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Big changes are taking place in the European payments arena with the emergence of new technologies, changing regulation and customers who are demanding speed, ease and transparency from their banking partners.

Unprecedented changes in customer behaviour – across both retail and corporate banking – are driving the payments agenda. Enabled by the regulatory environment, which was once seen as an inhibitor to innovation, banks are harnessing technology to deliver easier, sleeker and more efficient payment solutions.

“All customers want the same thing: immediate, instant and transparent payments at the fairest price possible,” says Nadine Lagarmitte, Global Head of Financial Institutions, Global Liquidity and Cash Management at HSBC. “Over the past ten years I don’t think we’ve seen so much activity in the European payments landscape in terms of customer behaviour.”

Fintech Engagement

The impact of fintechs on the global payments landscape is not yet significant, says Clive Triance, Regional Head of FI Sales Europe, Global Liquidity and Cash Management at HSBC. However, he adds, fintechs are “certainly bringing new ideas into the marketplace and we see them more as a partner, than perhaps as a competitor.”

Regulators have responded to this trend with open banking, enabling new players, typically non-banks, to enter the market. “Regulation helps guide us in our behaviour and in how we can support our customers’ needs.” Regulations such as Europe’s Payment Services Directives (1 and 2), along with open banking and technologies including APIs, artificial intelligence (AI) and the cloud have created opportunities for payment services providers, including banks and non-bank fintechs.

Lagarmitte divides technology into two categories: the channel to the customer (the front end) and the back office. “A bank can be very technologically savvy with the channel to the customer, but if it is not savvy in the back office, then the result the customer, or the bank itself, wants will not be achieved.”

Banks and fintechs are “significantly different organisations” with different skills. Fintechs, for example, can move very quickly in testing out new technology and bringing products to market. Banks can assess these and decide with which fintechs they want to partner. “Banks are happy to have fintechs bringing new ideas to market and to partner with them,” says Triance.

While banks are not necessarily challenged by fintechs at present, unless they start to change their business models and meet their clients’ needs this may not remain the case. “In payments, we are coming out of a world that used to be glossy brochures and physical writing into one that is based on digital technology and one or two clicks. The next generation that’s coming through wants things quickly and they want everything in one touch,” says Triance.
Changing Expectations
The customer demand for a one click, fast response may have originated in the retail banking sphere, but it has rapidly spread into the corporate banking world. As consumers, people have become accustomed to the speed and transparency that digital technology offers, Triance notes. They now want to experience the same benefits within their corporate environment.

“Corporate treasurers are now looking to banks for significant improvements in transparency in terms of the speed of payments, how much they cost and where the payment is,” he says.

HSBC was one of the early adopters of SWIFT’s global payments innovation (gpi) initiative, which answers such requirements. More than $40 trillion was sent via SWIFT gpi in 2018. Rapid adoption increased the share of cross-border messages using gpi from 15% at the start of 2018 to 56% by the end of the year; a year-on-year increase of 270%. HSBC has more than 90 currencies live on gpi and is seeing “a significant amount of adoption”, says Triance.

He describes gpi as the “UPS of payments” as it allows a unique identifier to be attached to a payment, enabling users to follow each payment through its lifecycle. “The reality now is that you can actually track a payment, not just in terms of how quickly it is made, but also where costs are accrued through the lifecycle.” As globalisation intensifies and more cross-border purchases are made, the ability to track individual payments will help corporate treasurers.

SWIFT gpi will further grow in effectiveness as more banks sign up to it. By 2020, SWIFT hopes to have 10,000 user banks worldwide:

“The value of gpi becomes greater as more banks adopt it. Certainly, the end payer and receiver will have a much better understanding of where that payment is going.”

Clive Triance

HSBC believes gpi will change the way the correspondent banking industry works. “The important thing is if you know where your payment is going, how long it takes and how much it accrues in cost, you can start to make decisions about where you send your payments,” says Triance. Payment flows will go to the most efficient banks which make precise information available to their customers.

The technology behind gpi is not cutting edge, he adds, but rather “very clever technology linking up banks and creating a transaction lifecycle”. By making payments information as transparent as possible, banks can help corporate treasurers to improve the way payments are made and to better control their costs.

On a broader scale, HSBC is implementing a digital transformation strategy, which encompasses not just fintech but also how data is used. With the internet of things promising to make 21 billion devices available to data mine by 2020, banks need to be able to capture that and use the data to improve customer experience – not just for individual retail customers, but also for corporations, says Triance.

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Clive Triance

Since 2013, HSBC has been the principal sponsor of the FinTech Innovation Labs that are run by Accenture. Fintechs use the labs to test out their products and are mentored by the participating banks. “It’s great for us to get closer to fintechs. They can go there and try out what they’re creating and, if the products are useful for HSBC as a bank, we’ll be delighted to be involved,” says Triance.
Open Banking Opportunities
In January, the London Lab announced that 20 fintechs would join the latest three-month fintech accelerator programme to fine-tune and develop their technologies and business models. An additional open banking stream has been added for this year.

While open banking has been introduced as a regulation in Europe, Lagarmitte says the same “mindset” is being adopted in other parts of the world. Globally, the ability to support aggregation of data from multiple payment services providers is becoming the norm. “I think it’s fair to say that the payment processing infrastructure in the UK and Europe has been at the forefront.” For example, the UK and Europe blazed a trail in open banking and with faster payments, which is now spreading further afield.

Open banking is important for corporate treasurers, whose “number one priority” is their liquidity position, she says. “If a treasurer deals with multiple banks, open banking allows them to use a single bank that will aggregate the data and allow them to focus on liquidity and their funding rate.”

All banks have access to a great amount of corporate data, but it is the way they use that data – extracting the right data for the right customers – that will be a differentiator. “APIs are helping all of us to customise clients’ requirements much faster. We can create customised propositions thanks to APIs,” says Lagarmitte.

The Ecosystem Era
Private equity companies have raised around $50 billion of investment in fintechs, which has greatly helped banks. Triance notes: “Imagine if a financial institution had to do this. We are actually very pleased because we can now work with fintechs in collaboration to create solutions. It’s given the whole market a big push and we welcome the opportunity to work with these companies.”

The complementary forces of regulatory change, technological advancement and changing customer behaviour are transforming the European payments landscape. A more open, inter-connected and collaborative world is emerging that is encouraging banks to rethink how their products and services can add value for their customers. “I’d call it co-opetition; I think it’s very healthy,” says Lagarmitte.

As such, the prospect of greater competition via open banking is not something that she views as a threat. “Ultimately, competition is good for the financial institution, it’s good for the industry and it’s good for the customer,” she says.