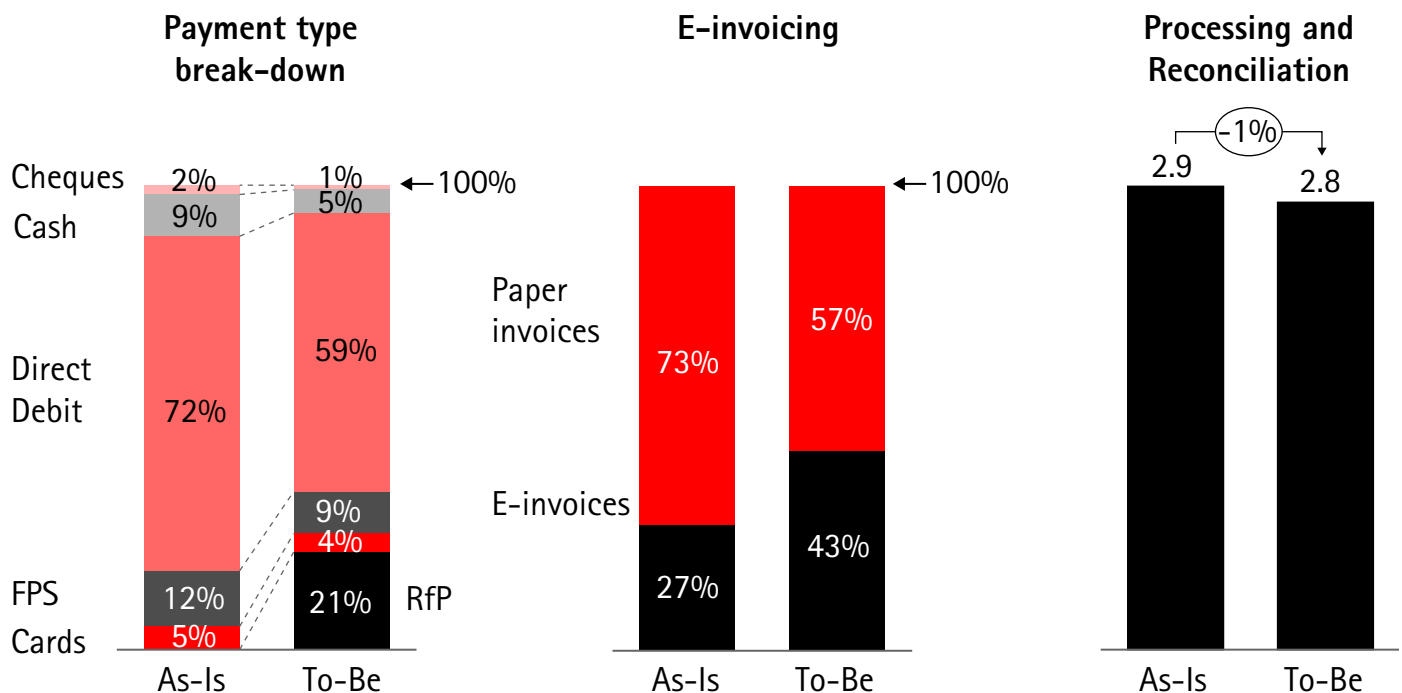
Assumptions

- 21% RfP adoption rate for Person to Business regular payments (see section 9.3 for details)
- RfP fee charged by the bank is the same as a Faster Payments SIP
- Key drivers of the business case are shown in Figure 8.4.a

Business Case findings

- E-invoicing – The analysis assumes that the average SME has a heavily manual invoice-to-pay process and that the volume of paper invoices sent to customers is still quite high (c. 73%). The adoption of RfP would increase the volume of electronic invoices sent and therefore may reduce both the cost of sending the invoice and the cost of chasing late payments (this is assuming that the payment chasing is done mainly through sending letters).

Figure 8.4.a. SMEs – Key benefit drivers

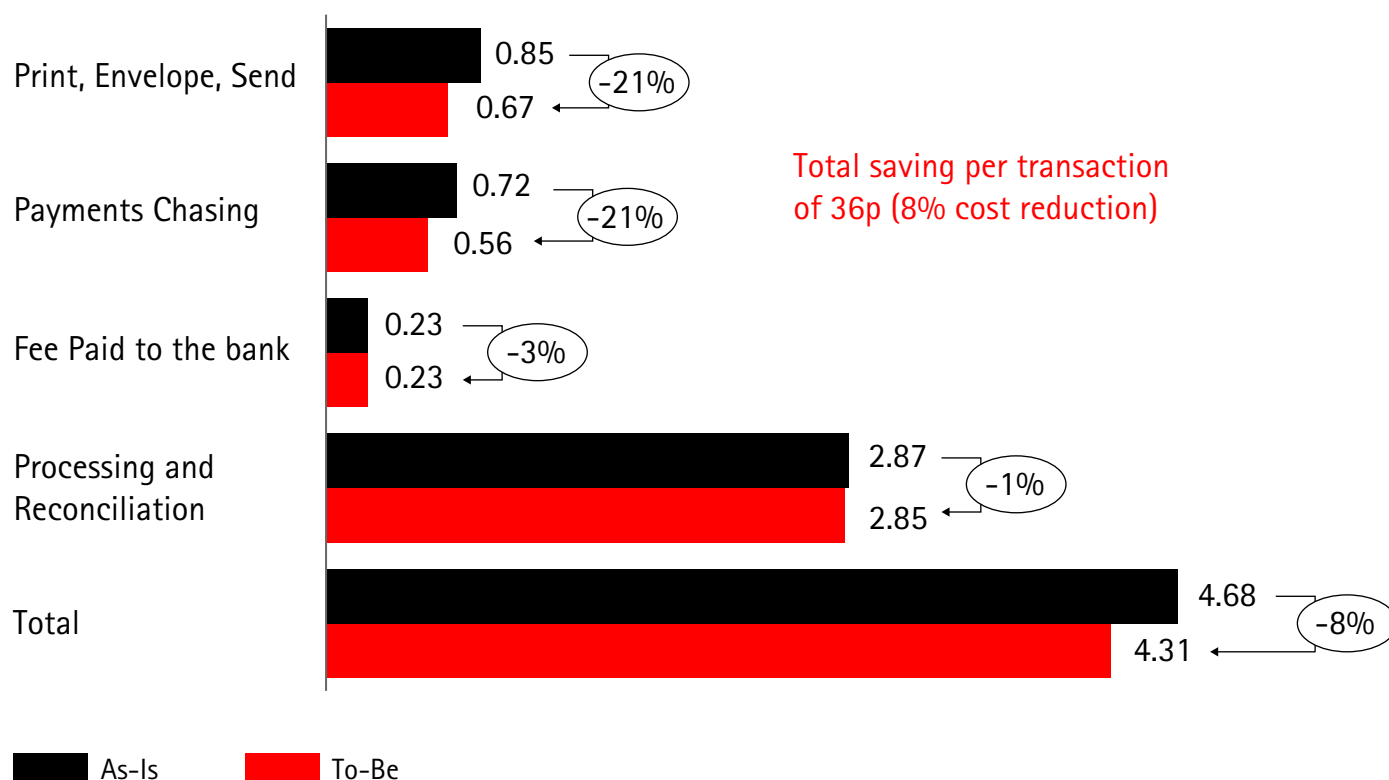


- **Payment type** – The benefit driven by the change in the split of payment type received is low due to the assumption that currently c. 70% of the payments received by Billers are Direct Debit payments. RfP could reduce the fee paid to the bank when replacing cash, cards and cheque payments, however it would increase the fee currently paid for Direct Debits payments.
- **Processing and Reconciliation** – Since most of the payments received by SMEs are "manual" payments, the risk of mistakes when populating payment request information is higher, which is why SMEs currently spend a lot of time trying to reconcile their payments. The functionality which allows SMEs to pre-fill the payment information could reduce the reconciliation effort and cost.

For SMEs, the introduction of Request for Payment could reduce the cost per transaction by 8%, which equals to a reduction of c. 40p per transaction.

Figure 8.4.b. SMEs as a Biller – Invoice to pay cost savings

GBP per transaction



8.5. Clubs Benefits

- Clubs send out a lower number of invoices per month on average when compared to small businesses, however a large share is based on regular transactions with a varying mix of payment methods. Direct Debit could be a convenient method for receiving payments, however clubs may struggle to meet the requirements to be able to set up a Direct Debit.
- Therefore, even managing a small number of incoming and outgoing payments can become a large distraction to the running of the club – especially if the club is only a part time venture. For example, in our conversations with a London based club, they stated that around two hours a month dedicated to payments administration is required to maintain a 'Business As Usual' state of operations. This includes setting up a new payer which can take up to 30 minutes each (or beyond if the bank details are exchanged incorrectly). Alternatively, a delay can be experienced if the payer is slow to respond with their bank details.
- The other issue commonly faced by clubs is the added pressure of not receiving timely payments. This wasn't a common occurrence, but in a small number of cases – more time had to be invested in chasing up late payments and sending reminders out. Late payments can also negatively impact the cash flow of clubs. One Club owner mentioned that the large gyms who pay him a fee for hosting classes were often notoriously bad at paying on time. Sometimes he wouldn't receive payment for one or two months.

Considerations for RfP design

- All respondents thought that RfP would provide an added benefit in the running of their club. One club owner said that by spending less time organising and processing payments, he could instead focus on growing the size of the member base and investing more time in the quality of training sessions. Club owners also saw value in giving flexibility to people in regards to the date they pay, mentioning that flexibility is key to building a strong relationship with their members. Specifically, they saw the usefulness of RfP when individuals wanted to pay for some activities that weren't immediate such as a monthly pass. Another factor that clubs saw to be instrumental in the adoption of RfP was based on execution and pricing. RfP must not add to the complexity that exists in managing many different payment types; instead it must consolidate the effort. Secondly, clubs mentioned that cost would be a key determinant in their use of RfP. Profit margins are usually zero or very low when running a club and therefore extra fees would deter uptake of RfP.

8.6. Additional benefits related to improved reputation and client relationship could be gained by Billers

- Benefits related to reputational image and brand equity can be achieved through RfP.

Improved Communication with Customers

- There is an opportunity for Billers to leverage the capabilities of RfP to deliver a more straightforward and customer centric proposition. This is because Payers are often left frustrated when forced to contact their service providers for payment resolutions. For example, the Payer will often have to contact the Biller when they have been charged the wrong amount, or don't fully understand the bill. To resolve this, interviews with Payers expressed a need for a direct communication channel that can help them get through to the right person faster. Payers also expressed a desire to speak to someone who is aware of their previous communications with the Biller.

Improved Client Relationship through Flexible Payment Terms

- RfP would enable Billers to engage in richer dialogue with their customers. This allows them to offer a more focused customer service experience. For example, the Biller can follow up with the customer to see whether the current payment terms are favourable or the product standards meets their expectation. Secondly, the benefits of having a more real time dialogue with the Payer also extend to payment chasing. This is because the Biller would better understand why and when a Payer can't pay and therefore can coordinate the timing of their payment chasing

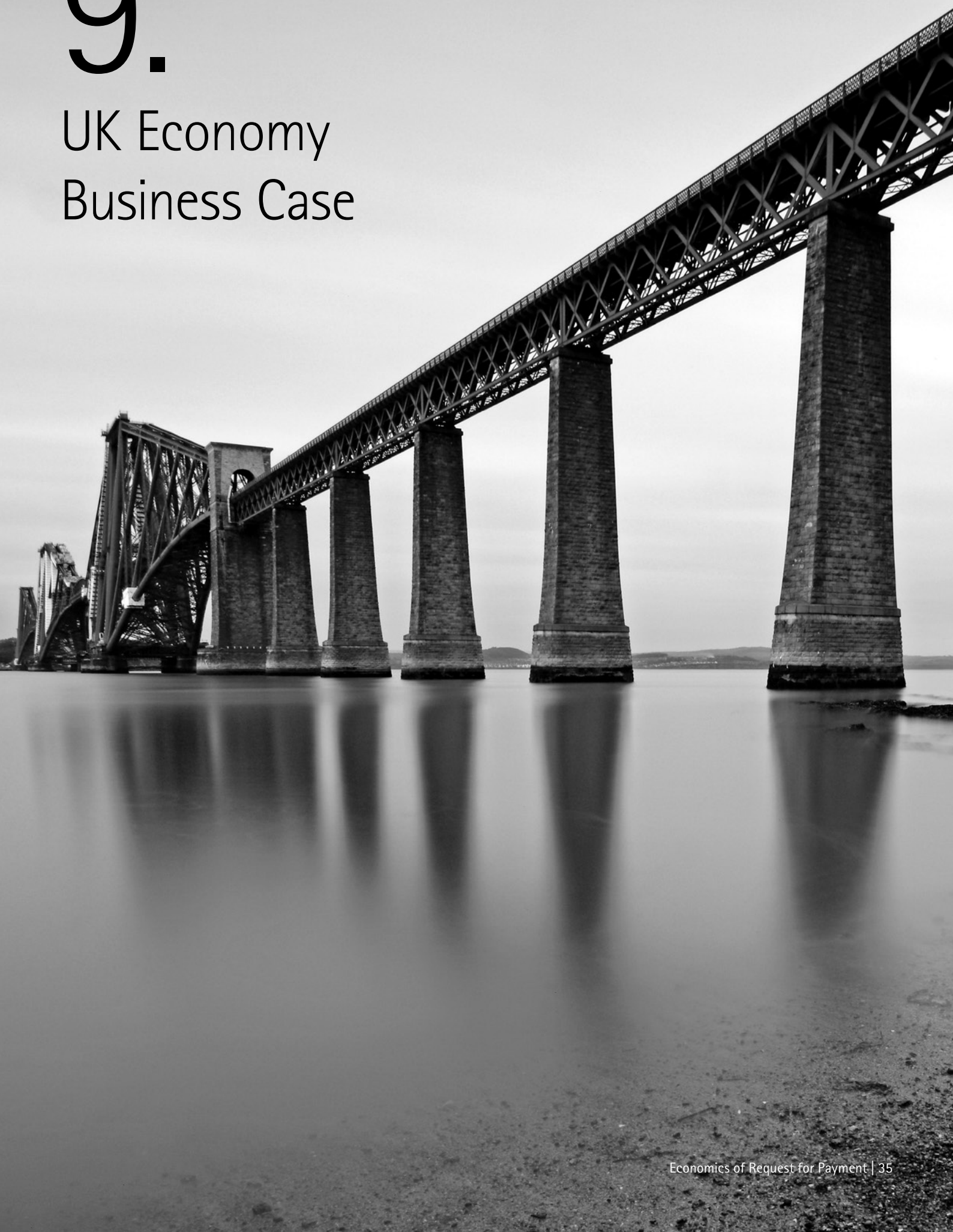
efforts. More specifically, Billers want to understand more about why Payers decide to avoid, delay or break-up a payment. They rarely receive this information when they post bills and see an opportunity to collect this information through the RfP service.

Reduced Debt Management Cost

- Research into the UK's late payment debt costs shows that SMEs are building up a collective £10.8bn a year in their attempts to recover overdue payments – that's an average of close to £11,500 each, or £955 a month.¹² This compares with a total cost of £8.2bn in July 2014. Large companies on the other hand find it easier to pass debt costs on to Payers. Therefore the extent to which debt management costs are addressed by RfP, especially for SME's is of high importance.
- Offering the opportunity for Payers to partial pay would mean that there is less chance the full amount of the bill would be outstanding when due. This will increase working capital as well as reduce debt costs. Furthermore, by offering the Payer the opportunity to pay the overall sum of their outstanding bill in smaller amounts, it is more likely that the full amount would be recovered overtime.
- Debt management costs may also reduce because Payers would have better foresight of the due date for payment. In addition, if the Payer has cash flow constraints and can only pay a few days after the due date – by discussing the request with the Biller it is possible the due date for payment could be extended. In this way, the Biller avoids starting the debt management cost earlier than needed.

9.

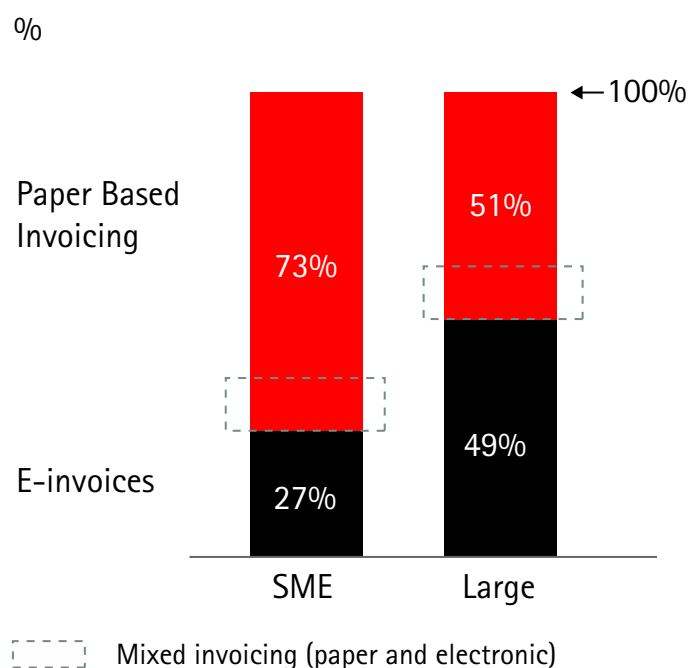
UK Economy Business Case



9.1. UK invoice market

- The RfP proposition could optimise the current invoice process between Billers and customers to the extent that it would offer a platform for digitally requesting payments from customers. The number of invoices sent electronically depends on customers' uptake, which we find to be lower for SME's (27%) vs. large companies (49%). Billers can influence recipient uptake of e-invoicing by penalising the use of paper. However, this is likely to lead to poor customer satisfaction and may not even guarantee a change in use. It is important to note that some Payers may receive both paper and electronic invoices (see Figure 9.1 – dotted black box).

Figure 9.1. Proportion of paper vs. electronic invoice (2015)¹³



9.2. The volume of payments in scope is made up by P2B regular payments, P2P one-off payments and B2B SMEs payments

- The total volume of payments in the UK during 2015 was 38.2 billion.¹⁴ The majority of these payments (34 billion) were made by consumers and the rest by businesses. The captive market is different for RfP based on different types of transactions:

Consumer payments

- Consumer payments are divided into regular payments and one-off payment. One-off payments are categorised into person to business payments and person to person payments depending on who is receiving the payment.
- In 2015, by volume, there were 4.9 billion regular transactions made to Billers. Regular payments are made recurrently at consistent intervals such as yearly, monthly or weekly, and which consumers are committed in advance to pay. We assume that these regular payments are in scope for RfP as the current design allows the consumer to keep track and manage regular spend. This is opposed to other current payment methods in the regular payment space that neither give the flexibility to manage spend in accordance to regular cash flow or the capability to offer financial planning assistance

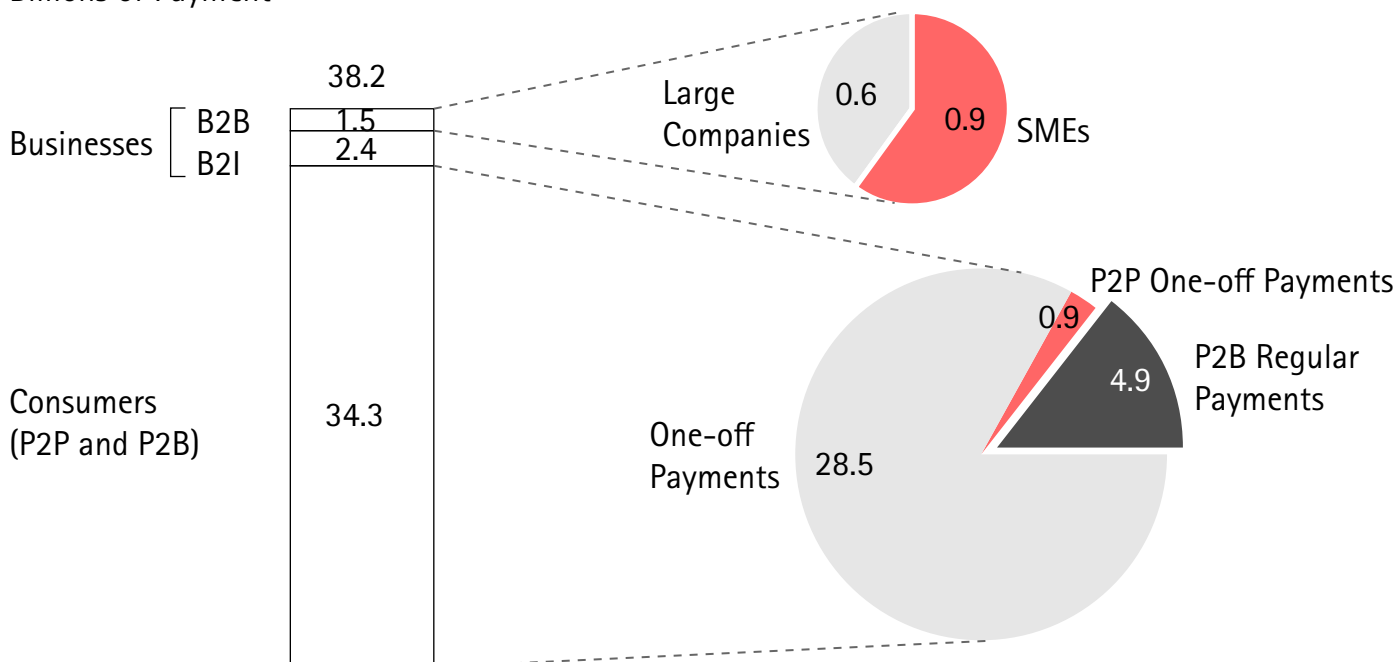
- In 2015, by volume, there were 28.5 billion one-off payments made by persons to businesses, which are defined as those items of spending that an individual is not committed in advance to making each month. These one-off payments would mostly be point of sale and considered out of scope for the current RfP design.
- **Person to person payments** make up the remaining 3% of one-off consumer transactions.
- The other payments were **Business to Business (B2B)**. For the current design of RfP, only SME payments to Billers are considered in scope – leaving out large business to business transactions. The assumption is that most large companies are not as affected by cash flow problems (unlike SME's) and prefer quicker methods of payments to suppliers to ensure the regularity of deliveries aren't affected.
- Furthermore, RfP could incur changes to the current payments system infrastructure used to procure goods and services. Therefore, Direct Debit is often the most preferred method of payment and wouldn't necessarily benefit from the introduction of RfP to pay suppliers. SME's on the other hand suffer from irregular cash flows and could have a lower implementation cost versus larger companies.

Business payments

- Business payments made up 3.9 billion of the total transactions in 2015 which was 6% of the total volume of payments in the UK.
- A majority (2.4 billion) of these transactions were made from Businesses to Individuals. These include wages, benefits, salaries and dividends. Based on the current design, these are out of scope for RfP.

Figure 9.2 UK Total Transaction Volumes

Billions of Payment



- In scope for RfP (included in UK economy benefit case)
- In scope for RfP (excluded in UK economy benefit case)
- Out of scope for RfP

9.3. For Person to Business regular payments, we estimate that c. 1bn transactions could be replaced by RfP

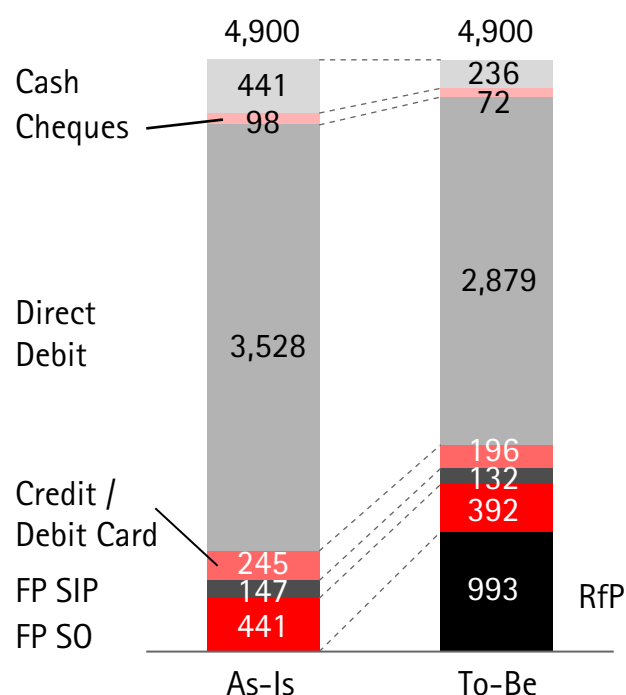
- Regular P2B payments make up roughly 5 billion transactions per year, however not all of these transactions may move over to RfP. For example Direct Debits are suitable for most of the population who currently make regular payments in this way. If an individual doesn't have any cash flow constraints, they have an ability to easily absorb regular payment costs and are comfortable with the terms of their current payment schedule – RfP may not provide an added benefit. Request for Payment would benefit those individuals for whom the current method of paying regular bills is either not practical or is costly. Applying an adoption rate to the

volumes of regular payments that are currently made by different payment methods – we arrive at a potential market size for transactions to move over to RfP. We calculate this number to be 1 billion transactions which equates to 20% of the total number of regular payments made in the UK to move over to RfP. From a volume perspective most of these transactions would move from current Direct Debit payments and cash payments.

- Adoption rates applied:
 - Direct Debit: 18%
 - Cheques: 27%
 - Cash: 47%
 - Standing Orders: 11%
 - Faster Payments Single Immediate Payments: 10%
 - Cards (Debit and Credit): 20%
- The market size of volumes for P2B regular payments to move over to RfP is c. 1bn (21%).

Figure 9.3. Person to Business regular payments - RfP adoption by payment type

Millions of Payments



9.4. We expect RfP to replace c. 94m of P2P one-off payments

- P2P one-off payments currently represents a small proportion of the overall consumer one-off payments volumes in the UK (c. 3%). However, this market of payments offers perhaps one of the biggest opportunities for RfP.
- P2P payments are now becoming more digitalised through the use of mobile and online banking. Faster Payments have also enabled quick and easy money transfers that were previously slow and complex.

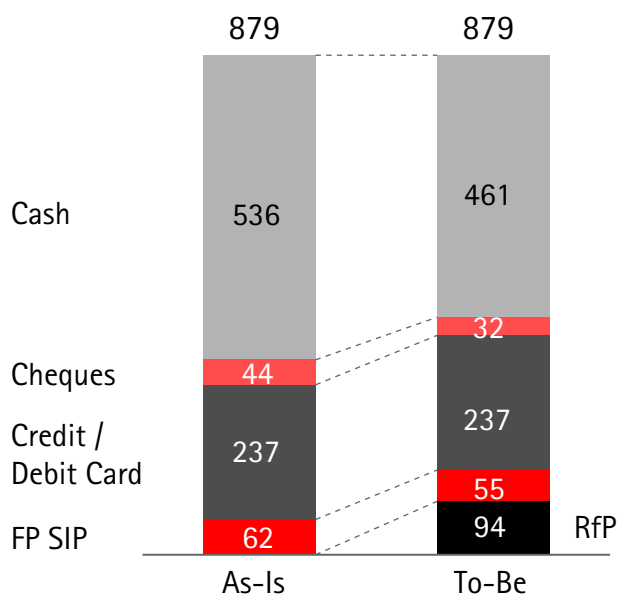
RfP is assumed to capture 21% of P2B regular payments, c. 1bn transactions a year

- Adoption rates applied:
 - Cheques: 27%
 - Cash: 14%
 - Faster Payments Single Immediate Payments: 10%
- The market size of volumes for P2P one-off payments to move over to RfP is c. 94m (11%).

- Adoption rates applied:
 - Direct Debit: 14%
 - Cheques: 35%
 - Cash: 14%
 - Standing Orders: 11%
 - Faster Payments Single Immediate payments: 10%
 - Cards (Debit and Credit): 5%
- The market size of volumes for B2B transactions to move over to RfP is c. 120m (13%).

Figure 9.4. Person to person one-off payments - RfP adoption by payment type

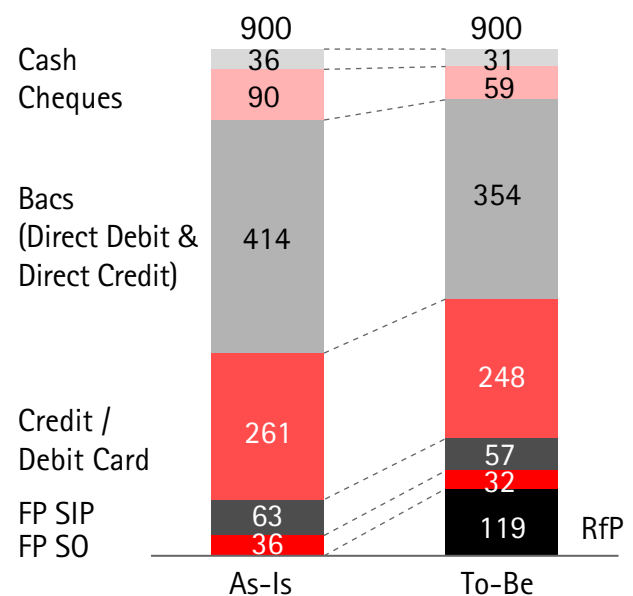
Millions of Payments



RfP is assumed to capture 11% of P2P one-off payments, c. 94m transactions a year

Figure 9.5. B2B SME payments - RfP adoption by payment type

Millions of Payments



RfP is assumed to capture 13% of B2B SME payments, c. 120m payments a year

9.5. Within the B2B payments we assume that 13% of the SME payments would move to RfP, for a total of c. 120m transactions

- B2B SMEs payment transactions are c. 60% of overall B2B payments.
- The extent of adoption is dependent on how well current payments options meet business need. This would determine the 'to-be' payment mix under RfP by applying an adoption rate to each type of payment.

9.6. Of the 1bn P2B regular payments that could be replaced by RfP, 53% would be paid to large companies and 47% to SMEs

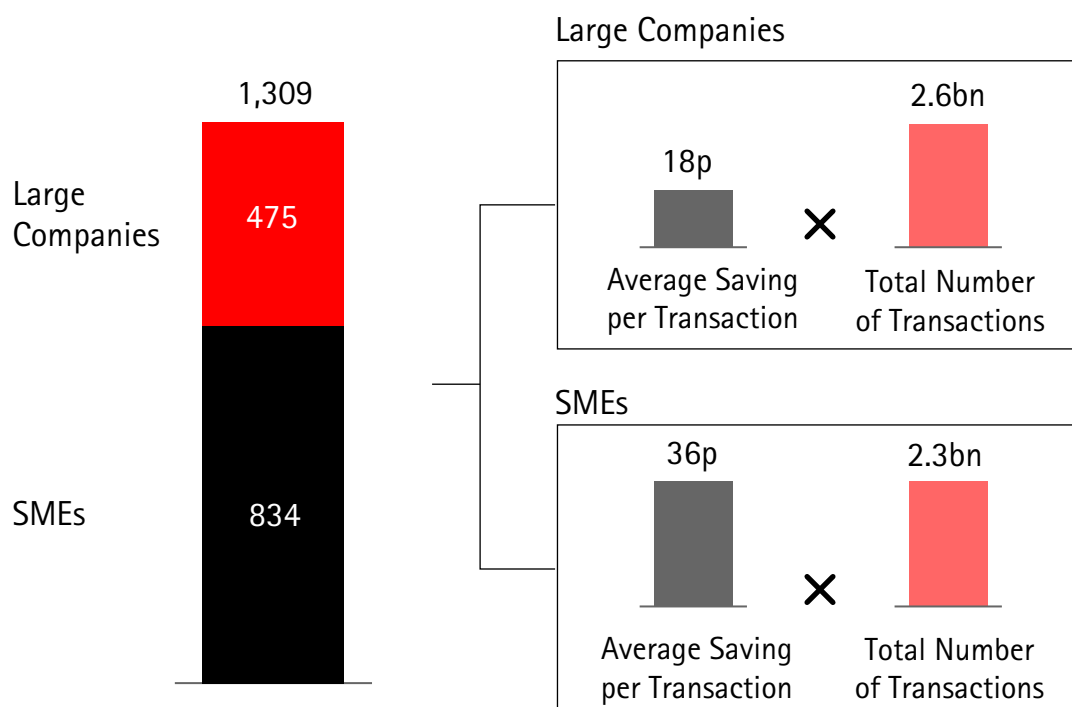
- There are disproportionately more SME's than large companies in the UK – 5,000k vs. 7k respectively. However, from a P2B perspective most payments are made to large companies. Using the US market as basis for the payment distribution between large companies and SME's¹⁵ – we estimate that 53% of the P2B transactions to move over to RfP would be attributed to large companies. The remaining 47% of transactions would be P2B RfP payments made to SME's.

9.7. Overall we estimate that the potential benefits for the UK economy are c. £1.3bn

- Multiplying the total volume of P2B regular payments by the average savings per transactions analysed in section 8 of this report, we calculate a total saving of c. £1.3bn for the UK economy (figure 9.7).

Figure 9.7 Total UK economy savings

GBP millions



10.

Market precedents to Request for Payment



10.1. Approach to analyse international RfP type solutions

- We have looked at similar proposition to RfP from around the world to understand what has been the uptake from the consumers as well as to identify the success or failure factors. We highlighted the key functionalities of the RfP proposition:
- Enables flexible digital payments
- Link the payment to an electronic invoice
- Improves the Payer's spend management
- In addition, we selected only those with relatively high adoption rates and those that were already live (for example excluding NPP in Australia).

10.2. Summary of RfP type solutions

Product	Country	Functionalities Offered				
		Digital payments		E-invoicing including payments		Spend management tool
		P2P	P2B	P2B	B2B*	
PayPal	US, UK	○	○	○	○	○ (digital wallet)
Remita	Nigeria	○	○	○	○	○
BPAY	Australia			○	○	
Zoomit	Belgium			○	○	
Nordea e-invoicing	Finland/ Denmark			○	○	
Billdesk	India			○	○	
Paytm Wallet	India	○	○			○ (digital wallet)
Paylah	Singapore	○	○			○ (digital wallet)
Square Cash	US	○	○			○ (digital wallet)
Venmo	US	○	○			○ (digital wallet)

10.3. Summary of implication for RfP

- RfP type solutions are more likely to be adopted when consumers are digital engaged and mobile payments are widespread.

Example – The success of the Nordea solution for e-invoicing has also been driven by the fact that 80% of customers in Nordic countries opted in to receive digital invoices.

- High levels of adoption rate for RfP type solutions have been noticed when the product is well integrated with banks systems and when it is offered from major Billers.

Example – Remita was initially introduced to attempt to reduce fraud. It has been adopted by the central bank of Nigeria and by 22 commercial banks and 400 micro finance banks.

- Payers are more likely to prefer payments solutions that are "easy to use" and that allow the Payer to make payments with a "few clicks". Furthermore the adoption rate can be increased by removing the obligation for Payers to be registered with RfP in order to accept a Request for Payment from the payee (although this may present authentication issues).

Example – PayPal's Request a Payment feature allows customers to request for money via email address, mobile number or PayPal account.

- Payers appreciate the ability to have a consolidated view of all their bank accounts.

Example – Remita offers a single platform view of all the bank accounts that users have. This gives them complete control and management of their funds.

- Incentives to use RfP would increase the attractiveness to customers.

Example – Paytm wallet offers deals, discounts and cashback on every transaction to incentivise people to use the app. This cashback is in the form of credit to the digital wallet and can be used for future transactions.

- Sometimes the success of a product among users does not match with Billers preferences, which might be reluctant to include the product among their offering.

Example – BPAY is extensively used by individuals in Australia to pay their bills. The individual receives the invoice from the Biller as a PDF in the BPAY platform. Billers prefer using different billing methods that means the Payer has to go to their website before making a payment; this could increase the chance for potential revenue uplift.

11.

Request for Payment Implementation Options

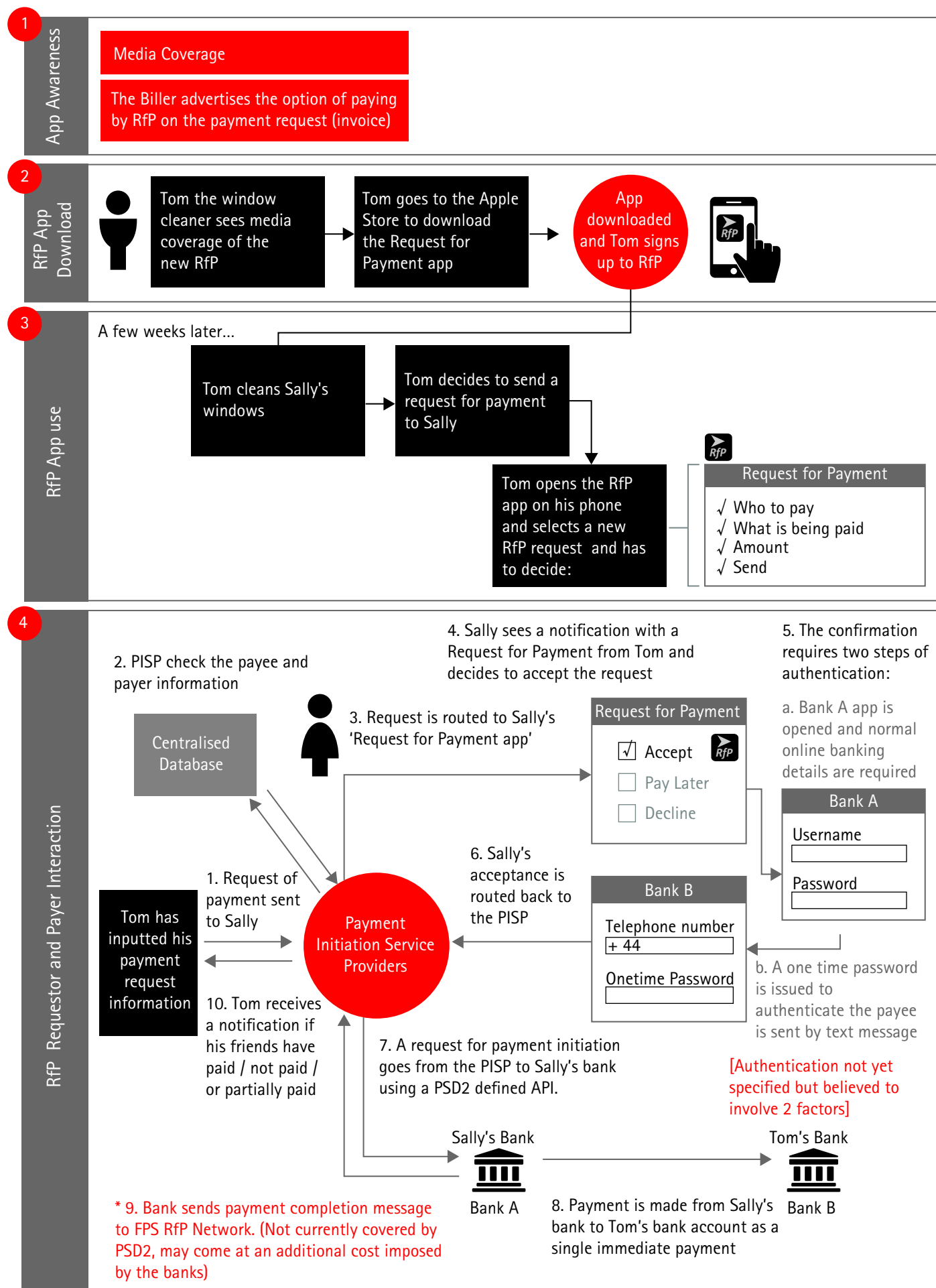


11.1. Conceptual solution implemented under PSD2 regulation

A number of options exist for implementing RfP in both the current and future states of the payments industry. In the following example, a potential model for Minimum Viable Product is proposed. It relies on the changes of PSD2 regulation and therefore it can be rolled out without any changes for PSPs. This would potentially reduce the cost and complexity of implementation. Further implementation may be required for large Billers if they want integration with their current payment systems.



Figure 11.1. Request for Payment conceptual solution process flow



About Faster Payments Scheme Limited

Faster Payments Scheme Limited (FPSL) is the company that enables Mobile, internet, telephone and standing order payments to move quickly and securely, almost at the touch of a button, 24 hours a day. At its launch in 2008, Faster Payments was the first new payments service to be introduced in the UK for more than 20 years.

In the first eight years of operation, over six billion Faster Payments have been sent and in August 2016, 120 million payments were processed in a month for the first time. Virtually all internet and telephone banking payments in the UK are now processed via Faster Payments.

Twelve banks and building societies are Participants of the scheme, and over 400 other financial institutions are able to offer the service, making Faster Payments available to more than 52 million current account holders in the UK.

The purpose of the Faster Payments Scheme Company is to develop, operate and enhance real time, 24/7 payment services that:

- Enable a vibrant and globally competitive UK Economy
- Allow Payment Service Providers to deliver services that are:
 - financially safe and secure, consistent, reliable, resilient, scalable and available
 - aligned to both real time and same day digital and physical business processes and business models of its customers and users
 - simple and easy to use
 - economically efficient with value oriented, fair and non-discriminatory cost recovery from Payment Service Providers

- Stimulate and grow the UK payments market by:
 - making it easy for new PSPs to enter, grow and compete
 - catalysing payments related innovation
 - attracting global PSPs and FinTechs to the UK to innovate and develop payments services and businesses
- Are driven by the long term needs and aspirations of consumers, businesses, government, the third sector, and all types of PSP, including challengers and incumbents

The Faster Payments Scheme is a not-for-profit company. It does not make a financial return or provide other advantages to its guarantors that are not available to all participants. Equally, it does not expose its Participants to risks or liabilities without their express consent.

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