Exclusive

How pillar banks' rival to Revolut fell apart

The untold story of how regulatory 'surprise' and board strife scuppered Irish lenders' new banking app


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In the middle of 2023, a letter arrived at the offices of Synch Payments, causing a ripple of surprise at the nascent payments app bankrolled by Ireland's pillar lenders.

In the letter from the Central Bank of Ireland, Synch – which was set up in 2020, and viewed as the banks' response to Revolut – was told that it would need authorisation before being rolled out to the market.

The decision, which was disclosed publicly on July 6, 2023, was a setback for those working on the project. It meant the company would need to be regulated before establishing its product – a development that added cost and slowed its rollout.

Ten months on, interviews with several people close to the project show the decision was the beginning of the end for Synch – a product that the banks had made central to their goal of modernising their payment offerings and into which they had invested €17 million.

Shifting mood music

The Banking and Payments Federation of Ireland (BPFI), which co-ordinated the project, had previously received external legal advice to suggest that Synch would not need Central Bank authorisation, it's understood. Within the banks, work on an instant payments app – a scheme known as Project Pegasus – had been ongoing since 2016.

Synch viewed its app – which was to be known as Yippay – as a scheme rather than a bank or payments provider. It believed that if the companies that joined as members were regulated, then it would effectively just be a facilitator, and wouldn't need authorisation.

People familiar with the project said it had been loosely modelled on Bancomat Pay, a similar product rolled out in Italy – and developed by the same tech firm working on Yippay – which, they added, was operational without the authorisation that was required of Synch.

Despite a series of early bumps in the road, including a lengthy competition probe featuring submissions from companies like Revolut, there was a genuine belief that Synch could be a compelling addition to Ireland's payments market.

More than a dozen companies had engaged in talks with Synch with a view to joining as members, it's understood.

Payac, the credit unions' payment services organisation, had signed up. An Post had publicly flirted with the idea of taking an equity stake. Others had received walkthroughs of the product and what the app would look like.

The technology for the app, which was built by Italian payment systems firm Nexi, was ready to go. The branding was done, and market testing had been carried out.

However, in the first quarter of 2023 the mood music had started to change for Synch Payments.

During talks with the Central Bank, it emerged that the regulatory pathway for Synch was not as clear as the parties had previously thought.

People working on the project had felt their engagement with the Central Bank was positive, and that the regulator was well briefed on their plans and their strategy, but it became clear that this was not the case.

"It wasn't as if Synch was under the radar of the Central Bank," one source said.

The Central Bank declined to comment when contacted.

A source close to the regulator said it was "somewhat unusual that a firm proposing to offer payment services would not realise that a payments authorisation would be required and that it was necessary for this to be pointed out".

"This is particularly so given the involvement of the main regulated banks in the project," the source added.

The stipulation that Synch would require authorisation wasn't just another roadblock for Synch to negotiate: it changed the whole proposition.

In the view of the regulator, the company needed two types of authorisation – as an account information service provider (AISP) and a payment initiation service provider (PISP).


Francesca McDonagh, group chief executive of Bank of Ireland from 2017 to 2022 Fergal Phillips

Timeline

2016
Work by pillar banks on an instant payments app, dubbed Project Pegasus, begins

2021
Bank of Ireland suspends work on readying itself for Synch

June 16, 2022
Synch receives clearance from competition regulator after long probe

July 6, 2023
Banks announce Synch will need authorisation before being rolled out

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Revolut competitor

Synch's payments app had been built on the assumption that it would be a mass market tool, easy for consumers to sign up to and therefore a competitor to Revolut, which dominates Ireland's payments market with 2.8 million customers.

It wasn't only an instant payments app, however – Synch was also set up to support both in-store transactions, using QR codes, and ecommerce payments.

For an authorised firm, the onboarding process for customers would be less straightforward. It would require customers to give their address, driving licence and more, and would also place more stringent obligations on Synch, a small team of just five executives.

"It went from a really easy thing to do to something really hard," said one source.

Peter Oakes, a former director of enforcement at the Central Bank, has little sympathy for the predicament Synch found itself in. He can't understand how the company was three years into its development before realising it would need authorisation.

"To me, that sounds like a strategic error on the part of the project managers," Oakes said, in reference to the idea that Synch was surprised by the Central Bank's ruling. "Why did they not think they were providing a payments service? All of us in the market had that question from day one: isn't this going to be a payments services provider?"

The BPFI declined to answer questions, but said that while Synch had been wound down, "BPFI member retail banks are prioritising and actively working on Sepa Instant, the EU's instant payments scheme".

"This is a significant priority, already mobilised by BPFI members, which will result in universal instant payments across the EU," a spokeswoman said.

Yet if the banks are still working on instant payments, it's clear that their efforts have suffered a setback in the decision to fold Synch. And for all the complications arising from the need for authorisation, that decision is still a surprise to some observers.

"It doesn't really tie up for me," Ronan Dunphy, a former analyst at Goodbody Stockbrokers, told the *Business Post*, in reference to the banks' decision to scrap Synch. "Okay, the regulator is making you jump through hoops, and maybe that made things harder than envisaged from a technical point of view. But you would think they could deal with those things."

Hurdles to jump

Those working on Synch had already had to deal with several obstacles by 2023.

The Competition and Consumer Protection Commission's (CCPC) probe of the proposition, which took 18 months, was chief among them.

That investigation went the full distance to a Phase 2 examination – which takes place when the CCPC is "unable to conclude that the merger or acquisition will not lead to a substantial lessening of competition".

In an Irish banking market that had just seen two major players depart, competition was becoming a watchword.

During that process, Revolut – which viewed itself as a competitor to Synch – argued strongly that the app needed to be closely watched.

"The agreement between the dominant Irish banks has the potential to reduce competition, by coordinating behaviour and discouraging competition between them, and by creating barriers to new entrants," it said in a strongly worded submission to the CCPC in May 2022.

The regulator certainly extracted some concessions from the company. Synch promised to create a plug-in that would allow members to use its services to complete instant payments within their own apps. It also committed to establishing an independent appeals committee for those who believed they had been treated unfairly when trying to join.

One source familiar with the CCPC's assessment of Synch suggested that the complaints by other companies showed, in a perverse way, that it was a competitive product. "As a rule of thumb, the more competitors complain about a transaction, the less likely it is to cause competitive problems, because these people have their own interests at heart," they said. "So if something has vociferous opponents, that's usually a good sign."


Brian Hayes, chief executive of Banking and Payments Federation Ireland Fergal Phillips

The numbers

2.8m
Number of customers Revolut has in Ireland

40%
Percentage of Synch's customers likely to come via Bank of Ireland

18
Number of months it took the competition watchdog to investigate

Board tensions

Either way, in June 2022, Synch finally got the go-ahead from the CCPC. At that point, the priority was to get the banks ready to enrol their customers into the system, in order to get to market by early 2023 at the latest.

But Synch, governed by three banks that spend most of their time competing, was not without its internal hurdles.

Bank of Ireland, which has struggled for years to upgrade its legacy IT systems, had in 2021 suspended work on readying itself for Synch. That was a problem: Bank of Ireland accounted for about 40 per cent of Synch's potential customers. A Bank of Ireland spokesman said it had nothing to add to the BPFI's statement.

BOI's lack of preparedness caused some tension at Synch board level, where the banks had tried to keep each other honest when it came to the timelines for the rollout. Even in late 2022, after the CCPC clearance, Bank of Ireland was not at the same stage of preparedness as AIB, its main rival in Irish banking.

Regardless, Synch was working towards a 2023 rollout. And then the Central Bank's letter landed, and everything changed. In July 2023, Synch said it welcomed "the certainty" that the Central Bank's decision had brought.

It said the new requirement "pushes out the planned market launch", but that obtaining authorisation would provide "the additional assurance that is increasingly demanded by consumers and retailers of payment providers".

The company said it intended to submit an application to the Central Bank as soon as possible, "with a view to Synch entering the market next year".

Behind the scenes, things were clear. There was a feeling that obtaining Central Bank authorisation could take up to 18 months, and that the proposition had therefore changed significantly.

Work was carried out to see if there was any way of rolling out a version of Synch that would not require authorisation. But ultimately those talks hit a dead end.

It is understood that the board of Synch decided n in October 2023 that the project was no longer viable. Weeks later, they called a halt to the project.

The five staff employed directly by Synch were made redundant, and the app was culled. "It's a big shame," one person who knew about the project said. "To have one brand – an Irish brand – and an app that could have stood up to anything. It's a shame."