As the global move towards real-time payments infrastructures gathers pace, domestic and regional drivers are leading to divergent implementations. How will this shape the future banking ecosystem and what can people learn from the journey so far?

For most early domestic schemes, such as the UK’s Faster Payments Scheme, the move to real-time payments is most commonly the result of a drive to foster economic growth, innovation and competition by regulators, governments or the industry – which may or may not be a reflection in some regions of a response to consumer demand.

Whatever the drivers, the local payment infrastructure, key stakeholders, laws and regulation affecting each scheme will be unique, while there will also be common requirements, services and functionality. Every scheme will fundamentally change the face of banking and payments.

“The UK’s FPS has been in operation for eight years, and is now seeing new overlay services such as Paym and Zapp coming on stream,” says Paul Thomalla, SVP Corporate Relations at ACI Worldwide. “There is now a move to open the system to a wider range of participants, both banks and non-banks.”

In the US, the move to real-time is at an early stage, though it is moving quickly. “There is a tremendous amount of disruption, but it is very exciting if you can be disruptive in a way that creates opportunity. At the moment, that opportunity is for faster, more secure and convenient payment methods,” says Amy Smith, President and Chief Executive at The Payments Authority.

Australia is somewhere in the middle, with its New Payments Platform some two years into development. The NPP will provide Australian businesses and consumers with a fast, flexible, data-rich payments system for making their everyday payments. It will enable participating institutions to make funds available within seconds of the payment being made, between any two
Australian accounts. The multi-layered infrastructure has been designed to promote competition and drive innovation in payment services.

The contrast between the US and Australian efforts is also a reflection of size. There are more than 10,000 financial institutions in the US, which is “a lot of organisations to bring along on the payment systems renovation journey”, says Smith.

The US structure means that regulators can’t mandate change, but regulation is still the initial driver or push towards immediate payments projects across the world. Australia was no exception, but in practice, NPP is not mandated.

“The real-time payments projects in the UK initially and last year in Singapore, gave strong signals to Australia that Immediate Payments was both ‘doable’ and desirable,” says Nigel Dobson, General Manager, Group Payments Management, ANZ. “The real catalyst for real-time payments is to provide the Australian economy with a more efficient and cost effective infrastructure. This will have an impact on the banks’ systems and require them to review their back office strategies to ensure that the market achieves end-to-end immediate payments.”

Another contrast is provided by the eurozone countries, says Fred Bar, General Secretary of the European ACH Association.

“The Immediate Payment systems live today are in the UK, Denmark and Poland, Sweden, Switzerland – all of them outside the eurozone because in the Eurozone, the communities were busy with SEPA. That’s why interoperability now becomes more important,” he says. “EACHA as an Association is a forum where the members share their experiences in their respective communities so from the perspective of our organisation we observe that it is happening at a different pace. The next step is to automate the euro countries. Countries decide for themselves, and whatever happens in each country will happen, whether they take a leap forward, or go for a cautious approach, whether they choose to talk to one of the countries that has already implemented a system, and whether they in- or outsource a system. The role that EACHA sees for itself is to follow and see to what extent we can foster interoperability – we can’t as an association make interoperability happen, but we can point out potential problems, such as the different flavours of ISO 20022. But then you have to say which particular fields, so the work EACHA will be doing will be focussing on that at first. We wouldn’t call it anything more than a guideline pointing out potential areas as we wait for the schemes to come out with their plans – probably near Christmas – and then in the first half of next year follow up with something that might evolve into a framework that could be used.

All of that comes from the realisation that interoperability of the domestic schemes with schemes in other countries is far less important than having domestic faster payments, because the cross-border volumes will be so small, he says.

“One of the questions is whether each and every country is going to wait. ”

“Getting these implementations connected and orchestrating them globally is the issue, and no-one is going to wait.”

They will innovate where there is backing by regulators. At least two-thirds of the initiatives we are seeing in Europe are the result of the regulators being proactive, and the communities wanting to do it.”

Does it matter whether or not the move to domestic real-time payments is driven by a regulatory mandate?

“There’s no right or wrong answer to this: the regulator can corral people, and that’s what happened in the UK from my point of view,” says David McRoberts, Payments Manager, Enterprise Payments, Tesco Bank. The regulator pushed it, but now we have it and in today’s world if it is not a Faster Payment settled in real time, the customer wants to know why not. That is the reality of where we are in the UK.”

“Ultimately it has to be driven by consumers and businesses, though a regulatory push can help break a log jam,” says Craig Tillotson, Chief Executive of UK Faster Payments Scheme Ltd. “The UK was clearly driven by regulation, and you have ubiquity driven by PSD 2, but now it is as much driven by the consumers. It is interesting to compare with the US. Do American consumers understand what they could have? The regulator is about starting that flywheel and pushing the collaborative effort, but then it becomes about the consumer and the business.”

Dobson agrees with McRoberts:

“Customer expectations have changed over the past 20 years. When you look at how people spend money today compared to the amount of cash used, we have had a shift in the evolution of how we work with money. Hence, it is a collaborative effort with people wanting to ensure that the payment systems in place are really efficient. I agree with Craig Tillotson who says ‘there is no right or wrong answer’ and that it is about understanding where consumers and businesses want to be.”

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dramatically driven by booming mobile adoption and every day experiences with real-time. Australia is top of the leader board for both contactless awareness and usage rates, with more than 50% of Australians having made an NFC transaction," he says. "The market is much more aware of real-time, of which the tap-and-go experience was an introduction. The customer is also increasingly sophisticated in his usage of payment methods and account to account real-time was just the logical next step."

Even so, banks have struggled to justify the investment on their own.

"In the UK there were five banks and everyone said what is the business case for me?" says Thomalla. "The answer is that there isn’t a simple business case for a bank – there is a business case for a country and a competitive requirement for the banks."

Tillotson agrees that there is a subtle distinction: "There is a business case, and that is because your customers are going to benefit from it, and you will benefit later on from improved customer satisfaction and loyalty," he says. "There is a parallel with mobile phones. We more or less have a global standard, the benefit of which is that we can roam internationally. Now that Faster Payments is not the only one, and as Europe and the US develop their versions, a spin off should be that international standards because it will be less of a minority sport, but it doesn’t mean that if you are starting from a green field in a country that you shouldn’t look at the international standards because it will be more cost-effective later."

"There is another dynamic; there are non-bank PSPs out there who will spot particular markets and they will deliver a technology solution working either in partnership with Faster Payments or completely independently of us. They will pick off segments and deliver solutions that work for the customer types in the countries that want to do this."

Which raises many questions about the effects of these changes on the existing order.

"Well there are really two different questions here," says Dobson. "The first is really, the current state of correspondent banking. Competition in this sector has definitely increased over the past few years. It can be categorised in two main segments: traditional disruptors such as those providing international money transfer services – Western Union, MoneyGram and so on – who have been around in international remittances for more than a decade, and the non-traditional disruptors who tend to come from the fintech world such as Bitcoin, block chain technology and Ripple-based service providers."

The payment types themselves will also change in importance. "Inevitably, in time, as adoption and comfort level increases, we will see some cannibalisation of existing payment instruments, in particular that of cheques and cash. These are already declining strongly in Australia and the NPP will accelerate the move towards digital formats," says Dobson. "Credit cards will be very popular in Australia and we expect less of an impact given the usage of credit cards. At the moment this is not planned but if there is eventually a POS solution for NPP, we could see some substitution of debit cards, especially as fees could be lower for merchants, but we are a long way from this yet. We are still in early days so difficult to forecast displacement trends other than a definite continuation of erosion of cheque and cash transactions."

Thomalla suggests that, in the UK at least, there will also be implications for other payment types, including ACH, RTGS and SWIFT. "Once the real-time rails are in place, why wouldn’t you push more traffic down those rails – and reduce the number of distinct payment types you need to support? This presents huge cost-saving opportunities for the banks."

There are, however, more subtle differences that those looking at new systems will have to bear in mind – one of which is what real-time actually means.

"Real-time is important, but 24/7 is the biggie here," says Tillotson. "Most of our Faster Payments are now initiated outside traditional banking hours, and mobile will only make that more of the case."

McRoberts agrees: "That’s a very important point. When you see the statistics and realise what the volume is, it is not 9-to-5."

Consumers can be expected to require 24/7 real-time access in the domestic real-time payment world, but cross-border interoperability of schemes is not really a retail necessity. "So who are international real-time payments for?"

"Corporates," says McRoberts. "There may be a small number of customers who have mortgages or a requirement to send money abroad, but the volumes are small. On the corporate side it’s much bigger, and they are already quite sophisticated in how they handle liquidity and treasury functions. Is there a business case for a bank to invest on the chance that it will work at the Singapore end and all the points in between? That’s a big ask."

And in the corporate world, the real value of real-time is in the data associated with the payment.

"There is really starting to create a buzz in the user community," says Dobson. "In Australia, we already had intra-day settlement, so compared to the UK, we are coming from a different perspective. It is less about fixing a broken system. It is responding to a real trend and the timing is right with regards to demand and expectations."

For corporates and SMEs, closer ties to real-world operations are a major benefit.
“The disconnect between business processes and payment processes drives the reconciliation problem,” says Tillotson. “If your payment process is designed in real-time with your business process, your reconciliation is much easier than it would be if you are sending out an invoice one month and getting a payment the next. It is important that we are not solving yesterday’s problem; think about the business process with the payment process integrated and we might have a much smaller problem to solve.”

Which inevitably leads to the role of the ISO 20022 messaging standard, which has been mandated by most of the proposed new real-time payments initiatives.

Thomalla points out that the structure of the standard means that implementations often differ, an area that ISO is working on. “We are on nine ISO 20022 steering committees – what does that tell you? And each is working in isolation,” he says. “Getting these implementations connected and orchestrating them globally is the issue, and no-one is going to wait.”

Tillotson agrees: “We do need an implementation of ISO 20022 for real time payments. There are a few attempts at it, but they are giving an approximation of the full customer experience, not a synchronous payment – there is a lot of choreography that needs to go on to deliver the full experience. The new initiative, what should that look like? One of the things that we want to ensure is that the features of ISO 8583, which came from the card world and give you that synchronous capability, can be described in 20022. We will get there, but we are not there yet.”

The standard is front and centre of the US efforts, however. “I do see ISO 20022 being a part of the conversations at The Federal Reserve Bank and the The Clearing House, and that it will be a part of the architecture of both solutions that are being proposed. “In addition, NACHA is working to educate the industry and create awareness around the ISO 20022 standard and use cases” says Smith. “Anything that is a global standard in a global economy is a good thing. We do need some standard formatting, the ability to communicate in the same language around real-time messages is very important.”

At the moment the conversation tends to be at the very highest level across the very largest organisations, she adds. “The challenge will come when real-time comes to credit unions and community banks, as they have not yet connected the dots between real-time and ISO 20022, that will be part of my job helping them to understand that the two are related and boiling that down for them to understand and act upon.”

Australia has also opted for ISO 20022. “It is the global standard and this is being increasingly acknowledged,” says Dobson. “Primarily this is due to its attributes. Many of the existing messaging formats cannot carry the amount of information required to put payments in context. ISO 20022 standard is now better understood and valued [and] as the use of ISO 20022 proliferates it will become the de facto inter-country linkage. As we move to the NPP, based on the ISO standard, we will not only improve our domestic system but also compatibility of Australian systems with overseas systems.”

On a global perspective, real-time cross-border transfers are already on the horizon, over the next five years or so, certainly between Europe and Asia. In the case of the US, the timeframe is uncertain given the complexity of so many banks needing to migrate to common standards.

“My expectation is that we will see them within a few years,” says Bar. “The question really is to what level of coverage. How will it work? If you take the UK Faster Payments how will that interoperate with, say, the Danish system?”

Tillotson says that this is really a technology problem; “If you want to do it you can gateway and bridge – if it is the same currency as in the SEPA area, but if there is a foreign exchange element, you can’t.”

“I’m not totally convinced it is just a technology problem,” says McRoberts. “Technology has a part to play – the issue is that we potentially all have various versions of ISO 20022 with slightly different rules, so if the Dutch want to do one thing, Italy wants to do another and the UK already has its version via ISO 8583. When you come to the interoperability between all the systems, the controls around the different implementations need to be well defined.”

“So that becomes a challenge on the business side superimposed on the technology challenge. This is where the system operators and scheme operators will be driving it: if they think it is something that their market wants, they will support it – in some markets it could be replacing credit cards, in other markets they don’t want to replace credit cards – but if they are both using ISO 20022 they only have to bridge the gap between the flavours they have implemented. Interoperability can be produced, if you have a sufficiently similar base within ISO 20022 to start with, within six to 12 months between two willing parties. Once more people want to join they have to accept what is already there. For anyone starting today, I would want to know why they would consider something other than ISO 20022.”

According to Smith, the US still has domestic challenges that need to be overcome before such technical issues raise their head. “In the U.S. we are working to improve our domestic payments system first” she says. “Certainly cross border ACH transactions are a reality today, and the appetite to connect globally with real-time payments is there, but the best case scenario before we have a real-time domestic scheme would be about three years, and the worst case five to six years. I think the appetite will be to concentrate on arriving at conclusions about what our domestic scheme will look like before we think about connecting globally. I could be wrong, someone could come along and say let’s do this in one fell swoop, but given that FIs have to justify every R&D dollar, I think we could be looking at more like seven-to eight years before we can interoperable globally.”

Photo: Kosh Naran