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PAYMENTS FOCUS: ANALYSIS

Special Envoy

In the second part of IBS's look at alternative payments models, we weigh up relative newcomer, Envoy Services, to see how it is faring in the face of stiff competition and tough economic times.



Phillip McGriskin,
Envoy Services

Businesses are often to be heard going on about how they welcome competition; it affords them a great opportunity for displays of bravado. Quite predictably, banks are not immune from such bravery in the face of opposition, but the big talk cannot always be backed up. With the coming of the Payment Services Directive (PSD) there is a chance for the big boys to put up or shut up. Why? Because one of the PSD's key aspects allows registered non-banks to enter the payments processing arena from any country in the euro-zone. The PSD is not intended to inflict damage on the industry, but it is about seeing fair play across the region.

One of the first companies in the EEA to be given a 'Minded to Grant' Payment Institution-status letter by the UK's FSA (under the PSD's guidance) is Envoy Services. Full status will be granted when the PSD comes into play on 1st November.

In practice, the company is a small, UK-based low- to mid-value payments execution service. It employs 25 staff but by the end of March 2010 – Envoy's financial year-end – the company should be up to 30, says Phillip McGriskin, Envoy's CEO (ex-

commercial director of Earthport, the company featured in last edition's payments analysis). 'But after that,' he jokes, 'I'm never hiring anyone else; it'll keep the costs down.' For a business that aims to offer low-cost payments to its customers, this seems quite fitting.

As part of its make-up, Envoy currently operates a 'bank-agnostic' global network of over 150 accounts which is in part supported by the vendor's Swift membership and a growing number of domestic real-time bank transfer services (Bacs equivalents) and, where possible, it uses local networks because in many cases its payments are often just intra-bank transfers.

Envoy currently supports 25 currencies and all of its FX needs are traded internally. Three providers are used: Barclays Capital; SEB; and a system from FX specialist, Baydonhill ('just to monitor the rates and make sure we're getting the best at any one time').

From this position, the vendor collects and delivers money on behalf of its 300-plus merchant clients. These are spread across 192 countries, operating across a range of industry sectors. Client companies include

GlobalExpense (see case study, pages 42-43), Viagogo, Betfair, DataCash and Xoom. Envoy also claims a number of FTSE 250 companies and other UK-listed PLCs.

For the benefit of the merchants and corporates using its services, Envoy consciously does not present its own brand on any of its payments communications, an issue that seemed to arise with the Earthport system discussed in the last issue (it confused the consumer, apparently).

Envoy itself is nominally divided into three parts: currently live are its retail B2C operations (where a customer who doesn't own or doesn't want to use a credit card wishes to buy online), and the B2B side (where a company may wish to make multiple and varied payments around the world). The P2P arm, where individuals will be able to send and receive funds overseas, is still in development. This is scheduled to go live in Q1 2010.

In the three years or so since its formation, Envoy has grown to a size where it is now processing 'over half a million transactions per month'. For the twelve months to March 2009, total transaction value 'exceeded \$1 billion'. Fees for Envoy's services are normally charged per transaction.

On the back of this, and despite the economic downturn, the company continues to experience reasonable revenue growth, from £216,000 (\$353,000) in 2007 to an anticipated £3.7 million (\$6 million) in 2009. The company expects this figure to double in 2010.

In creating the company, McGriskin, along with Jonathan Fisher, former CEO of an online lottery company, and Paul Townsend, an ex-head of European treasury for Bank of New York, wanted to offer a range of products that could allow users 'to transact on a local as opposed to an international basis'. By taking this route, Envoy removes the requirement for cross-border transactions. 'We give clients reach into markets that they would not perhaps normally be able to reach, we reduce the time it takes to transact, and we cut transaction costs pretty significantly,' claims McGriskin.

Envoy's model leverages its network of

bank accounts. In selecting partners, McGriskin says Envoy 'will always remain independent', and will only work with blue-chip institutions.

When entering a new country or territory, he usually starts the ball rolling by working with the institution that is seen as offering the greatest coverage. 'We start at the top and work our way down,' he says. 'We are also very much merchant-led. If one of our merchants is looking to conduct a large volume of business with a specific partner, we'll open up a relationship.'

In order to fit with the various regulatory frameworks around its expanding bank account ownership, Envoy has inevitably had to establish a number of local subsidiaries. It currently has outposts in South Africa, Australia, Hong Kong, Singapore, and the US.

It's clearly worth the effort. Envoy's position in the market is now such that it can claim another non-bank payments system operator as a client. Xoom Corporation is a successful, major VC-backed San Francisco-based money transfer company. It sends funds all over the world for its own customers using the Envoy network.

Helping to achieve Envoy's value proposition, and sitting on top of its network of bank accounts is a home-grown core platform: the Envoy Payments and Collection System (Epacs). This has the job of 'replicating everything in the virtual world' forming the bedrock of Envoy's 'think global, pay local' strapline.

But the 'big difference' between Envoy and other similar systems (Earthport, for example) is in how it deals with its banks. Envoy has a permanent link into its institutions. 'Much of the time we're monitoring bank accounts on an automated basis,' states McGriskin. This, he claims, allows for quicker recognition and response to any transactional data.

For the merchant, Envoy's single platform gives a consolidated view in any currency and full access to every bank that Envoy has an account with. Merchants also have access to the vendor's proprietary Merchant Administration System (MAS).

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MAS is a browser-based accounts, management and reporting tool that sits with the client and allows expedient single or batch payments in any file format (Envoy's system reformats automatically).

Functionality of MAS includes online bank statements showing detailed transactions across all the accounts held by the merchant. The system also deploys reporting functionality, allowing filtering by items such as country, currency, or transaction type. Users can download reports into common formats (such as CSV) for further analysis. McGriskin points out that an Envoy-built API allows merchants' systems to interface directly with the vendor's cash management technology. This enables them to exploit the vendor's direct link into the banks, producing notification of all incoming and outgoing transactions.

In operation, when merchants upload payments into the system, Epacs will automatically route them off in the most efficient way. 'We can tell our system that it needs to be fast or it needs to be cheap and it will use those rules and send out the payments without human intervention.'

Other automated areas include validation of BIC and IBANs which can be deconstructed and reconstructed using in-house technology. 'The library of information that we have accumulated is pretty significant,' notes McGriskin. 'If a file format comes in we can validate the information and make sure that the payment details are correct before we send it out.' If a file is not correct, Envoy's team can send it back immediately so it can be fixed. This, he says, is in contrast to the banks where an incorrect file may be submitted before 'floating around for two weeks before somebody says this isn't right'.

It comes as no surprise that exception handling in terms of deposits is also automated. This piece of software is also proprietary. It allows merchants to look for payments that they feel they should have received but haven't come through. If an incorrect payment reference is entered, for example, merchants can easily carry out the search themselves. Exception handling

is therefore 'massively' reduced for Envoy. 'We need less staff and there's less cost on the transaction,' notes McGriskin.

McGriskin is justifiably proud of Envoy's technology. 'Everything we have is our own. It is 100 per cent proprietary,' he states. All of this IT is hosted in a facility in South East England (not far from IBS's offices), known as 'The Bunker'. This is an armoured, military-grade premises that is in fact a former nuclear bunker. 'We have guaranteed uptime on the system which is a big thing for our merchants; they need to know they can take and make payments 24/7.' Fail-over is automatic if one of Envoy's banks goes down.

This impressive set of in-house built technology started life 'in quite a light format'. 'We had a couple of bank accounts, a spreadsheet and some friendly merchants,' explains McGriskin. 'We always had the plan to put this piece of technology in place and we did walk quite quickly from the start.'


The technology was planned out by Stephen Kavanagh (who had previously been product development manager at Earthport), but the three key staff at Envoy collectively brought 100 years of experience to bear on its creation too. 'It really has been built out of years of experience, dealing with the banks and the various payment providers, as well as merchants, and understanding what the problems are and coming up with solutions,' explains McGriskin.

He believes that the company's coverage, whilst it hadn't initially been built to meet the needs of large corporates, has become 'a de facto way of getting in there'. 'Businesses like Xoom using us are a fairly decent indication that we're a good alternative to making payments through traditional methods,' he states. Having started off in the 'lower entrance-threshold' of the retail sector, reception from the business community, at least in terms of trust, has built steadily. This, notes McGriskin, 'makes it a lot easier to walk across into the corporate sector and start to offer our services'.

It also creates an entree to the banking community too. Envoy has recently completed a deal with 'a large FSA-regulated

able to provide it.'

The emergence of new payments providers does not sound the death-knell for banks working in the low- to mid-value space, says McGriskin. In fact, he has seen a number of recent technological innovations within the banks that are speeding up processes for non-bank payments providers. ABN Amro and Deutsche Bank, for example, are continuing to spend vast sums on building out their payments capabilities. This, he comments, has made a big difference in how effective Envoy can be. 'Our understanding is that some of the larger financial groups look to businesses like us as channels to market. We can see ourselves working hand-in-hand with them.'

White-labelling of Envoy's services to a major bank, for example, is yet to happen, 'but we could do it', says McGriskin. 'We'd love to be able to work closer with more banks. Any options available to us are more than welcome.' But whilst there seems to be room for bank and non-bank players at the moment, he adds, with a touch of devilment, that Envoy is 'cheaper, faster and just less trouble'. Perhaps the banking community ought to keep one eye looking over its shoulder. 

business' that operates a significant number of its own banks accounts. 'We were talking about providing our services to them but there were certain markets where we didn't have coverage that they required,' explains McGriskin. This institution already had accounts in those markets and the idea was formed that if Envoy could take those accounts as its own, it could manage them on its client's behalf. 'It wasn't part of the business plan initially,' he admits, but the idea was accepted. Envoy now has access to 200 new accounts for which it monitors payments activities and manages exceptions. The client keeps a watching brief via the MAS interface.

McGriskin is confident that this unexpected deal will open up new lines for Envoy. 'When you have a large FSA-regulated business like that willing to let us take accounts and run them for it, it's another good indication.'

On the surface, do the banks look at the likes of Envoy as trouble-makers, out to steal their business? On the contrary, claims McGriskin, 'we never see ourselves as against the banks; we are very much complementary to them. We just offer services that the banks are not offering in a particular way themselves and we take a lot of less

attractive work away from them'.

In pure commercial terms, McGriskin states that Barclays, Envoy's corporate bank, 'is very supportive'. In fact, he adds that all of Envoy's banks 'see a lot of volume from us that they might not otherwise have seen'. And now, having received the affirmation from the FSA with regards to PSD status, McGriskin believes that Envoy 'gives the banks comfort that we are carrying out due diligence at the merchant level to understand who we are dealing with.' Given the rise and rise of AML, Know Your Customer (KYC) et al, the latter point is particularly valid.

All Envoy-transacted funds pass in and out of bank accounts, so the banks retain visibility. 'We also have very tight rules internally in terms of our AML and KYC procedures,' explains McGriskin. Technology (proprietary, of course) plays its part too: automated exception reporting, pattern analysis and checking of Ofac lists are included. Envoy also puts pressure on its merchants to know who they are dealing with and the vendor works closely with its banks too. Being prepared is the key, says McGriskin: 'There has never been an occasion where a bank has come to us and asked for information on a payment and we haven't been

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