ROUNDTABLE

TRANSITIONING FROM BECS: ECOSYSTEM OPPORTUNITIES AND CHALLENGES

In collaboration with

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5th December 2023 witnessed not only a stunning Sydney Harbour summer afternoon but also a gathering of payments industry participants – banks, merchants, regulators, payments service providers and platform providers to discuss the opportunities and challenges facing the industry created by the transition from BECS (Bulk Electronic Clearing System) to the NPP (New Payments Platform).

Organised by the Emerging Payments Association Asia (EPAA), hosted by EY and moderated by Lance Blockley of payments consultants The Initiatives Group, a robust multi-perspective discussion ensued. Following are just some of the highlights from the roundtable session.

Tried and trusted

> ***"Processing more than $10 trillion in 2019, BECS is the safe, reliable and low-cost workhorse of the Australian payments system. Australian businesses and government rely heavily on its functions" - AusPayNet 2020***

Having facilitated direct entry (debit and credit) transactions for consumers and business for more than 25 years, BECS has built a level of trust that can only be earned over the long term. Across the payments eco-system systems, integrations and processes have been optimised to ensure that BECS' capabilities are used to the greatest advantage.

So, why the transition away from BECS?

It ain't broke, but...

In 2012, the Reserve Bank published the "Conclusions of the Strategic Review of Innovation in the Payments System", setting out strategic objectives for the Australian payments system. These included the ability for users to make real-time payments, send more complete remittance information with payments, address payments in a relatively simple way, and make and receive payments outside normal business hours. This resulted in the development and launch of the NPP and real-time payments capability.

"BECS' technical capacity reflects the limitations of the time in which it was created. It is difficult to enhance or change, and its messaging format lacks data richness and is incompatible with ISO20022" - AusPayNet 2020

The fact is, BECS is reaching end-of-life in a financial world where ISO 20022 is the language of the future.

What is the business case for banks?

It is a big change! BECS has been around a long time. ERP and other business systems have been designed for BECS, particularly for batch processing, and it is less expensive than the NPP (even though with over 33% of A2A transactions now on the NPP, NPP costs per transaction are coming down rapidly).

Migration costs are high and competition for resources within the banks (with other priorities such as Open Banking, IS0022 and the phasing out of cheques) is fierce with other "mandatory" changes occurring at the same time.

"You can't just cross subsidise..."

However, costs should not be the only consideration. BECS has limited capability to carry data, provides less opportunity for protection against fraud and has less connectivity capability for cross-border payments. The benefits of an NPP migration are significant, but at present are nascent - the ability to monetise these in an environment where banking customers are not on a "burning platform".

Whilst the banks' business customers will pay for payments, the fact is that consumers won't. Business customers still need to be convinced (and be provided with "bridging" functionality) before they will agree to change.

From 2022: Another speaker at the ABA conference, Westpac chief executive Peter King, said the move from BECS to the NPP would be a big change for corporates who use BECS now, but it would deliver benefits. "With BECS you can't check the name of the account you are moving funds to. The NPP allows you to do that and that will help with detecting scams. It is faster and at scale will bring down costs. Another benefit is that you can transfer a lot more information with payments" - Banking Day 2022

With high costs and revenue streams that are difficult to envisage, the business case is, at present, difficult to make. It is even described as "a change seeking a business case". But the bottom line is that the transition will become mandatory at some point, so it just has to be done.

And, from the merchant perspective:

The major billers and merchants present at the roundtable were excited about the opportunities, with particular reference to PayTo, as it may allow them to offer a better customer experience:

- Suits the trend towards subscription payments which are customer friendly. For example the way with which subscriptions using PayTo mandates can be easily suspended and reactivated.
- The ability for customers to easily switch to our products and services is also appealing.

But the flip side could be the following:

- It is relatively easy for customers to "turn us off for a couple of months".
- Customers can easily switch away from our products and services.
- Recurring payments systems are built around batching transactions into a bundle then sending/receiving these batch files to payments service providers. This is something for which PayTo and the NPP has not yet built functionality – "we're not going to change our internal systems to move away from batch file processing, so we need payments service providers that can de-batch and re-batch files for us"

"Moving away from batch files may have to wait for a core systems upgrade, not just a payments one"
"Knowing that we will get the money may be more important than getting it immediately"

Similar to the banks, the business case remains difficult but it is accepted that at a point in the future the change will have to be made so it needs to be prepared for.

The role of payments platforms

"Simplify the transition on the banks (and business') behalf"

The NPP has built and is enhancing the foundations of its services, presenting payments service providers with the opportunity to provide revenue attracting value added services and, at the same time, take the risk and complexity for required changes out of the bank. "Out of the box" solutions with the required resilience built in are likely to be the trend for the BECS transition.

Will customers change?

Tough sell, easier for current A2A consumer users and billers using the direct entry system (subject to legacy system considerations) as the change will eventually be forced. Somewhat harder to move card paying customers on to A2A, for what may be, depending on the average transaction size, a less expensive transaction for billers.

"We can't see ourselves telling our customers that they have to upgrade..."

The timing will take many years and will be influenced by the ability of banks, merchants and other service providers in the payments eco-system to crystallise the NPP opportunities and translate them into end user benefits that actually make a difference to user experience.

And, even then, there may be the question of how to service customers whose bank accounts remain unreachable by the NPP, perhaps by offering a “delayed” version of real time payments?

The wrap-up

Given the low cost of a BECS transaction, today the business case financials don’t seem to stack up, however transitioning from BECS will become mandatory. Whilst NPP transaction costs will come down with economies of scale, the revenue model needs a lot of work. Business customers do and will pay for payments services, but the industry needs to uncover the value-added services that will assist businesses to, in turn, serve their customers better. This will include assisting business with their transition from batch based BECS to the single API message, information and functionality rich future.

For future EPAA roundtables, we see potential for a revenue idea session in 2024!

About the author David Ojerholm

David has 40 years experience in financial services and over the last 6 years has specialised in payments as Partner at The Initiatives Group. His career includes being a founder of Pinpoint, that grew to provide loyalty programs to 25 banks, their 100 million customers and 50,000 merchants, eventually being acquired by Mastercard to become their global loyalty business. Prior to that David worked at Westpac and American Express.

Expert Participants

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We always turn to our members for thought leadership

Thank you

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