

**KEEPING
PACE WITH
INNOVATION
IN REAL-TIME
PAYMENTS**



IS YOUR BANK READY FOR THE FUTURE?

ON ANY GIVEN DAY, U.K. BANKS WILL PERFORM APPROXIMATELY SIX MILLION REAL-TIME TRANSACTIONS BETWEEN THEM. THESE TRANSACTIONS HAPPEN AROUND THE CLOCK, WITH FUNDS HITTING PAYEES' ACCOUNTS IN AS LITTLE AS 30 SECONDS.

Real-time payments, or RTPs, are seamless, secure and transparent. Businesses and consumers in certain regions consider them to be a given, so much so that real-time transaction volume grew by 23% in the U.K. over the past 12 months and is forecast to exceed 2.3 billion by 2026 (according to Payments U.K.). And although U.K. banks are perceived as RTP leaders, they are by no means the

only ones to have modernized in this fashion. More and more banks are now offering the facility, driven by consumer demand and the competitive opportunities RTP represents. Governments and payment regulators are also encouraging take up, with initiatives in place around the world — some of which are notably gathering pace in early adopting countries such as Malaysia, Australia and the U.K.

Consumers and businesses are coming to expect RTP as a standard service. And with such a short window of opportunity, the time to start developing or enhancing RTP capabilities is now. Yet across EMEA and in North America, many banks are some way behind the curve. These markets have the schemes to make RTP happen. However, slow adoption has inhibited take up, meaning there's a lot of RTP potential, but little of it actually realized.

Banks who fail to innovate in EMEA and North America will quickly be outclassed by their competitors (both pacey new FinTechs and transforming big banks), and risk trapping themselves in market irrelevance. The pace of change with real-time is fast, and things are only going one way.

In this eGuide, we look at what's happening today with real-time, where and why banks in EMEA and North America must modernize with digital solutions and new banking cultures.



CONSUMERS AND BUSINESSES ARE COMING TO EXPECT RTP AS A STANDARD SERVICE.”

REAL-TIME PAYMENTS – WELCOME TO THE NEW NORMAL

THE SPEED AND SCOPE OF RTP ADOPTION IS STAGGERING, FASTER THAN ANY OTHER PAYMENTS MARKET INFRASTRUCTURE.

ACI estimates that RTP transactions could exceed 300 billion by 2023, growing at a compound annual growth rate (CAGR) of 40% worldwide (an Ovum, Lipis and Celent analysis by ACI Worldwide).

This growth is no longer restricted to a few mature markets. Rather, it is occurring on a global scale with market maturity and opportunity changing all the time. Hard launch dates have already been implemented or are scheduled in as many as 35 countries, with **Celent** estimating that this figure could soon rise to 140.

Public appetite for RTP should come as no surprise — the emerging generation of consumers are digital-natives who show a predilection towards convenience and

speed. They have come to expect accurate balance and available funds information, as well as seamless real-time payments. And are demonstrating a clear preference for speed and convenience when making payments for everyday, regular and informal transactions. Now, consumers will readily move banks to access RTP, with **30% of U.S. consumers** suggesting a willingness to switch.

However, that's not to ignore businesses as drivers. Let's not forget that business owners are consumers, too. And they see benefits like improved liquidity and cash flow, enriched data, better reconciliations and the ability to lower payment costs in the shift to RTP. Similarly, regulations are a driver, with many governments making moves towards RTP. Sweden, for example, sees it as a way to control money supply and reduce the risk of cash for the public. India, meanwhile, is encouraging cashlessness to develop a more formal economy, which it can eventually tax. As well as to make paying and receiving payment easier for its citizens and businesses. Similar trends are now being seen around the world.

It's because of these factors that the majority of banking technology insiders (82%) surveyed by bankingtech.com believe that RTP will eventually displace some existing methods. However, that is not to say that all "legacy" payment formats will disappear, as such. Instead, RTP will drive up overall transaction volumes at the same time that some digital payment volumes (such as cards) migrate to become RTP ready.



INDIA IS
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RTP AND OPEN BANKING

Open banking has taken root in the U.K. on the back of the Europe-wide PSD2 regulation — with similar open ways of working in Africa, Southeast Asia, China and the U.S., where some banks are creating **data partnerships**. This has meant greater data sharing in banking and finance, and increased use of APIs to facilitate that.

Because these initiatives prioritize flexibility, agility and speed, they can be leveraged by banks to unlock the value that exists in RTP. NatWest, for example, is enabling consumers to pay for goods and services directly through their bank accounts without using a debit or credit card. The user sees the balance on their account updated in real time, which helps them to better manage everyday finances while at the same time offering the convenience of paying with a smartphone.



REAL-TIME THROUGH THE VALUE CHAIN

AS HAS BEEN MENTIONED, PUBLIC EXPECTATIONS ARE DRIVING TRANSFORMATION IN THE CORPORATE WORLD.

Now that RTPs are becoming ubiquitous, their advantages will be an expectation for all payments and disbursements, including those made in the business world. As such, corporate RTP will accelerate in the near future and payment providers in EMEA and North America must be ready to capture this value ahead of their competitors.

Already, many business payees are getting ahead of the RTP curve, with 75% expressing a preference for them in a recent survey by the U.S. Federal Reserve. For them, the advantages of RTP to their operations and bottom line are clear. They can eliminate inefficient manual and paper-based processes in favor of a digitally presented and actioned Request for Payment, to which a customer can respond on their mobile. Payment is immediate, tied to the original invoice, providing seamless straight-through processing.

Furthermore, merchants can offer RTP as an alternative to credit cards and their interchange fees. **Delta Airlines** estimates that it could make a saving of \$600 million a year if customers eschewed credit card payments in favor of RTP. While **Accenture** suggests that Request to Pay could lead to a 60% reduction in the cost of receiving an invoice for SMEs.

These factors combined are driving RTP transaction volumes to a critical mass on a global scale. No bank can afford complacency in the face of this global mega-trend.



IF COMPETITORS OFFER THESE SERVICES IN A STACK OF SERVICES, ONCE MERCHANTS RECOGNIZE THE BENEFITS OF RTP, THEY WILL ALL WANT IT VERY QUICKLY. IF BANKS AREN'T SUPPORTING IT, THEY WILL SEE A REDUCTION IN THEIR BUSINESS.”

Craig Ramsey
Head of Real-Time Payments
ACI Worldwide

REAL-TIME IN NUMBERS

MATURE GLOBAL RTP MARKETS
ARE REAPING THE BENEFITS



Faster Payments U.K. processed a record **two billion transactions in 2018**

Source: **Faster Payments**



52 million merchant payments were made in **2018** on Sweden's Swish service, up from just over **263K in 2017**

Source: **SWISH**



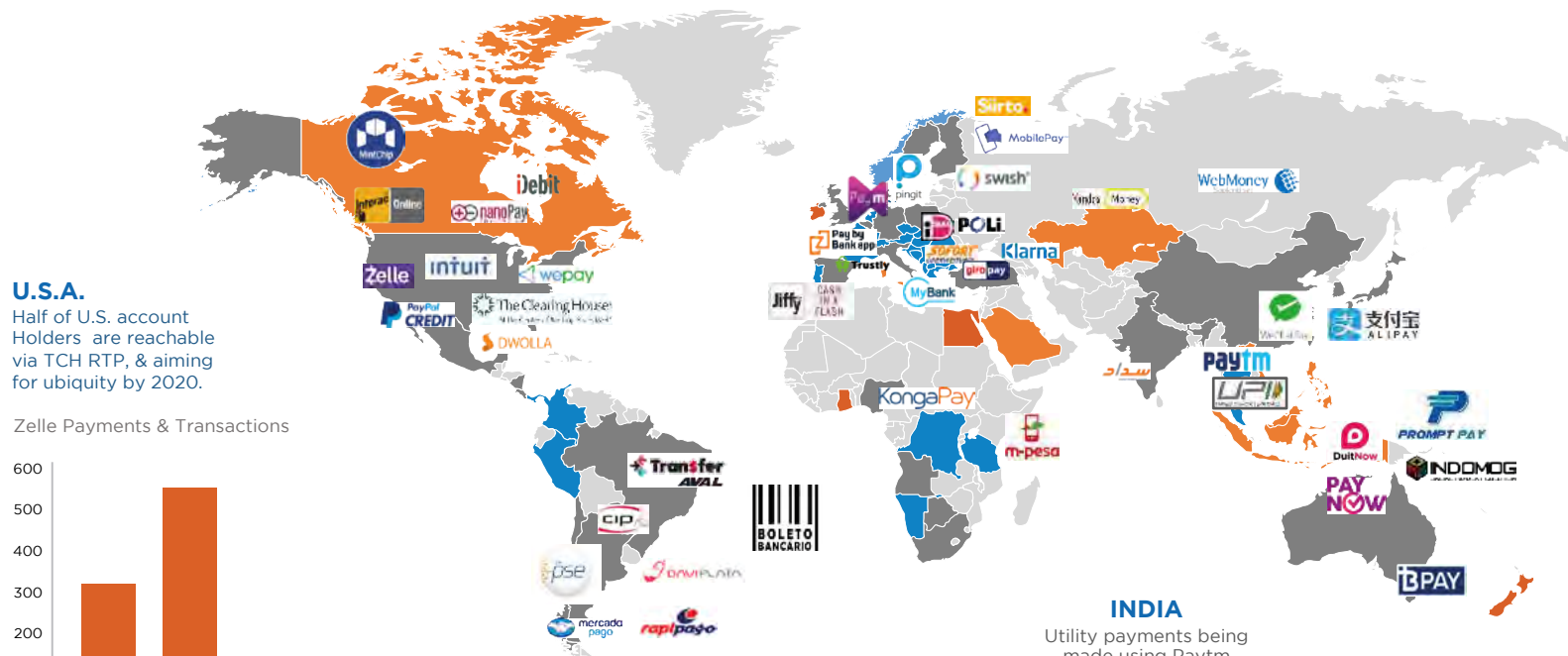
674 million transactions were made in **February 2019** on India's open and instant UPI interface, up from **171 million** just a year previously

Source: **NPCI**

EVOLUTION TO THE DIGITAL PAYMENTS ECOSYSTEM

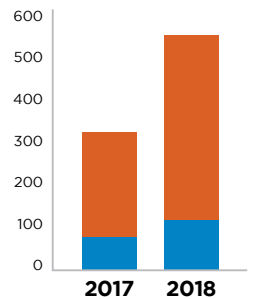
ROLL-OUT OF DIGITAL, NON-CARD AND OVERLAY SERVICES (SAMPLE LOGOS)

Real-Time Rollout ■ Live Real -Time Countries ■ Planned go live in 2018-2020 ■ In discussion or design



U.S.A.
Half of U.S. account Holders are reachable via TCH RTP, & aiming for ubiquity by 2020.

Zelle Payments & Transactions



■ Payments (bn)
■ Transactions (mn)

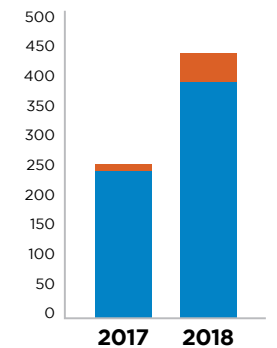
INDIA
Utility payments being made using Paytm



U.K.
The total benefit to the UK economy from RfP is expected to be £1.3bn p.a.

SWEDEN

Swish Transaction Growth



■ Total Swish txn (mn)
■ Swish merchant txn (mn)

REAL-TIME DISRUPTION AND INNOVATION

THE REASON THAT BANKS MUST TAKE NOTE IS THAT RTP WILL PROVE TO BE SO DISRUPTIVE THAT THE BUSINESS LANDSCAPE WE ARE FAMILIAR WITH TODAY WILL BE VERY DIFFERENT IN 10 YEARS' TIME.

Already market barriers are dissolving as alternative payment methods blur the old divides between banking business lines and their siloed technologies. In turn, this is seeing some forward-thinking banks beginning to converge their payment operations to realize economies of scale and to serve multiple segments with the same technologies. They understand, of course, that transaction and retail banking serve different groups, but that there are processes in which the two meet, and that's where they can make efficiency gains.

Again, the U.K. has an example to follow. Faster Payments can now support 70% of larger

retail payments, such as buying a house, circumventing the more expensive transaction banking service CHAPS (Clearing House Automated Payments System). Soon this facility will reach across borders. When asked to estimate a timeframe, 51% of respondents to **a global market survey** predicted fewer than five years.

These rapid, fundamental changes are going global and opening up the competitive landscape, leaving room for innovative new products and services, as well as new challengers. Celent has observed that the digital environment of RTP favors those with a first-mover advantage, "as the network effect of consumers interacting with an ecosystem will be increasingly difficult to replicate."

Banks must recognize that soon it will be too late to capture value from RTP innovation. If they don't act now, they will be locked out of the advantages by tech-savvy, RTP-ready competitors. Crédit Agricole, for example, has already begun making a move into the nascent Italian market, via a partnership with SIA. And in North America it's expected that

real-time ubiquity is set to grow, following the launch and growth of platforms like Zelle and Venmo (who provide RTP from The Clearing House) with some predicting the biggest payments change since the **1970s**. Zelle alone experienced a 17% quarter-on-quarter rise in Q2 2018, up to \$28 billion in payments.

COMPARE AND CONTRAST



Implementing **RTP results** in an average of **15% year-on-year growth** in non-cash payment volumes

Source: **Capgemini**

VS.

Digital banking laggards could see profits drop as much as **15%-30**

Source: **BCG**



BARRIERS TO REAL-TIME ADOPTION

THE NUMBERS AND TRENDS AROUND REAL-TIME PAYMENTS ARE COMPELLING. HOWEVER, THE TRUTH IS THAT BANKS FACE INTERNAL AND EXTERNAL BARRIERS TO SUCCESSFULLY DEVELOPING TECHNOLOGIES, INCLUDING COMPETING PROJECTS, SERVICE DISRUPTION AND COMPLIANCE INITIATIVES.

However, the direction of travel in banking and finance is clear and the risk of not investing and transforming is the same as with any other area of digital transformation: losing ground while others progress. Digital services have been crucial to customer acquisition and retention in finance for years. And this is becoming ever more the case, to the extent that those who can't offer a modern banking experience will inevitably lose customers in the long term.

As openness in banking and finance increases, and API solutions become more embedded, holding back the tide simply isn't an option for businesses. Besides, these barriers needn't actually be barriers at all. As the use case on page 10 demonstrates, it's possible to become real-time-ready without experiencing service disruption.



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I NEED TO SUPPORT REAL-TIME PAYMENTS WITH MINIMAL DISRUPTION

THE CHALLENGES

- I need to support real-time payments, but I also need to **keep my investment to a minimum**
- I need to **build revenues** with real-time payments
- I want to support real-time payments, but want to **protect my back office** as I do so
- I need to **differentiate on customer experience** and launch new digital services to my customers fast, and can't make large systemic changes
- I need to **solve consumer and commercial** real-time payments
- In the U.S., I'm worried **whether I should wait for the Fed** to do something with real-time payments

THE UP[®] RETAIL PAYMENTS[™] SOLUTION PROVIDES THE FOLLOWING REAL-TIME CAPABILITY:



ACI's easy-to-deploy, real-time solution allows you to start small and expand it as the usage and functionality grows around real-time



With API and digital service enablement built-in, the solution provides a modern technology layer to help bring new customer products to market



The real-time payments solution comes with tools that can translate existing data to new real-time payments, and integrate to existing systems without core changes



The real-time solution is provided with a library of gateways supporting connectivity to over 10 schemes already across different customer segments



If the Fed launches a scheme, it will be years coming, and will only supplement what Zelle and TCH have already done. ACI will support all three schemes or schemes you choose. Most banks will support more than one scheme.

KEEPING UP WITH INNOVATION

REAL-TIME PAYMENTS IS MORE THAN A GLOBAL TREND. SOON IT WILL BE AN ESTABLISHED WAY OF WORKING — A DOMINANT AND DEMANDED SERVICE.

As with all innovation, things are moving fast, and emerging regions are becoming closer to real-time readiness every day, with ambitious EMEA and North American banks positioning themselves to be the first mover.

This means that it's vital for their peers to keep pace. Investment may well require a lot of focus from innovation and payment leaders. However, the risk of holding back is huge. RTP demands attention — and those who fail to move towards it will very likely find themselves losing customers and reputation.

At ACI we understand that, and are on hand to work with banks as they look to harness the emergence and evolution of instant, open banking innovation in their region.



To learn more about how open banking can unlock the value of real-time payments:



ABOUT ACI WORLDWIDE

ACI Worldwide, the Universal Payments® (UP) company, powers electronic payments for more than 5,100 organizations around the world. More than 1,000 of the largest financial institutions and intermediaries, as well as thousands of global merchants, rely on ACI to execute \$14 trillion each day in payments and securities. In addition, myriad organizations utilize our electronic bill presentment and payment services. Through our comprehensive suite of software solutions delivered on customers' premises or through ACI's private cloud, we provide real-time, immediate payments capabilities and enable the industry's most complete omni-channel payments experience. To learn more about ACI, please visit www.aciworldwide.com. You can also find us on Twitter @ACI_Worldwide.

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