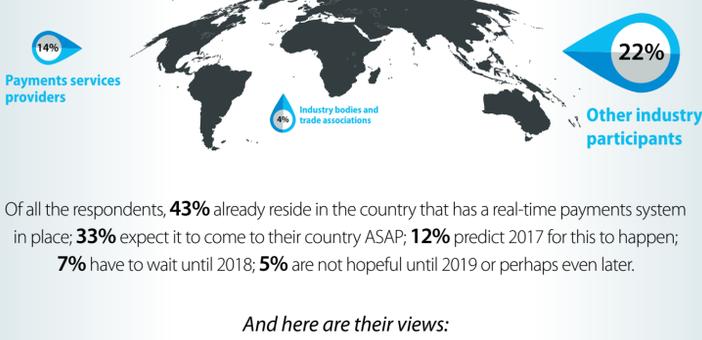


Real-time payments: the journey

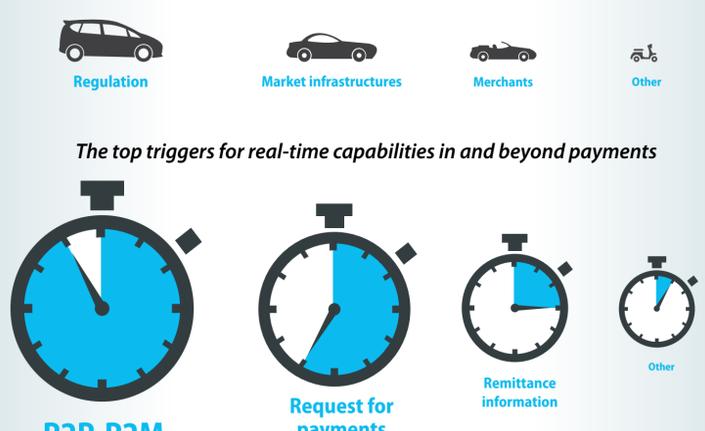
We have polled a broad range of specialists from around the world:



Of all the respondents, **43%** already reside in the country that has a real-time payments system in place; **33%** expect it to come to their country ASAP; **12%** predict 2017 for this to happen; **7%** have to wait until 2018; **5%** are not hopeful until 2019 or perhaps even later.

And here are their views:

Top drivers towards real-time payments



The top triggers for real-time capabilities in and beyond payments



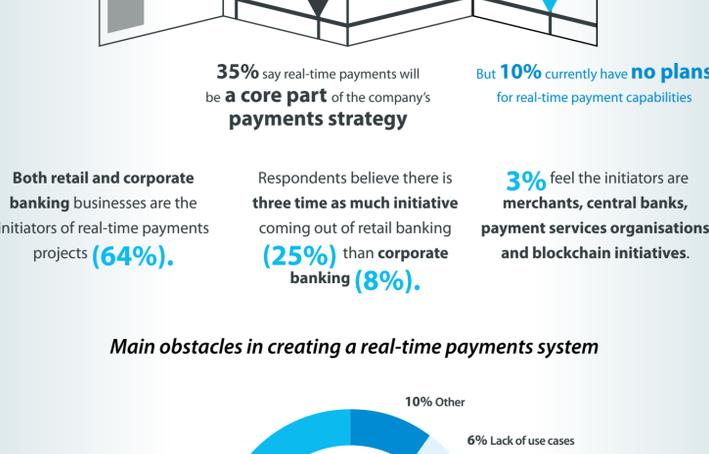
In establishing a real-time system, how will the primary need be fulfilled by a service provider?



Will real-time payments displace existing payment types?



Strategy and initiators



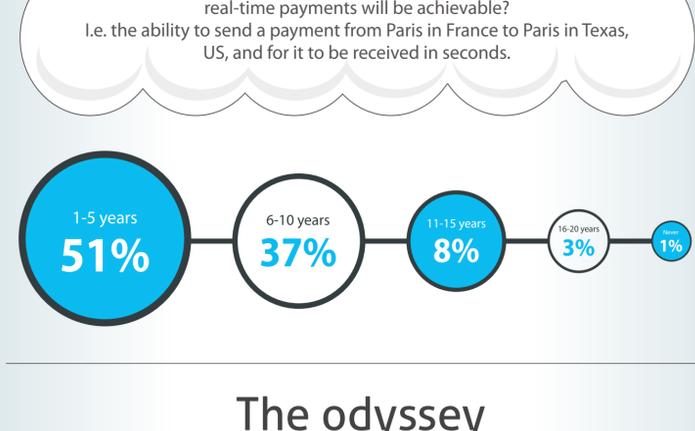
Main obstacles in creating a real-time payments system



Real-time payments and fraud prevention: main concerns



And finally... Optimism is in the air!



The odyssey

Banking Technology, ACI Worldwide and Nets have joined forces to survey the global market about the highs and lows of its current journey towards real-time payments. From individual institutions' readiness to key market drivers, obstacles and fraud concerns, and everything in between – survey participants from across the globe share their views.

"The results are not surprising for the majority of the findings," observes Stig Korsgaard, engagement director at Nets. "The customers and competitive market is driving the financial sector towards real-time payments at a fast pace."

Korsgaard predicts that instant payments "will soon be the new normal" due to the proliferation of mobile devices, "a strong growing on-demand economy and a little push by the regulators."

William Proctor, VP, product line manager at ACI Worldwide, agrees: "The report findings reflect the emerging worldwide picture of real-time payments – itself the biggest global initiative for payments in a generation."

Indeed, of all the respondents only 5% are not hopeful to get instant payments in their country until 2019 (or perhaps even later). Meanwhile, 33% expect it to come to their country ASAP, 12% anticipate it to take place next year, and 7% are looking at 2018.

Those countries that have already embraced the scheme have witnessed the benefits to their economy, states Proctor, and "mixed with the 'everything real-time' world in which we live in," the ambition for instant payments is "well and truly on".

And yet there could be more urgency, Korsgaard observes. "Given the views of the majority of respondents it is surprising that plans around the world to meet the market demand are not more urgent than they are," he says.

TOP GEAR
Real-time payments enrich the payment ecosystem – not only do they provide alternative means of payment, but they also provide ample opportunities to develop new consumer and business services.

"It will generate a gear-change in the speed of innovation," Proctor says. Korsgaard believes that initially, instant payments will add new volume but will then rapidly replace existing payment types.

So what are the top drivers? In first place is customer expectation (76% of the respondents think so). This is followed by third-party providers and new entrants (45%). Other key drivers include banks' innovation ambitions (35%), market infrastructures (18%) and merchants (14%).

"This is a shift that is driven by the market and not by the regulation, as most believe," Proctor comments. Regulation got 28% of the votes.

A small number of respondents also named blockchain, financial inclusion, the need for seamless business processes and the reduction of risk in the financial system as significant drivers.

As for the triggers for real-time capabilities in and beyond payments, the person-to-person (P2P), person-to-merchant (P2M) and business-to-business (B2B) capabilities are comfortably sharing the top spot, with a vote of 80%.

Request for payments is in second place (40%), whilst remittance information is third (25%). Some individual responses also highlighted the importance of business-to-consumer (B2C) capabilities, serving the underbanked segment, risk mitigation, regulations such as BCBS 248, data analytics and support for expedited business processes.

FOUNDATION
"With further push by disruptors and the upcoming Payment Services Directive 2 (PSD2), real-time payments should be a top priority of the vast majority of banks and not just as a stand-alone infrastructure, but as the foundation for all financial messaging in the future, urgent or non-urgent, single or batch, payments or not," Nets' Korsgaard states.

The institutions that have realised this, have been very successful in implementing real-time platforms, he says. "A key factor has been the ability to support the local requirements – which the survey also indicates by a majority on how needs are met by service providers."

Whilst the survey results suggest the overwhelming majority of respondents have (or plan to have) a real-time payments strategy of some sort in place, 10% currently have no such plans.

"This is surprising," comments ACI's Proctor. "They are in danger of missing the boat and being put at a competitive disadvantage with customers, compared to those that are already planning to enable real-time payments."

DON'T BE HELD BACK
"It is discouraging that 50% see the integration effort as an obstacle to a real-time payment system," Proctor says. "By choosing and deploying the right type of platform where the integration effort is minimised, these obstacles can be overcome."

"A platform built for real-time payments processing, with the specialist handling requirements and non-functional requirements to achieve the processing SLAs, is a critical starting point."

The price of the central infrastructure and regulatory issues were another two main obstacles, with 19% and 15%, respectively. The lack of use cases got 6% and the remaining 10% went towards the "other" obstacles (see Figure 1).

"Encouraging is the fact that so few of respondents see the lack of use cases as a major inhibitor to achieving real-time payments," Proctor says.

"It was sometimes difficult in the past for institutions to see a return on investment (ROI) path for immediate payments. Today, as the technology and business is better understood, financial and payment intermediaries recognise the opportunities for growth and value-add services that can be offered."

"These are exciting opportunities in both mature economies, where card-based growth has reached high maturity, and for emerging markets where consumers are looking for other digital payment method alternatives."

Korsgaard adds: "And if you wonder it is neither expensive or more risk/fraud associated to do real-time payments than other payment types."

"With the most advanced real-time platforms in production, implementation cost can be kept very low and even save on the total cost of ownership (TCO), by replacing existing systems as well as adding new real-time capabilities to the market infrastructure."

ACI's Proctor also notes a common worry of banks and financial institutions that the legacy systems will slow them down or encumber them from future real-time services.

"A clear coexistence strategy is key to enable customer expectations around real-time to be met without exposing the inner workings of the various bank systems," he says.

For traditional processors and payment intermediaries, instant payments will pose the challenge of building new services on non-card business models, whilst replacing existing payment ecosystems.

"As real-time payments start replacing existing payment methods – as suggested by the majority of respondents – the same value network will need to be built, such as loyalty and risk management," he says.

The new pan-European payments scheme based on SEPA – SCT Inst – is, for instance, "leading to misunderstandings in financial institutions that they can use their SEPA batch solutions developed last decade to be re-usable for today's modern real-time payment," he observes.

"The instruments, processing and technical needs, along with the expected SLAs, are all very different and require a real-time platform to handle them."

STOP IN THE NAME OF FRAUD
There is an implication that the industry is being somewhat slow to identify the fraud requirements around real-time payments, Proctor observes.

"Almost 3% of respondents expect new systems to be required, which is encouraging that they recognise the need for real-time scoring of transactions, but also a concern that perhaps two-thirds have not yet determined their strategy for protecting themselves from fraud."

Any new scheme will always be a target for criminals looking to benefit from the lack of customer knowledge of how the scheme works, he comments.

Meanwhile, Korsgaard feels that in the real-time payments world "the type of fraud occurring is the same [as in the non real-time payments industry], it just happens faster". Having a central hub solution with strong real-time fraud detection tools can help alleviate fraud-related concerns, he suggests.

TORCHBEARERS
Who is leading the way in the instant payments world? Singapore with its FAST scheme, Australia with its New Payments Platform (NPP) and Denmark with RealTime24/7 are the recent high-profile examples.

Less publicised, perhaps, but no less important is the real-time payments project in Finland, where the Finnish Federation of Financial Services (FFI) intends to build a new ISO 20022 and leveraging the SEPA framework.

Other recent recruits include Canada, Thailand and Italy.

Older projects of note are the UK's Faster Payments and Mexico's SPEI. The SPEI service went live back in 2004 and with pressure coming directly from the central bank, Banco de Mexico, has achieved nearly 100% adoption rate for credit transfers within a decade. The UK Faster Payments Scheme (UKFPS), since launching in 2008, now processes virtually all internet and telephone banking payments in the UK.

Meanwhile, the lack of central mandate has been a hindrance to adoption of instant payments in Poland. The country's Express Elixir real-time payments infrastructure went live in 2012, operated by Krajowa Izba Rozliczeniowa (KIR), the national clearing house. The system only supports individual credit transfers, and so far has been something of a flop, with only a handful of the domestic banks adopting the service.

Poland is not alone in this respect, with India, Brazil and South Africa also experiencing similar hurdles in driving adoption rates.

A somewhat unusual case is the US, differentiated by the market's sheer scale (11,000+ financial institutions including 5,260 commercial banks and 6,000+ credit unions) and a much more hesitant regulatory regime. The Federal Reserve does not claim the authority to push the country's banks towards adopting the scheme.

The Fed's official position, repeated frequently, is that an approach based on industry consensus is a good thing, and it has a 300+ member Faster Payments Task Force to back it up. Momentum in the US market is being driven by The Clearing House (TCH) roll-out, planned for early 2017.

The countries that are not on the real-time payments path yet "are going to quickly stand out as late adopters," comments Proctor.

"Consumers are going to recognise the lack of innovation that this portends, as such, these countries could suffer in terms of investment and growth when the rest of the world has interoperable real-time payments," he warns.

Meanwhile, embracing innovation creates even more innovation. "Each new regulatory mandate brings a next level of innovation, such as in Australia where both clearing and settlement will be carried out in real-time," Proctor says.

"The UK and Singapore are already looking at their next business models." The aforementioned UKFPS projects that 150 new direct members will adopt its recently introduced New Access Model.

This without doubt opens up the market to innovation and competition, Proctor believes.

JUMP ON
"There are very few, if any, reasons not to move towards real-time payments, and do so sooner rather than later," Korsgaard concludes.

"The world of payments is transforming anyways, so jump on the train before the pace reaches the impossible to catch up with."

Proctor states: "It's very positive to see the expectations around global interoperability of different schemes, with over half of respondents (51%) expecting to be able to send real-time payments globally within five years."

That's encouraging, feel Korsgaard and Proctor, as most countries have been domestically focused, whilst standards such as SCT Inst and the work from the ISO 20022 Real Time Payments Group are helping to promote interoperability.

"Real-time payments is a global mega-trend. It is here today and has an impact, directly or indirectly, on the whole payment ecosystem," Proctor states.

Tanya Andreasan, Editor, Banking Technology

Obstacle course: what stands in the way of creating a real-time payments system?

In addition to the obstacles listed in the infographics, the respondents named these:



Figure 1