WHAT WILL THE ROLE OF BANK ACCOUNTS BE AS PAYMENTS EVOLVE?

A GPF WHITE PAPER

DEVELOPED WITH: Lipis & Lipis
About “What Will the Role of Bank Accounts Be as Payments Evolve?”

The “What Will the Role of Bank Accounts Be as Payments Evolve?” white paper was developed by the Global Payments Forum, a NACHA International Payments Program, with Lipis & Lipis. The white paper addresses the effect global payments convergence, alternative accounts, mobile payments, account switching, and real-time payments will have on the future of the bank account.

About the Global Payments Forum (GPF)

The Global Payments Forum (GPF) is the industry’s strategic global roundtable, generating vision and leading innovative global payment advancements through effective information exchange and member collaboration. Comprised of senior–level payments executives who support global payments in the Americas, Europe, Africa, and Asia/Pacific the Forum identifies, develops, and drives strategic international electronic payments initiatives and serves as a voice for the banking industry on cross-border payments issues. For more information, visit https://gpf.nacha.org.

About Lipis & Lipis

Lipis & Lipis is a leading strategy consultancy specializing in the payment sector. Lipis & Lipis are experts on payment systems and services, as well as the underlying technologies that support a payment infrastructure. Lipis & Lipis advises on all forms of payment, including ACH payments, card payments, cheques, credit transfers, direct debits, online payments, and RTGS/wire payments.

About NACHA — The Electronic Payments Association

NACHA manages the development, administration, and governance of the ACH Network, the backbone for the electronic movement of money and data. The ACH Network provides a safe, secure, and reliable network for direct account-to-account consumer, business, and government payments. Annually, it facilitates billions of Direct Deposit via ACH and Direct Payment via ACH transactions. Used by all types of financial institutions, the ACH Network is governed by the fair and equitable NACHA Operating Rules, which guide risk management and create payment certainty for all participants. As a not-for-profit association, NACHA represents more than 10,000 financial institutions via 17 regional payments associations and direct membership. Through its industry councils and forums, NACHA brings together payments system stakeholders to foster dialogue and innovation to strengthen the ACH Network. To learn more, please visit http://www.nacha.org, http://www.electronicpayments.org, http://www.payitgreen.org, and http://direct.nacha.org.

© 2013 NACHA — The Electronic Payments Association. All rights reserved.
ACKNOWLEDGEMENTS

The development of this white paper was a collaborative effort. The Global Payments Forum would like to acknowledge its Steering Committee for their guidance, recommendations, and expertise during the development of this white paper.

Richard Fraher, VP & Counsel to the RPO, Federal Reserve Bank of Atlanta
Mary Ann Francis, Executive Advisor, Wipro, LTD
Joaquim Kavakama, Chief Executive Officer, Câmara Interbancária de Pagamentos - CIP
Doug Kreviazuk, VP, Policy and Public Affairs, Canadian Payments Association
Jonathan Lear, Head of Business, North America, Earthport North America, Inc.
Manfred Schuck, Head of Marketing, International Payments Framework Association
Dennis Simmons, President & CEO, SWACHA
Paul Trozzo, SVP, Product Group Manager, PNC Bank
Casey H. Wilcox, SVP-Head of Payables & International Product Management, Treasury Management, Capital One Bank
Elena Whisler, Director, Product Management, Clear2Pay Americas

Additionally, the Global Payments Forum would like to extend a special thanks to the Lipis & Lipis team in Germany - Leo Lipis, Sabrina Small, and Colin Adams, for their significant efforts to develop this white paper.

Note: The views presented in this white paper do not necessarily reflect the individual views of each member of the Global Payments Forum (GPF) Steering Committee, the entities or organizations that employ the members of the GPF Steering Committee, or the individual Global Payments Forum member organizations.
# TABLE OF CONTENTS

- Executive summary ........................................... 5
- Introduction ..................................................... 6
- Payment habits .................................................. 7
  - Strategic questions for payment habits ...................... 7
- Alternatives to the bank account .............................. 8
  - Lowering barriers ............................................. 9
  - The PayPal alternative ....................................... 9
  - Cryptocurrencies ........................................... 10
  - Easing account usage ....................................... 10
  - Strategic questions for alternatives to the bank account 10
- Payment convergence .......................................... 11
  - Strategic questions for payment convergence .............. 11
- Mobile payments .............................................. 12
  - Strategic questions for mobile payments .................. 13
- Real-time systems ............................................. 14
  - Strategic questions for real-time systems ................. 16
- Conclusion ....................................................... 17
EXECUTIVE SUMMARY

Payment methods are evolving, and these changes are challenging banks. As consumer behavior changes, new players enter the payments market, and new technologies arise, the payments industry as a whole is undergoing a dramatic shift. This shift threatens the bank account’s hold at the center of payments. If banks are not flexible enough to provide the innovative services that future generations require, bank accounts could lose their relevancy to consumers and businesses. Banks need to understand the impact that payments convergence, alternative accounts, mobile payments, automated account switching, and real-time payments have on consumer and corporate expectations, and they will need to leverage these trends to keep the bank account at the heart of the payments industry.

Despite the recent increase of new products and channels, payments behavior is slow to change and bank accounts still remain at the center of payments. Thus, banks still have time to implement services that will keep the bank account vital to the payments landscape.

Additionally, banks have an advantage over alternative payments providers: security and customer trust. Some payment platforms initiated by non-banks will inevitably fail, and consumers will be more likely to place their faith in bank-offered solutions.

To maintain dominance in the payments space, banks must first secure bank account relationships with younger generations, the underbanked, and the unbanked. Otherwise, they risk losing these potential account holders to alternatives like PayPal, Mobile Network Operators (MNOs), and cryptocurrencies. Lowering barriers to bank account access in order to accommodate these groups may strain bank resources, but securing relationships with younger and underserved demographics will help ensure the centrality of the bank account as the transformation of payments behaviors continues.

Developing mobile payments schemes could be key to forming these client relationships. It may also provide banks with huge cost savings, as it is much easier and cheaper to reach the underserved with mobile applications than through brick-and-mortar branches.

While banks are not leading the development of new mobile payments platforms, they do have an obvious role in m-payment schemes as providers of payment functionality. The question is when banks should enter the market, as waiting to see which initiatives succeed or fail may be the smartest move for banks. Banks will be uniquely positioned to become leaders in the mobile game as more countries develop real-time interbank account-to-account payment systems.

Being competitive will require banks to think across different services and platforms. Instead of just adding new services, banks will have to unify product landscapes, consolidate product offerings, and focus on delivering value and consistent customer service. Banks can keep the bank account relevant to future customers by capitalizing on their reputation for trustworthiness, security, and customer service. Rather than seek to fend off the non-banks that threaten their stake in the payments industry, banks should join them and use their own unique advantages to sway the evolution of the payments industry in their favor.
INTRODUCTION

At recent payment conferences and in the latest trade publications, bankers are told that newcomers, including non-banks, Mobile Network Operators (MNOs), and many others will soon make financial institutions extinct. The message that banks are overly conservative, risk-averse, and out of touch with youth is alarming. If banks aren’t flexible enough to provide the innovative services that future generations require, does that mean the old empire is nearing its end?

The barbarians may very well be at the gate, but history shows us that this is always the case. Since the mid 1990s, predictions that digital cash will replace paper money have flourished. It hasn’t yet. Similarly, the promise that a new technology will revolutionize an industry, or vice versa, often comes up empty. The fact that we aren’t emailing checks to one another or banking with large retailers proves this point. The fact remains that successful enterprises—whether empires, individual companies, or payment methods—always face external changes. There are a number of developments in the payments industry that are challenging banks to evolve, but banks are up to those demands. They have a number of strengths and a strong interest and desire to employ them.

There are a number of developments in the payments industry that are challenging banks to evolve, but banks are up to those demands.

For this to happen, however, banks will need to enable payments to be made across multiple payment channels and keep up with the current technological pace. This white paper will explore the effect that payments convergence, alternative accounts, mobile payments, automated account switching, and real-time payments will have on the bank account and ask provocative questions to guide responses to these exciting developments.
PAYMENT HABITS

Although the payments industry has recently become a hotbed of innovative ideas, products and channels, real and sustainable change is happening at a much slower speed. Aside from the widespread development of modern credit cards in the 1970s, the landscape for traditional payment types has shown little change in the last 40 years. Despite the electronification of global commerce, bank accounts remain at the center of payments. Exhibit 1 is a chart that presents data by payment instrument for selected countries in 2006 and 2011 respectively.

The most visible shift apparent in this chart is the decline of check payments in every region. From 2006 to 2011, checks have fallen as a percentage of total payments from 21 percent to 7 percent in Brazil, 15 percent to 5 percent in South Korea, and from 45 percent to 17 percent in India. Falling check volumes have been replaced almost entirely by debit cards, which grew by over 400 percent in India and almost 600 percent in South Korea. Credit card use has generally remained stable, and credit transfers have seen slight growth as a percentage of all payments in markets such as Brazil and Mexico. It is worth noting that the data presented in Exhibit 1 runs counter to the common assumption that there has been a radical shift away from traditional, account-centered payment types. In fact, payment habits are notoriously stubborn to change.

Strategic questions for payment habits

• Is the future of payments, envisioned as a mobile phone replacing a bulky, cash-laden wallet, really upon us?

• If the majority of payments are initiated from a phone, how will we distinguish between traditional payment instruments in that environment and who will support those payments? Or guarantee those payments?

• Given the diversity of payment habits around the world, how will the place of the bank account differ in various countries or regions of the world?
ALTERNATIVES TO THE BANK ACCOUNT

In contrast to banks, prepaid cards, remittance products, and eMoney accounts are expanding their offerings to meet very sophisticated customer needs, often without the regulatory barriers associated with traditional accounts. As developing economies become more successful, and their needs become more sophisticated, many potential bank customers are sidestepping the traditional route to an account in favor of products offered by Mobile Network Operators (MNOs) and other non-bank institutions. These products are reaching customers that banks have previously been reluctant to take on and for good reason.

The regulatory framework that supports the global payments industry has, with few exceptions, been developed to minimize fraud crime, ensure contractual obligations are upheld, and risks are properly mitigated. Bank-alternative products are not held to the same regulatory safeguards and so, while they may capture more customers, they are also exposed to greater risks.

Bank-alternative products are not held to the same regulatory safeguards and so, while they may capture more customers, they are also exposed to greater risks.

In response to these risks, prominent players in the non-bank space have enhanced their internal regulatory demands. M-Pesa, one of the greatest mobile banking success stories, sought to engage Kenyan regulators and also reached out to international regulators to understand how to protect client information and adhere to internationally recognized best practices. The Kenyan government, for example, now issues national identity cards that M-Pesa leverages in their business processes to satisfy KYC requirements. Despite these attempts, M-Pesa has elicited concerns about the risks of non-branch banking.

Recently, there are more widespread examples of regulators taking targeted steps to adjust to the changing landscape while still ensuring quality control and safety for consumers. Within Europe, for example, the Payments Services Directive (PSD) has created a classification for a Payment Institution to try and capture non-bank initiatives and guarantee that they are properly regulated. Revisions to the PSD, announced in July 2013, will cap interchange fees for card payments, and extend the coverage of consumer protections to a greater number of payment types.

Of all the bank account alternatives mentioned above, perhaps prepaid cards have changed the most dramatically in the past decade. Many offer customers the following features:

- ATM access
- Debit function
- P2P transfers
- Bill-pay features via check or ACH
- Direct deposit enrollment via ACH
According to a study by Javelin Strategy & Research, the use of prepaid cards in the United States (particularly open loop cards) grew by 18 percent in 2011. And this rise has not only come from the unbanked; bank customers are also attracted to the lower monthly fees compared to traditional checking accounts. Prepaid cards are also an option for banks who are looking for a less expensive way to manage customers with low balances.

**Lowering barriers**

This paper posits the idea that the bank account is advantageous to bank success. Financial inclusion, in the form of a bank account, establishes a relationship to the customer and acts as an entry point to other bank services such as loans, savings accounts and multi-channel, bank-linked payment options. Low income consumers may strain bank resources, but the bank account is an integral hub for a variety of banking activities. As payment behavior changes, and traditional bank customers give way to a younger generation, the relationship between a customer and its bank will help secure that banks are relevant. If banks want to serve these customers profitably, they will need to leverage that relationship and find new ways of doing business with them.

*As payment behavior changes, and traditional bank customers give way to a younger generation, the relationship between a customer and its bank will help secure that banks are relevant.*

Currently, the underbanked are not being given sufficient opportunities to bank with financial institutions. If banks want the bank account to remain at the center, one clear way to increase use is to lower the barriers to opening an account. Though fraud concerns and low profitability hinder banks from offering accounts to the underbanked, many non-bank providers have managed to capitalize on this population.

In a December 2012 survey by the US Federal Deposit Insurance Corporation (FDIC), over 550 financial institutions were surveyed about their efforts to serve the unbanked and underbanked. Of the banks surveyed, almost 50 percent required customers to hold at least $100 in their bank accounts, and only 21 percent of banks offer so-called “Stepping Stone” accounts for applicants with poor credit records. The proposed European Union Directive on Payment Accounts published on 8th May 2013 addresses many of these issues. This directive calls for indisputable access to a payment account with basic features, transparency in comparing payment account fees, and easy accessibility for account switching.

**The PayPal alternative**

Alternatives to bank accounts are not just relegated to the unbanked and underbanked. Customers with bank accounts are beginning to view PayPal as a viable alternative to their bank. The headaches normally associated with banks (high overdraft and ATM fees, long waits in line or on the phone, minimum account balance requirements, etc.) are non-existent with a PayPal account. PayPal offers most of what a traditional bank account offers, including check deposit and debit cards with the additional benefit of real-time P2P payment capabilities. It has a low barrier to entry, and customers do not even need to have a bank account or credit card to open a PayPal account. Additionally, PayPal’s success and longevity have made it a trusted name in the eCommerce space.
Cryptocurrencies

Although still not widely used, cryptocurrencies such as Bitcoin, PPCoin, and Freicoin have also emerged as conceptual alternatives to traditional bank accounts. Cryptocurrencies offer users the ability to make anonymous, non-refundable P2P real-time payments over the Internet. The development of cryptocurrencies was born out of a distrust of central bank monetary policies and a desire to create an online alternative to anonymous funds transfer. But wild fluctuations in the value of Bitcoins seen in early 2013 show that the stability needed for widespread adoption is a long way off.

Easing account usage

As customers begin to expect better features and faster service from banks, there is a risk that they may move to non-banks if banks cannot keep up. Financial institutions could use the ACH to offer features that centralize account processes, but these services potentially disrupt customer loyalty to a specific institution. These features include account masking services, which allow account holders to register for a virtual account number associated with any bank account, adopting direct debit authorization management (where all parties are informed of an authorization) and allowing corporates to exchange payment messages directly with ACHs.

But centralizing services from banks into utilities is a double-edged sword. It increases competition among banks and gives customers more mobility. Banks have thus been reluctant to make these changes. As customers have grown to expect newer and faster services and non-banks have begun to enter the market, banks are faced with a difficult question: Is it better to stand alone or to band together to keep the concept of a bank account relevant to consumers?

Is it better to stand alone or to band together to keep the concept of a bank account relevant to consumers?

Strategic questions for alternatives to the bank account

- What can your institution do to lower barriers to opening a bank account?
- How can you make using an account easier?
- How might you enhance your product portfolio to make the bank account more valuable to the customer?
- How are payment types converging for your customers? How is this effecting operations? Risk? Customer services? Revenue?
- In what ways can you cooperate with competitors to make the value proposition of the bank account more attractive?
PAYMENT CONVERGENCE

Payment convergence may be the barbarian inside the gates, threatening to change the structure of the industry from within. As mobile payments, advanced eCommerce solutions, and other new ideas take hold, business models will change. Cloud-based payment types derive their value through corporate and consumer usability and consumer usage is one area where payments convergence is taking hold. Consumers and corporates are developing alternative use cases for payment instruments that were designed for a specific product function and banks would be well served to create cross-product flexibility in order to encourage this behavior. Examples of product convergence is the use of credit and debit cards for recurring payments and the use of ACH for POS and eCommerce payments.

Traditional bank services can be unflexible and require customers to adapt their needs to the product offered as opposed to putting that need first and finding products to suit. In order to remain competitive with the shifting concept of the transaction, banks must think across services and platforms rather than adding new services. The delineation of bank payment types into separate silos has fragmented bank business to such a large extent that within an institution, payment operations are competing for the same transactions. This model is not a tenable strategy for the future and banks need to unify their product landscape, consolidate their offerings, and focus on customer service consistency.

In order to remain competitive with the shifting concept of the transaction, banks must think across services and platforms rather than adding new services.

Finally, within the interbank space, clearing and settlement practices are converging. In the US, the push to convert checks into ACH debits has dramatically reduced check volume over the past five years. Similarly, the practice of settling card transactions as ACH debits has become increasingly popular from a bank liquidity standpoint. The next frontier for the interbank space will be the conversion of ACH credits into real-time payments. Real-time payments will diversify payment options within the ACH, but most importantly, they will enable widespread adoption of mobile payments. The necessity of a real-time posting feature for a P2P mobile payment means that more payment systems will need to speed up if they want to capture mobile payments volume. There is a real opportunity for banks to come together and implement real-time systems in order to provide unparalleled speed and customer service for existing and future payment channels.

Strategic questions for payment convergence

• How can you encourage your organization to eliminate the distinction between payment types and focus on the notion of delivering value to customers?

• What are the implications of payment convergence on pricing structures?

• How can you adapt your product strategy to account for payment convergence?

• Does it make sense to perpetuate competition among payment types?
MOBILE PAYMENTS

The development of mobile payments has been one of the most hotly discussed topics in payments over the last few years. Despite the considerable hype, it is unclear how widespread mobile payments and mobile banking will be. But one thing is clear: Banks are not frontrunners in the development of m-payments. The majority of m-payment initiatives are happening in the non-bank space. The variance of mobile payment types means that there are more actors involved in the process and thus more stakeholders who need to benefit from m-payment schemes.

The role of banks in mobile payments has been limited. In Sweden and India, banks have been involved in m-payment initiatives centered on using the mobile phone for eCommerce and P2P payments via ACH. In both countries, banks banded together voluntarily to launch these schemes. But these examples are the exception to the rule. Banks are at a crossroads in the development of mobile payments. The success of mobile payment initiatives will rely on partnerships between diverse actors and acceptance by both consumers and merchants. No matter how you look at it, banks cannot go it alone.

The obvious role of the bank in m-payment schemes is as a provider of payment functionality. It is certainly possible that a bank could become involved in other aspects of m-payments (for example, by acquiring an MNO and playing the role of service provider) but in this role, they will face competition from credit card companies as well as eCommerce players. However, the question of when banks should enter the market is up for debate. The business case for merchants and consumers remains unclear in many geographies, and getting all stakeholders to cooperate will be a complicated process.

One big challenge for banks is that they tend to approach m-payment initiatives with a traditional banking mindset, looking for medium-to-long-term investments to support a traditional business case. In the early stages of mobile channel development, however, innovation happens quickly, and short term pay-offs are available for players willing to invest. Long term investments are not clear at this stage and that has been a stumbling block for bank involvement.

One possibility for banks is to capitalize on their reputation for trust and security by offering to store customer data in a bank secured cloud, rather than on the handset. The Royal Bank of Canada has recently launched a program in which data needed for a payment is transmitted encrypted and decoded locally on the client’s mobile device at the point-of-sale through partnerships with mobile service providers. This innovative model ensures that account and/or card details never leave the bank’s control, and places the bank account at the center of a mobile solution for POS payments.

Waiting to see which initiatives succeed and fail may be the smart move for banks. Executive interviews completed by Lipis & Lipis for its 2012 Global Payments Systems Analysis showed that ACHs around the world are most concerned with establishing mobile payments channels. Developing mobile payments schemes can also provide banks with
huge cost savings, as reaching unbanked and underbanked populations is much easier and cheaper via mobile payments than through building new brick and mortar branches. And perhaps most importantly: people are generally reluctant to trust their money to non-banks because of security and trust concerns. Having a bank-centric m-payments initiative could thus lead to higher adoption rates.

Developing mobile payments schemes can also provide banks with huge cost savings, as reaching unbanked and underbanked populations is much easier and cheaper via mobile payments than through building new brick and mortar branches.

**Strategic questions for mobile payments**

- How do mobile channels change your risk profile for payments? Can you use mobile to lower your risk profile?
- How will your customers’ expectations change as a result of mobile services?
- With whom should you partner for mobile payments? When? For what services?
- How should your institution share data and revenue with a mobile payments partner?
- Which of your existing payment services should go mobile? Which should not?
- What new products can you build on a mobile platform that could not have been built before?
- How will mobile payments intersect with real-time payments and eCommerce in your market?
- What parts of corporate payment flows can be supported by mobile applications?
- What will mobile change about your operational platform? What will need to change? What can be eliminated?
REAL-TIME SYSTEMS

Real-time systems may appear to be a recent phenomenon but they have been a mainstay of payment systems for several decades. For the purposes of this white paper, real-time is defined as an interbank account-to-account payment that is posted and confirmed to the originating bank within one minute. The Zengin system in Japan (1973) and SIC in Switzerland (1987) preceded the widespread development of real-time systems in earnest in the mid-2000s. In the last decade, at least 11 real-time systems have been built or are in development. Six of those systems have been developed in the last three years alone.

The benefits of real-time systems are clear. Real-time enables a higher level of service, creates new revenue streams, enables new payment channels, lowers risk, and reduces the cost of cash and check processing. The most crucial benefit, however, is that real-time service pushes the bank account into the center of the payment relationship. It will take real-time processing power to give banks a stake in the mobile game. The speed of service enables competition against MNOs, cards, and non-banks. Customers who choose a card transaction over a credit transfer due to the speed of service will now have a bank account-centered option for making payments. A real-time credit transfer can take as little as 10 seconds for end-to-end processing. Account-centered transactions that process at this speed will enable mobile transactions to be made without the use of a debit or credit card. In
Sweden, for example, the real-time system BIR/PRT was introduced specifically to support mobile payments. They introduced Swish, a bank-owned scheme, in November 2012 and six banks voluntarily signed on to the service.

Of the 14 real-time systems in existence today, several were forced by regulation with consumers’ interests in mind, including in the UK and the Australian system currently in development. Others, such as those in Poland and Sweden, were built on top of a thorough commercial business case. Without a regulatory imperative, the business case for switching to real-time has led to several examples of systems relying on voluntary participation by banks. Moreover, there is evidence that many customers are paying for the privilege real-time affords. SPEI, the Mexican real-time system introduced in 2006, is now more widely used than the next-day Cecoban system even though it is more expensive for consumers. Similarly, India’s new real-time NEFT system is more popular than the next-day ACH system NECS. In both Poland and Sweden, banks are charging customers premium prices for real-time payments.

Opponents argue that real-time systems are not worth building because they address a limited need. Most payments are scheduled and do not require real-time capabilities. However, one of the value-added features of a real-time system is that it can capture new payment streams, such as mobile-enabled payments, without disrupting existing payment channels. The increase in customer service levels, reduction in settlement risk, and the ability to compete against non-bank payments are primary drivers of change.

One of the value-added features of a real-time system is that it can capture new payment streams, such as mobile-enabled payments, without disrupting existing payment channels.

Another concern is the potential cannibalization of more lucrative payment streams, namely real-time gross settlement (RTGS) payments, which have historically been the choice for urgent payments in many countries. Limiting the value of payments that can pass through the real-time system is one way to alleviate this concern but, in the case of Faster Payments (one of the most prominent real-time systems in the world, with volumes of roughly 809 million per year (2012)), the cannibalization of RTGS payments (CHAPS) has not been an issue in the first years after the system’s introduction. RTGS volumes have hardly budged since the introduction of Faster Payments.
What will the role of bank accounts be as payments evolve?

Strategic questions for real-time systems

- What product or service opportunities would result from a real-time system in your market?
  - P2P
  - Mobile
  - eCommerce
  - New business models
- How would you have to modify your payment processing capabilities to screen, post and potentially settle in real-time?
- What impact would real-time payments have on other payment systems you offer?
- Should the development of real-time payments drive demand or follow it?
- How fast is fast enough for payments?
- How would you control risk effectively in a real-time system?
  - Fraud
  - Compliance
  - Settlement
- Is it advisable to leave real-time payments to others?
- What payment types do you want to put through a real-time system? Which payment types do not belong?
CONCLUSION

The impact of current payment challenges on the bank account is not as unpredictable as it may seem. The future is unlikely to be cashless, at least not in our lifetimes, and traditional payment types may be initiated through convergent or alternative channels, but they will not disappear. Retail payments have begun evolving first, but corporate payments are sure to follow as they have in the past. Even though retail payments represent only a small portion of the payments business overall, retail payment trends are often signposts and the longer banks wait to react, the more alternative payment channels will cash in.

If banks can overcome their conservative mindset, they are in a position to embrace convergence and capitalize on their reputation in the mobile space. As some non-bank alternatives inevitably fail, consumers are more likely than ever to trust bank offered solutions over those in the non-bank space.

As some non-bank alternatives inevitably fail, consumers are more likely than ever to trust bank offered solutions over those in the non-bank space.

The first step to ensuring the centrality of the bank account is to ensure that all potential customers have access to accounts by lowering barriers to account opening. Lowering initial deposit amounts may help, as will reducing (or removing) ATM access fees, offering a more attractive bundling of services, and enhancing protection against fraudulent transactions. Once the barriers to bank accounts decrease, banks can focus on expanding their service offerings to reflect the current and upcoming payments landscape. Mobile payments will surely be a major component and offering faster clearing and settlement, and real time messaging of transactions, will help satisfy customer expectations and keep banks relevant to future consumers.

Barbarians are at the gates, but they have been for a long time and they will continue to be as long as payments are a business of financial and strategic value. The key is not to worry about how to fend them off. Become one of them instead.