

Reimagine Financial Services: Leadership Dialogues series – Cash Management and Payments Podcast

Thomas Patience, Baringa Welcome to a new series of Baringa insights, focusing on reimagining financial services. We'll be exploring the topics across reinvigorating payments, refreshing customer journeys and rethinking the ecosystem, taking a fresh look at how FS is adapting to digital and how businesses can survive in this ever increasing and competitive banking landscape.

In this podcast we focus on cash management and payments with Steve Everett, Managing Director of Payments and Receivables at Lloyds Banking Group, to discuss Lloyds' cash management capability, Gem. Steve, welcome. Before I dive in, it'd be great to get a bit of an introduction and background to yourself and your role at Lloyds.

Steve Everett, Lloyds Banking Group I've been at Lloyds now for coming up to seven years. I joined Lloyds when they were making some big strategic investments in their transaction banking business across the full product set of trading, voice finance, cash management and payments, and I led a lot of development around re-platforming a number of those businesses and the final one left to do was the cash management and payments platform. Before that, I spent a long time at RBS off the back of the ABN transactions, where I was immersed in transaction banking and particularly around global cash management as it was when I ran the product set there across the various regions that RBS had at the time.

Tom Patience, Baringa I want to start with the market context around Gem, taking a look at where cash management and payments is in 2021. The world has changed a huge amount in the last year and a bit with COVID-19, in the way that consumers, large corporates and FIs have had to manage their movements around the globe. However, disruption always results in opportunity. What are your views on where you think the industry is at?

Steve Everett, Lloyds Banking Group The industry is in a completely different place to where we thought it was going to be 18 months ago, pre-COVID-19. When we talk about Lloyds Bank Gem, it's in a completely different place to where we originally started out on the business case to get the funding for the new platform, which was probably four years ago now. If I just reflect, how do we therefore adjust with the Gem platform for what we now see? And just to put it into context, I think you've seen five big changes in the market in the last 18 months. You've seen a huge movement from cash to card. We are a UK transaction banking business, our big corporates that we'll come to talk about, use cash. A lot of that has disappeared and has moved to card. But interestingly, people are now wanting to move from card to account-to-account payments—PISP type payments—embracing open banking routes because of the drives of cost, as well as frictionless and real-time solutions they need using open banking, and that real change in digital payments. Just think about all of us as consumers, how many digital payments we need and what that means for banks. We have digitised checks so you can now pay in a cheque on a mobile phone. We've increased faster payments limits on some of our channels. Lots of things that we've done to be able to respond to changing demand from our customers, and our customers treasury automation. Lots of treasuries will say "I'm automated". Those that are now coming to ask me just for host-to-host capability, never needed it before. But now when they've got all their people working at home, that technology project that they could never get off the ground, is now a must have. Some sectors have not embraced host-to-host connectivity, and you're now seeing that in spades. Electronic documentation--we used to send paper, wet signatures--no more since the drive on electronic documentation. Then customer

journeys: our customers have had to transform their journeys, whether that's the rise of e-commerce; have they got more of an e-commerce business to support their face-to-face business? The use of QR codes: nowhere really used a QR code in the UK 18 months ago. I came back from South Africa a couple of years ago and was amazed about this ability to pay for a restaurant meal with a QR code. Now, it's just accepted if you go into any establishment in the UK, example click and collect. The whole world has changed. You've got this core treasury requirement for cash management and payments, but everything that happens around those businesses' customer propositions has changed dramatically in the last 18 months. What an exciting place it's been because all those things we've wanted to do, that funding we've wanted to get for some of those digital projects, we've amazingly managed to get that funding. We've managed to get through all the governments and actually delighted customers along the way by giving them new solutions, however simple or difficult they might sound at the time.

Tom Patience, Baringa It's been a real acceleration, hasn't it? And it's just phenomenal to think how far we've come in the last 18 months and the adaption of the market to the situation it's in. And with every challenge, there's opportunity. You've mentioned Gem a few times. I'm really keen to talk about it in a bit more detail. It's a real game changing piece of development for Lloyds and something that Baringa have had the pleasure of working with Lloyds on. I'd really like to hear, in your words, what you think Gem is and what it brings to the market as a proposition.

Steve Everett, Lloyds Banking Group There were two key drivers that we faced four years ago when we developed the business case. The first one was Lloyds is very good at payments if you are a consumer, or if you are an SME in the commercial bank. What we were lacking was the capabilities to support the mid-market large corporate financial institutions in the UK unless they had very simple needs. If they were volume businesses, our infrastructure, whether that was some of the payment systems or some of the accounting platforms, was not set up to serve those customers. And as a result, whilst we banked those customers, you know, and our natural market share in commercial banking is significant. We were just not doing the basics of their day-to-day cash management and payments. We were lending them money, we were doing their capital markets and their asset finance, pensions, etc. But we weren't doing the bread and butter that goes through the current accounts on a day-to-day basis, we were missing out on significant opportunity to grow our own business. So we looked at that. We created the business case, which was a growth orientated business case. And then at the same time, my colleagues in the CIO Group Payments Team at the bank were staring into their international payments platform, their currency accounting platform and their high value payment platform for CHAPS, which is effectively 30-year-old technology, and the very low STP rates, particularly on international payments, the cost to change was significant. All of the regulatory changes that we were continuing to see, particularly in the UK, but also swift changes, etc. Globalisation around ISO20022. It just meant that it was going to be a huge overhead just to stay compliant with regulation for our colleagues in the CIO Team. We ended up with effectively the perfect business case, in that there was an ability to take and save costs, future costs, and also take some cost out of the business. But actually, there was a revenue upside from commercialising the platform. So those two drivers gave us that business case that we could then take to The Executive. And fortunately, they supported us, and they've continued to support us on that journey that we've been on for the last four years. And what that platform has enabled us to do is not only now start to delight our clients and meet the needs of those clients, but it has protected us in the last four years, both from those regulatory changes such as ISO, NPA, Open Banking, that are coming towards us, but also to be able to react to Covid and start to transform those customer journeys.

Tom Patience, Baringa What outcomes and benefits has Gem delivered? I'm really interested in the client benefits and also kind of some of the internal programme or organisational changes that have come as a consequence of delivering the new platform.

Steve Everett, Lloyds Banking Group The first thing is we're now on modern technology. We have a currency accounting platform and a sterling accounting platform for our largest clients, clients that are going to go onto this platform. We have a new international payments platform and we put that together with the core domestic payment infrastructure that we have, that we would have to have as a UK bank. That gives us really modern technology that is strong, resilient, secure, all those things that you'd expect from a bank. It then gives us flexibility for ourselves to be able to develop new propositions. In terms of our clients, they take payments and the ability of their banking provider to make payments on their behalf, collect payments on their behalf, manage their bank accounts, whether that's domestically or internationally, they just take that as a given. It's a commodity these days. And the obvious question anybody would now ask as we go into an RFP process is, why should I move to Lloyds, just because you've got the shiniest and newest platform on the market? So why come to Lloyds? What this new platform gives is over and above some of those very good, very sensible legacy platforms that other banks have that I've seen and built in the past. But what are the three core aspects to this platform? Firstly, it's omnichannel. It's not just an attended channel or an unattended host-to-host channel on SWIFT, the ability to use APIs, whether that's to make payments, to receive information, to initiate instructions and to be able to do that through different channels, on mobile devices, on desktop, gives them that complete omnichannel experience, which many of our competitors haven't got. The second thing is self-serve. There's a huge amount of rich functionality to enable our clients to be able to self-serve. If they've got treasury centres, if they are overseas treasury centres, they can access the changes that they want to make whether that's account opening, whether that's managing their payments preferences or managing their sweeps and their pools, they can do all of that outside hours, seven days a week, 365 days of the year without needing Lloyds to be open. The ability to put that self-service control back in their hands is great. And then the real crown in the jewels for this platform is very much the data analytics capability. As part of the SAP solution that we took as our core accounting platform, SAP have a product called SAP HANA, which is a great data analytics tool based in the cloud, which enables our businesses to be able to analyse their payables, their receivables, but also bring in other data., It doesn't have to be the data that's specific to their bank account. They can bring third party data in to that, they can bring their card acquiring data in there, and bring all that data in and enable them to manage their business through that data, whether that's their board reporting or whether they need it to run to be able to manage their business. There are three things there that I think differentiates us now in the marketplace when we are pitching to clients. And it really does the whole platform, particularly because of the APIs, with the maturity of faster payments in the UK, it gives those clients the automation they're looking for, it gives them that frictionless experience where they can connect the Gem platform into their own platforms, where they're developing their customer journeys, their own product teams that they're developing their solutions and enables them to do that automatically. And in a very, very simple way and they don't have to use bank accounts. They can use virtual accounts. It's got a full virtual accounting module in there; those virtual accounts are addressable externally. You can use APIs to open and close those virtual accounts, playing again to that self-service. It's SWIFT API enabled, so all of the developments we're seeing and credible developments, that we're seeing from SWIFT around API, we can expose the tracking information etc. through the channels. And it's ISO20022 compliant, so the richness of data that we can now move in and out of that platform to enable our clients both on their payables and receivables and to access that data improves that business. There are some really positive outcomes here for our

customers. And from our colleagues, we're getting higher SDP rates. We're not having to manually check and open accounts, use of electronic documentation, as opposed to continually having to re-key and update accounts like we would normally have to do on a lot of the old legacy platforms. And then we can use the data. The good thing is we can provide our relationship managers and our client facing teams the ability to access the same data that the client can. We can now have a very informed conversation when we go to do service reviews or talk about how we can support them further in the growth of their business.

Tom Patience, Baringa It's an incredibly powerful platform, having seen it firsthand, and that capability really puts you at the forefront of the market. To get there, though, how hard has it really been, and how have you found the supporting vendor parties around it? I know it's had a fair few people involved, what's that journey been like?

Steve Everett, Lloyds Banking Group Surprisingly, it has been less challenging than I would have anticipated. When you're going through RFP pitches from vendors, they're always going to paint a very positive picture, as you would expect. As we would probably do when we're pitching to clients, you don't want to talk about the bad pieces. But let's be fair for all of those vendors that came through the process, I've heard all the war stories in the market; you can always find the negative stories. And those companies would have had good times and bad times on various projects. I always expected a lot of bumps in the road but I've been delighted with both SAP and with Finastra, who are the international payments provider; they've done a first class job. We've pretty much delivered what we wanted to, when we've wanted to. It's taken a little bit longer than we'd have liked it to, but that was down to the investment prioritisation that we had to make at the time. We delivered it through a variety of releases; when I get to the end of it, there will probably have been eight releases, done in an agile way. When we started out, we probably thought there'd be four releases, four bigger releases. We've just had to, unfortunately, elongate it by about 12 months. But that's a conscious decision we made as opposed to we went to put something in one weekend, and we failed and missed it. But the way the team has adapted has helped, between those two key external vendors, between our delivery partners and the third-party delivery partners that we use and obviously colleagues in India, and people like yourself, at Baringa who have come in on a selective basis, and there's not a lot of consultants on this project. Some of those consultants that we sourced ourselves through our own contacts, high performing, have worked very, very well with the in-house colleagues and as a result have come together very much as a team, which has been a pleasure to watch, and because it's been a nearly four-year process, they feel like a team. I think that everybody's got behind this--certainly when I've done town halls, I've felt that the people are in the business, which has been great. And then importantly, we always had the Senior Executive support from within Lloyds, which also kept us going. This was a strategic initiative, as I say for both lenses of the original business case, and they kept backing us and they kept supporting us and none more so than when we hit Covid in Q1 last year. We were due a big release at the end of March last year when this was the time when everybody was being sent back to their homes. We had people spread across Europe, you know, SAP colleagues. We had people in India. It surprised me that we continued. But the only project that we put in as a group for a number of weeks was this release, and rather than releasing it from all of the key people on the flight deck within the UK, it was put in remotely, which was a huge testament to the team. So whatever challenge that we faced, through this multi-year project, we seem to have batted away and that's now been seen with the clients that are on the platform. We're in a good position, roughly a year in, we've got approaching 40 clients that are either live or going through the final stages of onboarding. I would expect that to nearly double by the year end, which in the first 12, 18 months of a live situation, is a testament to what we've built.

Tom Patience, Baringa A truly great achievement. And what's the future looking like, where do you see the proposition going? Where do you see cash management and payments?

Steve Everett, Lloyds Banking Group That's the magic question. We can now support the needs of all of the commercial banking clients that Lloyds has, whether that's from a small SME with the platforms that we had previous to Gem and now to the largest multinationals and financial institutions overseas that want to do sterling business in the UK. We are very well positioned in that we also have a merchant services business--merchant acquiring business means that we are a full service cash management and payments business for all of those clients that I've talked about, which is a unique position when you look at the big UK banks, because a number of the UK banks either don't have a card acquiring business or have selectively started to come back into only certain areas of the market at the moment. So we've got this real opportunity to bring what we have with Gem, with our card acquiring business and create what is a truly integrated payment solution for our clients, that we could meet all of their needs from physical cash, through electronic, domestic and international payments and card acquiring, and all of the changes that we're seeing in those digital transformation journeys that those businesses are having because of those different needs. We've invested in open banking, so we can embrace this richness of data. We will start to use the data we've got both in the commercial bank and elsewhere across the group to think about insights as a service? How can we start to help our clients understand what's happening in the markets that they're operating in, and maybe where they want to expand? If you want to understand whether to open up a new store in a particular area, we've got some really good insights that we can provide to those businesses. There's lots we can do. I'm sure if we sat down again in 12 months' time, we may have done some things that are not even on our agenda today. But we are in that unique position. We will continue to help automate the treasury function. We'll continue to help them in terms of building out their own customer propositions, particularly through the use of APIs, through the use of faster payments as an alternative to cards, something that gives that real-time cheaper settlement. And we'll, of course, continue to do the regulatory projects, because whilst it's fun to do all of the commercialisation activity, there's a huge regulatory agenda--there's a new CHAPS platform coming, ISO's got to be embedded, SWIFT are doing many things as a new payments architecture, still on the rails with Pay.UK. The good news is, we've got the modern technology. You know, for us to be able to react accordingly to what we need to do just to keep everybody safe and ensure that we're in compliance with regulation. That's the first thing, then about how can we actually leverage that to help our clients to grow.

Thomas Patience, Baringa The future is bright, as you say, with plenty of challenges in the way. What you've been able to deliver through Gem stands you in such good stead for what's coming down the path. Thank you for the time taking the audience through what it takes to deliver a market leading proposition in this environment of never-ending change in priorities and business change and evolving ecosystems. For more information on Lloyds Banking Group's cash management capability, please check out lloydsbanking.com. And for more about what we do at Baringa, please follow us on LinkedIn or go to <https://www.baringa.com/en/insights-news/trending/reimagine-financial-services/>.