

PASS THE TEST

Speaking to Michael Jones before the 2 November SEPA Core Direct Debit launch date, **Michael Cannon**, head of payments and cash management, Europe at HSBC, airs his views on the future of payments in banking.

- SEPA offers customers greater consistency from country to country.
- Market growth can be achieved through increasing market share or improving existing relationships.

Future Banking: You have previously mentioned that in these particularly testing times, now is the time for banks to really prove their worth to business. How do you think that this message is being received in the corporate world?

Michael Cannon: I think it's being received quite well. Corporations are looking to their banks as they always have for guidance. Not in terms of 'tell us what to do' but rather 'partner with us in terms of what you see happening and how we can improve ourselves and defend ourselves against harder times'. From my perspective it's very much a trust advisor role. We don't take it upon ourselves to tell companies what to do but we say 'let's talk about your company. What are your priorities?' If it's a company that we know well we will already know the liquidity and credit situation and that gives us a good indication of what those priorities are going to be.

Clearly one of the outcomes of this present environment is a shift from efficiency and 'you have to drop that price further' to 'well, price is important, but how can we improve liquidity and squeeze a little more money out of our multiple banking relationships? How can we speed

up the availability of money and strip out some float'.

I think that's just indicative of the situation that we are in and the situation that we will be in as we go through the recovery – whether you have an optimistic or pessimistic view of the recovery. Either way, it will be a while before liquidity moves down the list of the number one, number two and number three things to concentrate on. That's the position we try to put ourselves in, to appreciate that. It's a tough time for all of us and clients value having an honest chat about what they might be doing differently in this type of environment.

FB: Have you noticed a change in corporate attitudes to cash management in general?

MC: Not a change but certainly there is a lot more focus on liquidity management as opposed to pure efficiency. I think today the realisation is here that it's kind of silly to squeeze a penny or two off payment if you lose availability in the process. So I think the focus is on liquidity now and efficiency a bit later.

I was asked by somebody in the bank recently about the most interesting deal

that I had worked on in the last few years and I described a deal with a corporation and this senior officer said to me 'that doesn't sound like payments, that sounds like treasury?'. I said 'Yep. Welcome to 2009!' That's what we do. A lot of the stuff that we do is really more treasury management and gaining liquidity. The focus isn't on the pipe so much any more; it's on the water that goes through the pipe.

FB: How have the proposed benefits of SEPA been perceived in a tangible way?

MC: In hindsight, perhaps there was a little bit too much marketing from day one amongst everyone and I guess that's not a surprise. I'm not finger-pointing at anyone in particular – banks, consultants, media like yourselves and everyone else were responsible for that. When something as big as SEPA comes our way people like to beat the drum and say 'hey, this is pretty important'. And it is – it's arguably the next big step after the creation of the Euro itself. But it appears to be a four phase proposition and we've only done one phase so far which took place at the beginning of 2008.

We have arguably three more phases: the creditor, the debtor and then finally the end date for migration of heritage platforms. Until we move through those dates and until the customers, the corporations and the governments make more progress to those dates and actually see the systems and the infrastructure in place and clients are able to look around and see others who have taken the first bold step we are not going to see a groundswell.

Having said that, the first phase went well. It was up and running, from my perspective relatively few teething problems in the marketplace. We are seeing some significant volumes going through, not in terms of percentage of overall potential but still significant enough in their own right to test that the systems are robust and we're please with that. We'll just have to hang in there and arguably wait for phase two and three before we'll see more take-up of the proposition – but it will happen.

FB: 4,116 banks initially went live with their Single Euro Payments Area (SEPA) systems, the first part of which has been the SEPA Credit Transfer Scheme (SCT). But the corporate world has not yet embraced its use. Why is this?

MC: I think mostly the corporations are considering in the scheme of things that they have lots of things to do and this is just one of them. I think that they are waiting to see opportunities for take-up at the right time but perhaps right now they are waiting until the next phases are rolled out at which point they will look at the not insignificant

it, lay out a project plan, get them to challenge the consultants and the bankers, come up to speed as well as telling them 'oh, by the way, the other three projects that you were working on, aren't going to be done any more'. So if I were a corporation I'd think it makes sense to do this but I'd consider waiting until there is a little more in the way of infrastructure. Then I'd push it up the priority list.

FB: Why have companies so far not recognised the cost efficiencies as well as the enhanced euro liquidity management capabilities, especially in the current recession?

MC: I think it's a mixed bag. I think some have – especially those who are closer to developments in Euroland itself but I don't think that it's a question of people failing to appreciate it, rather that they have simply made a priority decision.

There is so much going on right now in the marketplace in terms of the economy, PSD (Payment Services Directive), other changes that are taking place, that if you can put something off tomorrow – then why not?

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investment, both in terms of money and intellectual capital.

I think some times as an industry that we fail to take into consideration that intellectual capital is the rarest commodity that we have. In that, if a company is to take advantage of SEPA or another initiative they have to free up some people, get them learning about

FB: How do you think the current European payments regime is different from the vision that people initially had of SEPA? Is it that far removed?

MC: I don't think it's that far removed but it's certainly taken us a lot longer to get here than people would have expected. The banks by themselves aren't going to be able to do this – they have

to be aligned with the customers and the governments that pass the laws and support the overall proposition. Unless all three are out there roughly equally, it's going to slow things down a bit.

FB: A consequence of SEPA and the Payments Services Directive will be to open up the payments market to greater competition and greater transparency. What will be the challenges for HSBC?

MC: The specific challenges for HSBC, active in as many countries as we are in Europe, is to think through the ramifications country by country and decide upon the key individual differences. What we are finding is that every time we sit down and go through the list, something new pops up that we hadn't thought about so we're going to have to modify the system a little bit. There are literally tens of thousands of touch points in the system that have to be thought



competitive environment we are hopeful that it will be one of those banks out in front that not only big companies but even small consumers will say 'they did a good job, it was painless and if anything things are better now than they were before' which is the whole goal.

FB: SEPA means greater commoditisation of payments. Does this mean getting value out of it from greater volume, or through adding value for clients in other ways?

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MC: I don't think SEPA means greater commoditisation. I think it's designed, as with the PSD, to give a better deal to the users, to give them consistency from country to country. It's designed to take out some aspects of doing payments that have bothered governments and buyers in years past. While arguably some can say it will flatten the playing field, I think that, as with any project that is getting rolled out, those that implement it better, explain it better and do it better and don't have hiccoughs along the way will come out in front. Those that don't do as good a job implementing the project will end up being pushed to the back.

FB: From a payments perspective how does the downturn affect your strategy? Do emergency measures come in or is it still business as usual? Has the model changed?

MC: The business model has not changed. We are still consistent. We are still investing significant sums in initiatives. I would say that the burden of regulatory change from PSD and SEPA means that we are a bit more sensitive about implementing new projects, not because we don't have the money because the

economy has turned down – but because we are spending so much on some of these mandatory initiatives. They just have to be done. Failure is not an option.

In this kind of an environment, when the mandatory, regulatory initiatives have to be done then some of the business-driven initiatives might have to take a back seat or be pushed back in the timeframe. It's better to be a little flexible with dates than risk projects not coming to fruition on the dates that they are required.

The other aspect of this is as the recession takes its toll on a country by country basis, is that we are in 86 countries and the investment that we make in a particular country is to an extent determined by its economic situation as well. We might ease off on an economy that is suffering more than others, but keep going in an economy that is roaring ahead or in 'positive-land'. Any single digit growth these days is good!

FB: From HSBC's perspective, does pursuing growth have to take a backseat to consolidating growth?

MC: No, I don't think so. There is an opportunity here to continue to grow as long as we are prudent in the use of capital. You can get growth in the market one of two ways: increasing your share in the market or increasing your share of wallet in an existing relationship.

Perhaps right now we are looking a little bit more at the latter, but there are markets where we are looking to increase our market share. I think we're still quite comfortable at going in the appropriate markets, but certainly given the cost and availability of capital today it's something that we treat very seriously. FBA

through – most of which can be connected generally through an application change but every now and again something will come up that will cause us to scratch our heads, set a task force on it and fix it.

The challenge for us is quite big and I can't see it being any different with any other banks. Yes we're big and in lots of countries, we've got a big IT budget and lots of people to throw against it but I'm just as sympathetic to a smaller player who might operate in just one country, have fewer people and a smaller legal budget – they still have to comply with the same rules and regulations. It's a huge challenge coming as it does when we have everything else going on in the marketplace.

In terms of how it might change the landscape, I think it might continue to bring to the front those banks that can truly be the trusted advisors to not only their large corporates but also small consumers. We are certainly quite open to the added competition because in that type of

Michael Cannon

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