

NOVEMBER 2018

# **FasterPayments**

Tracker™

## WHAT HONG KONG'S NEW **FASTER PAYMENT SYSTEM MEANS**

### **p. 6 – Feature Story**

DBS Bank (Hong Kong) and Standard Chartered Bank on the impact of Hong Kong's Faster Payment System

### **p. 9 – News and Trends**

NACHA approves new ACH rules



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# WHAT'S INSIDE

Real-time payments systems are proliferating. Last year, 25 real-time systems were live worldwide. But by the end of this September, the number of real-time payments systems reached 40, with another 16 [slated](#) to launch within the next year and a half.

One recent addition is the Hong Kong Monetary Authority's long-awaited Faster Payment System (FPS), which launched in late September. It supports 24/7 real-time transfers among banks and stored-value facility (SVF) operators, with payees identified by email or phone number. It's catching on quickly: Within 11 days, it hit more than [450,000](#) payee registrations.

Real-time gross settlement (RTGS) systems are also more in demand. Denmark-based Danmarks Nationalbank recently [adopted](#) an RTGS system from SIA, a payment infrastructures and services company that already provides an RTGS service to Norway and Sweden's central banks.

The U.S. Federal Reserve is also eyeing RTGS. At a recent community forum, Federal Reserve Gov. Lael Brainard [outlined](#) the benefits of RTGS and called for public comment. Brainard said the system would produce better cash flow for customers and reduce settlement risk.

## **Around the real-time payments world**

As governments and financial institutions plan for new real-time payments systems, key players are working to build out their existing platforms and services.



NACHA — The Electronic Payments Association, for instance, recently approved [new rules](#) to expand Same Day ACH use.

The rules, which go into effect in 2019 and 2020, will increase the dollar limit on Same Day ACH transactions, lengthen the daily time limit for submitting transactions to the ACH network, and make funds for some Same Day and next-day ACH credits available more quickly.



Early Warning Services' Zelle Network [expanded](#) its reach with new FI participants. Fiserv recently announced that it connected Zelle with five more FIs — Bank of the West, Dollar Bank, Comerica Bank, Navy Federal Credit Union and Zions Bancorporation, N.A.

Other real-time payments systems are connecting to boost services. SWIFT recently [announced](#) that it successfully tested its proof of concept for near-instant cross-border payments. The service enables SWIFT's global payment innovation (gpi) in real-time domestic systems in China, Thailand, Singapore and Australia.

### **Riding Hong Kong's new faster payments rail**

New payments rails affect players across the faster payments sphere. In Hong Kong, FPS' recent launch could bring sweeping changes, from how consumers pay for coffee to how insurance companies disburse travel-delay payments, according to bank officials.

In the days before FPS' launch, Soh Fern Boey — [DBS Bank](#) (Hong Kong) managing director and head of global transaction services — told PYMNTS the system would likely become part of daily customer transactions. In a separate interview, Ricky Kaura — [Standard Chartered Bank's](#) regional head of cash, transaction and banking in Greater China and North Asia — said FPS could help insurance companies disburse funds and digitize their last mile.

Despite the promises of FPS, linking up to a new system requires preparation. In this month's feature story (p. 6), Boey, Kaura and Ajay Mathur, DBS Bank (Hong Kong)'s managing director and head of consumer banking group and wealth management, discuss both the potential power of FPS and the work needed to prepare for it.



# FIVE FAST FACTS

## What's Inside

40

Number of real-time  
payments systems live  
worldwide as of Sept. 26

2B

Amount of transactions processed  
via the ACH Network in August

450,000

Number of payees registered  
with Hong Kong's Faster Payment  
System as of Sept. 28

25.9M

Average number of faster payments  
transfers made daily in China

64%

Share of treasury  
professionals worldwide  
using same-day or  
immediate payment  
solutions





## What Hong Kong's **NEW FASTER PAYMENT** System Means

Faster payments solutions must meet a variety of demands. Small retailers want to keep their cash flow moving by receiving consumer payments quickly, while large corporations need improved data and visibility to ensure their B2B transactions arrive on schedule. And consumers are at risk of abandoning their purchases if they can't pay quickly and with minimal hassle.

Speeding money and detailed information along could mean beefing up existing infrastructure or building a new set of rails. The merits of each approach are continuing to cause energetic [debate](#).

After two decades of tweaking and updating its existing [Real-Time Gross Settlement system](#) (RTGS), Hong Kong determined it needed a new rail. RTGS was designed to support high-value,

interbank transactions, but P2P and C2B payments typically took a day or two to clear, were processed only during work hours and cost up to HK \$200 (US \$25.5) per transaction. Hong Kong required a new solution.

The Hong Kong Monetary Authority (HKMA) designed its long-awaited Faster Payment System (FPS) to ease frictions that RTGS couldn't. The new rail supports real-time, 24/7 transfers not just between banks, but also between stored-value facilities (SVFs) — i.e., mobile wallet operators — and between SVFs and banks.

And while a separate RTGS system was required for each currency — the Hong Kong dollar, renminbi, U.S. dollar and euro — FPS supports both Hong Kong dollars and renminbi.

Days before the system's Sept. 30 launch, PYMNTS talked with officials from two participating banks, [Standard Chartered Bank](#) and [DBS Bank \(Hong Kong\)](#), about their expectations for FPS' impact on consumers and businesses, and how they prepared for the change.

## Changing retail and insurance

FPS is likely to encourage companies and consumers to change their retail payment methods.

Because using the faster payments rail is free, consumers will be more inclined to use FPS even for small purchases, said DBS Bank (Hong Kong)'s Soh Fern Boey, managing director and head of Global Transaction Services. But it's not just brick-and-mortars that can benefit. eCommerce and mobile commerce retailers, which were limited to accepting card payments, can now offer FPS capabilities that settle their funds more quickly, Boey said. Users can identify recipients by their registered mobile phone numbers, FPS IDs or email accounts, rather than through their bank account numbers — a critical feature expected to make businesses feel more secure, Boey said.

"Not many corporates want to divulge their [bank] account numbers to their customers," she said.

HKMA also recently released a QR code standard for retail payments, along with an associated app, to let retailers display a single QR code for

accepting payments. This simplified QR code setup, combined with FPS' support for real-time inter-SVF transactions, could open new opportunities with digital wallets, said Standard Chartered Bank's Ricky Kaura, regional head of cash, transaction and banking in Greater China and North Asia.

Kaura said FPS will also help corporations quickly reconcile accounts as well as access real-time information and payments. The rails are also expected to benefit B2C payments.

Kaura said FPS launched at a time when insurance, logistics and other industries have sought to digitize their last mile and replace cash and check use. Both Kaura and Boey said insurance companies could use FPS to quickly disburse funds after an incident, for instance, sending travel insurance money immediately after a flight-delay announcement.

## Making it work

Leading up to the system's launch, DBS and Standard Chartered Bank readied to connect into the HKMA, other

banks and with SVFs, and to roll out platforms so customers could make transactions via FPS. Boey said DBS also prepared an API that would let customers view their accounts instantly and confirm that money sent and received via real-time rail had arrived.

Making sure phone records are kept up to date has been critical to ensuring that recipients identified by their phone numbers receive their payments smoothly and accurately, said DBS Bank (Hong

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Kong)'s Ajay Mathur, managing director and head of Consumer Banking Group and Wealth Management.

"From an industry standpoint, having mobile numbers being a default method of paying would have meant that there's a lot of cleanup of mobile numbers," Mathur said. "While that is stored at the Clearing House, business rules that need to apply toward setting that up had to be thrashed through with the Clearing House, amongst banks, with telecoms and in our own database with how we store and change these numbers."

Boey said that banks are not in a position to verify if a specific mobile phone number corresponds to an intended recipient. As such, corporate clients need to carefully check customers' phone numbers when paying via FPS and using mobile numbers to identify recipients.

Even with these preparatory measures in place, Kaura said, many corporations need to make changes of their own before they can take advantage of bank-facilitated FPS services. Many businesses have expressed interest in the system, but haven't yet adopted FPS because they are evaluating the changes needed to adjust for how it will affect other processes, such as accounts payable systems and static data.

"Typically, there are upstream or downstream implications," he said. "They see the opportunity, but it's a question of how quickly they can or want to deploy, given that it does touch other processes."

Whether corporations take advantage of the rail now or in the future, they can expect a changed financial landscape — and banks ready to help.



## UNDER THE HOOD



**The Faster Payment System is designed to support not just the Hong Kong Dollar, but also the renminbi. What impact do you anticipate from this?**

"It's a very distinctive feature of this particular clearing system. ...We see that as a positive trend, and it's something that will continue to grow. As we think about these clearing platforms being primarily domestic in nature today, one thing in the roadmap for FPS evolution is the ability to support multiple currencies.

As we see more flows that may move between borders as well, then could this [type of multicurrency system] be — further down the line as regulations evolve — infrastructure that's established for more cross-border movement? That's certainly possible. And it could expand into additional currencies.

As you think about emerging flows in the Greater Bay Area and some of the initiatives around that, there's multiple growing opportunities that we can see around the international usage of renminbi increasing over time in strategic locations like Hong Kong."

Ricky Kaura, regional head of cash, transaction and banking in Greater China and North Asia, for [Standard Chartered Bank](#)



# News & Trends

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## US SYSTEM UPGRADES

### NACHA approves new ACH rules

NACHA — The Electronic Payments Association is making Same Day ACH more robust. The organization recently [approved](#) three rules designed to expand Same Day ACH capabilities for financial institutions (FIs) and their customers. Jane Larimer, NACHA's chief operating officer, said banks and other businesses requested the expanded services.

One new rule, which will go into effect Sept. 18, 2020, lengthens by two hours the time frame in which the ACH Network accepts Same Day ACH transactions. A rule that takes effect March 20, 2020, raises the cap on individual Same Day ACH transactions to \$100,000. The final new regulation, set to take effect Sept. 20, 2019, speeds the availability of funds for some Same Day and next-day ACH credits by creating a new Same Day ACH processing window. Depending on the type of ACH credit transaction and when it's submitted, the funds can be available by 1:30 p.m. or 9 a.m. local time.

### Federal Reserve talks real-time gross settlement

While NACHA upgrades existing payments systems, the U.S. government wants to adopt new ones. The Federal Reserve recently expressed interest in creating a system to speed up payment settlement and support faster payments. At the Fed Payments Improvement Community Forum in Chicago last month, Federal Reserve Gov. Lael Brainard [discussed](#) the benefits of introducing a real-time gross settlement (RTGS) system of faster payments, and asked for public input on getting there.

Payments currently rely on a patchwork of systems that can cause delays, inefficiencies and spotty access, she said. But a system supporting 24/7 real-time settlements for interbank transfers — which several countries already have — would speed payments and remove some of the current setup's risks. With the current system, a recipient may get access to funds before the settlement is complete.

Brainard also said faster settlement would produce better cash flow. This could help households avoid overdraft fees while paying bills and may help small businesses avoid short-term financing.

## SETTLEMENT IN EUROPE

### Denmark adopts SIA real-time gross settlement system

Denmark has also been [moving toward](#) an RTGS system and reportedly put in place a setup from infrastructure and services provider SIA. The SIA setup — which is intended to be easier to maintain and supports real-time transfers of Danish kroner — replaces an in-house system that Denmark's central bank, Danmarks Nationalbank, has been using since 2001.

SIA used its wholly owned subsidiary, Perago, on the Danmarks Nationalbank project. The RTGS system is already in place in Norway and Sweden, and slated to go live in Iceland. By the end of the year, Denmark plans to participate in TARGET2-Securities (T2S), a pan-European platform that handles domestic and cross-border securities settlements.

## ACI Worldwide to support connection to TIPS

Other pan-European platforms are also getting attention. ACI Worldwide, a real-time payments and banking solutions provider, recently [announced](#) it would support the TARGET Instant Payments Settlement (TIPS) system, which will launch Nov. 30. When TIPS goes live, payment service providers (PSPs) can use it to support real-time, 24/7 fund transfers year-round, which would be instantly settled.

But launching TIPS-based services without disrupting existing ones takes work, said Craig Ramsey, ACI Worldwide's head of real-time payments, in a press release. The company's UP Real-Time Payments solution streamlines how FIs connect to TIPS. The solution is provided on-premise or via cloud, and adjusts to meet requirements for pan-European or domestic systems.

## SURGING SIGNUPS

### More FIs join Zelle network

Participation is up for one P2P network. Financial service technology provider Fiserv recently [announced](#) that five more FIs have joined the Zelle Network, which processed \$28 billion in payments in Q2 2018. According to the company, the new participants — which connected with Zelle through Fiserv — are Bank of the West, Dollar Bank, Comerica Bank, Navy Federal Credit Union and Zions Bancorporation, N.A.

Zelle lets consumers send money to friends or family via online accounts or mobile banking apps. The funds are available within minutes for registered consumers. Those who aren't registered must enroll and wait one to three business days to receive funds.

### Hong Kong's FPS gains payees — and fraudsters

Hong Kong's new real-time rail, the Faster Payment System (FPS), is growing its user base. According to the Hong Kong Monetary Authority (HKMA), FPS



saw more than [450,000](#) payee registrations within 11 days of its launch. Payee registration began Sept. 17, and as of Sept. 30, payees could send and receive payments.

But the debut hasn't been entirely positive. Within a few weeks of launching, the HKMA received three [complaints](#) of fraud worth a combined total of HK [\\$180,000](#) (roughly US \$22,940). In one instance, a person's personal ID and bank account number were reportedly stolen and used to make a real-time payment with FPS' Autopay service, a feature that has since been suspended. HKMA also ordered eWallet operators to halt a service that allowed FPS to make electronic direct debit authorization for automatic top-ups. HKMA made that order in response to the other two complaints alleging that fraudsters stole personal information and used it to set up eWallet accounts and receive transfers from banks.

According to HKMA, these instances do not reflect a [security breach](#) of FPS.



## P2P AND PAYROLL

### Venmo hikes rate of instant transfers

FPS isn't the only payments channel encountering new challenges. Users of PayPal's Venmo P2P payments service can expect new frictions from a [fee hike](#) on its instant-transfer feature. The higher rate — equal to 1 percent of the transferred amount — could discourage larger transfers, though transfers of less than \$25 will not incur a fee.

PayPal executives also have been discussing whether to update the app's privacy settings by keeping transactions from being viewed by the public, though payments would still remain visible on friends' feeds.

### Postmates enables instant payments with Visa and Stripe

But it's not all bad news for those trying to get funds into their bank accounts quickly. Postmates' delivery workers can now receive instant earnings deposits into their bank accounts through Visa debit cards, according to a recent Visa [press release](#).

Since 2011, Postmates has used Stripe Connect to manage its payments services, and Postmates' 200,000-strong delivery fleet had to wait four to seven days to receive payments via ACH. Under

the new agreement, disbursements will now be enabled by Stripe's Instant Payouts feature, running on the Visa Direct push payments platform. Earnings will be disbursed within minutes to Visa cards 24/7, the pair said, including on holidays, weekends and nights.

## C2B AND B2B

### Mastercard announces real-time bill payment offering

Visa rival Mastercard is also making moves, looking to win a greater share of card customers. The company recently announced the launch of Mastercard Bill Pay Exchange, a real-time bill payments and presentment service. The service will encourage consumers to pay their bills via their banks' online and mobile bill-pay systems, rather than directly on the billers' websites. That matters to banks — said Colleen Taylor, Mastercard's executive vice president, in a recent [conversation](#) with PYMNTS' Karen Webster — because issuers can use bill payment systems to grow their relationships with customers and expand services.

Taylor said Mastercard's new solution will appeal to consumers by providing immediate confirmation that the payment has been made — something enabled by leveraging real-time payments. The solution will support the management of multiple bills and accounts in one place, will tap into real-time payments capabilities of The Clearing House and Vocalink, and use ISO 20022 messaging standards. It is slated for commercial availability in 2019.

### Sberbank and Yandex.Money launch faster B2B solution

While Mastercard focuses on supporting more C2B payments, others are focusing on B2B transactions. Sberbank, Russia's largest bank, has [launched](#) a B2B payments solution with financial services unit Yandex.Money, a joint venture between Sberbank and Russian search engine Yandex.



While B2B payments in Russia typically take one to three days, the new service completes transactions in one to three minutes. The B2B instant-payments service is available to Sberbank corporate clients who use Yandex.Checkout, and [aims](#) to support B2B online payments acceptance similarly to how payments are accepted from consumers. Sberbank's clients can place a digital button on their websites to accept payments.

## CROSS-BORDER PAYMENTS

### PNC Treasury Management joins RippleNet

The treasury management sector is also looking to speed up operations. PNC Bank's treasury management unit [recently joined](#) RippleNet, which uses the blockchain to support global transactions, in an effort to enable its corporate customers to receive real-time cross-border payments. The added speed boosts corporate customers' cash flows and is expected to streamline accounts-receivable

processes.

PNC Treasury Management's participation in RippleNet follows the company's decision last month to link its corporate clients to a domestic network – The Clearing House's Real-Time Payments network.

### SWIFT announces successful cross-border tests

Financial-messaging service SWIFT recently [announced](#) it successfully tested its near-instant cross-border payments proof of concept. The tests involved banks in China, Thailand, Singapore and Australia, and the concept allows domestic real-time systems to process SWIFT's global payment innovation (gpi) payments.

Eddie Haddad, SWIFT's managing director, said in a [press release](#) that the tests showed the concept could support cross-border payments made outside traditional business hours. Also important, Haddad said: The concept enabled quick cross-border payments between different institutions.



## FEEDBACK

We hope you enjoyed this Tracker and we welcome your feedback. Please feel free to contact us at [fasterpayments@pymnts.com](mailto:fasterpayments@pymnts.com).

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