



INSTANT PAYMENTS — THE JOURNEY SO FAR



EXECUTIVE SUMMARY

Instant payments are defined as electronic retail payment solutions available 24/7/365 and resulting in the immediate or close-to-immediate interbank clearing of the transaction and simultaneous debiting of the payer's account and crediting of the payee's account (within seconds of payment initiation) in a synchronous transaction, irrespective of the underlying payments instrument used (credit transfer, direct debit) and of the underlying clearing and settlement arrangements that make this possible.

As competitive and regulatory pressure intensifies globally, financial institutions are fast realizing that they need to transform their payment systems to drive down costs and consolidate duplicate systems. Add to this the consumer demand for speed, convenience and simplicity with payments and it is clear why there has been such a push to instant payments around the world.

Around 35 countries have implemented or are developing instant payments schemes. These include the U.K., whose Faster Payments scheme was one of the world's first, to more recent entrants like Australia, where their New Payments Platform will be going live later this year. Within a decade, real-time, 24x7 payments have emerged as the main driver of innovation in payments and the technology has become the norm in many parts of the world. Drivers of these payment schemes vary; the U.K.'s scheme was a result of regulatory pressure, while a commercial imperative (including competition from telcos) drove developments in the Nordic countries. Elsewhere, a mix of regulation and commercial drivers has played a role. Payments infrastructure upgrades now inevitably include an instant payments element.

In the U.S., The Clearing House is building the country's first new payments system in 40 years — a clearing and settlement system to support instant payments. Like the Australian system, it will go live in 2017. Meanwhile, the European Payment Council's (EPC) pan-European SEPA Instant Credit Transfer scheme will go live in November 2017 and so will the EBA Clearing instant payments infrastructure system that will be fully compliant with the EPC scheme.

Instant payments must support all payment types from deposits, utility bills, and government and business transactions to person-to-person (P2P) payments. In the lucrative P2P instant payments sector, a consortium of U.S. banks launched Zelle as their response to other providers in the sector. National P2P schemes across Europe e.g., Swedish Swish and Norwegian Vipps are also gaining significant traction. All of this creates great opportunity and choice for consumers, but adds complexity and additional layers of technology that need to be supported by banks. How they integrate instant payments and P2P into their existing infrastructures, reduce transaction costs and drive value from new services is something that we explore in this paper alongside the impact of instant payments on merchants and other payment service providers.

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THE BUSINESS CASE FOR INSTANT PAYMENTS

In practice, and in common with most if not all infrastructure developments, the business case for instant payments will be realized over the long term rather than short term. Connectivity to instant schemes is costly. Depending on the level of integration required, projects can range in cost from €500,000 to several hundred million. While initial costs are mainly related to integration and testing, the ongoing costs of maintaining these links must be considered. The fragmentation of instant payments schemes is a challenge and interoperability between schemes will become increasingly important as more are rolled out.

Steps are being taken to address this. The European Automated Clearing House Association (EACHA) recently published an instant payments interoperability framework that provides the technical basis for interoperability between the different euro instant payments services. Fragmentation is also being tackled in the U.K. where the Payments Strategy Forum has proposed consolidating the country's three payment system operators: Bacs, Cheque and Credit Clearing Company with Faster Payments into a single entity. It will be responsible for developing a payments architecture that is simpler, more accessible and more responsive to innovation.

In addition to the technical changes that will be required to move to 24x7 instant payments, banks will also have to change business processes. Moving away from a nine-to-five batch payments environment will be a challenge: each bank must work out how it will provide a 24x7 service, and, crucially, how it will manage risk controls related to fraud, sanctions and anti-money laundering. This will require different skills, capabilities and management of data — to cope with a change that has many dimensions across a bank's business and technology set-ups.

A further change banks and payment networks face is a significant increase in transaction volumes that will climb relentlessly over the next decade. As the Internet of Things grows and new business models evolve, payments will become more granular — every taxi ride, every song play, every hour of electricity consumption are examples of how payment volumes can expand dramatically from where they are today.

Banks are trying to build various features in instant payments systems to tackle the competition from

non-banks in different areas such as P2P, person-to-business (P2B), business-to-person (B2P) and business-to-business (B2B) transactions. These services also must be fast, secure and available around the clock.

Among the features are:

P2P payments: Consumers can pay and transact via online or phone banking 24/7 within seconds. This aims to respond to competition in the eCommerce space.

P2B payments: Consumers can use the service for bills, tax and other payments.

Mobile payments: Consumers can pay using mobile. Mobile payments are among the fastest growing payment methods and instant payments intend to provide this service to tackle competition from non-banks.

Bulk payments: Companies will be able to submit bulk payment files, for example payroll, at any time 24x7, without cut-off requirements, and expect the payments to be posted instantly when they are processed.

B2P payments: Companies can use the service to pay temporary workers and service providers.

B2B payments: Businesses can use this service to send money to other businesses.

Cross-border payments: With interoperability between domestic instant payments infrastructures will come the ability to pay anyone, anywhere around the world, instantly.

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ADDITIONAL BENEFITS FOR CONSUMERS, BANKS AND BUSINESSES

Consumers can perform instant payments to purchase from businesses. Where issues arise, refunds can be credited back into their accounts quickly. Consumers can also complete emergency fund transfers anytime and issue international remittances as well.

Banks can offer trusted solutions to retail and corporate customers, using gateways such as mobile devices for payments. This gives them an edge over non-banks in efforts to attract more customers to use their service.

Businesses can use instant payments for functions like payroll disbursement and bill payments. Instant payments can equip businesses, especially utility

companies, with mobile payment capabilities combined with electronic billing and services, such as request for payment. A single platform can be provided to customers for viewing bills and authorizing each payment. There can be other features such as instant payments rejection notifications, better cash forecasting and speedy disbursement of funds, which help businesses efficiently manage their liquidity positions in the entire financial supply chain.

3 SEPA INSTANT CREDIT TRANSFER

As discussed in the introduction, national instant payments solutions have been around for several years already. In the Single European Payments Area (SEPA) region, countries with these solutions include the U.K., Denmark, Finland, Norway and Poland, among others. However, many have developed independently of each other and none have focused on the ability for any entity to send or receive a payment, across more than one system, to or from any other entity. In short, each consists of different standards and protocols that made moving funds across border complex and slow. Because of this reason, a European solution was urgently needed to prevent momentum towards a uniform payments system within the SEPA region from being wiped out within a short period of time by the proliferation of yet more national schemes. The ECB, ERPB and EPC acted in November 2015 and launched a design proposal for SEPA Instant Payments.

The SCT scheme enables payment service providers (PSPs) to offer a core and basic credit transfer service throughout SEPA for either single or bulk payments. The scheme's standards facilitate payments initiation, processing and reconciliation, based on straight-through processing (STP). The scope is limited to payments made in euro within the 34 SEPA scheme countries. The PSPs executing the credit transfer must formally participate in the SCT scheme.

It is quite plausible that in two to three years of the November 2017 launch, instant payments could well be the norm within SEPA.

In summary, the key features of the SEPA Instant Payments solution are as follows:

- **24/7 operation**, 365 days a year
- **Real-time** or fast real-time clearing of payments, including confirmation of payments to the

payments recipient (within 10 seconds)

- Execution of amounts of **EUR 15,000** or less (higher amounts can be agreed between PSPs)
- **Irrevocability of payment**, i.e., the sender bank must guarantee settlement in accordance with the scheme
- SEPA Instant Payments is an **optional scheme**, i.e., PSPs have the option of offering the scheme to their customers (contrary to SEPA Credit Transfer and SEPA Direct Debit)
- **Multi-channel capability** (use of P2P payments, point of sale and online)

4 WHERE IS THE PAYBACK FOR IP?

At a macro level, as more commerce moves further into cyberspace, crime is significantly reduced. Less cash carrying means less opportunistic robbery and crime. Additionally, increased digital usage greatly reduces the most significant fraud cases — tax and check fraud — and naturally, reduction in fraud brings immediate cost reductions to the payments industry. However, by far the most important consequence of an instant payments system will be the explosion of data that it creates. Data and improved messaging standards (ISO 20022) will allow for personalized products and services targeted to individual users and a customer experience far exceeding the limits of segmented customer- and persona-led marketing campaigns in use today.

Internet and connected devices have become core elements of our lifestyle allowing for data to be generated, collected, stored, processed and used at unprecedented rates. The use of Big Data is likely to transform the way products and services are provided to consumers; they are tailored to provide better quality and more cost-effective solutions. Big Data encompasses not only the data but also the ability to process and analyze data to unlock income-generating insights to reveal patterns or correlations to predict future events. The latter holds the greatest promise for financial institutions, as there is more scope for value-added, revenue-generating services to be developed.

Financial services are awash with data and all kinds of products and services could be impacted by the use of Big Data and analytics:

- Profiling customers

- Customer loyalty management (including monitoring consumer sentiment towards products and institutions)
- Credit worthiness assessments
- Market segmentation and marketing campaign targeting
- Product development
- Dynamic pricing
- Underwriting risk, fraud prevention and AML
- And overall increase of revenues through the commercialization of data

The use of Big Data may also enable banks, FinTechs and PSPs to cross sell various products and services, develop behavioral-based services, and support compliance and regulatory requirements.

5 LIQUIDITY MANAGEMENT FOR MERCHANTS

The growth of online commerce has also had an impact on demand for immediate payments. Gen Y customers, growing up with unlimited access to the internet and the “one-click” purchases of online shopping, expect immediate payments power. There is also the strong argument that immediate payments greatly benefit SMEs by freeing up cash flow and working capital — local banks in Asia Pacific, for example, believe real-time capabilities coupled with mobile and eInvoicing could be a compelling proposition for their SME community. There are numerous examples in the U.K. of SMEs reducing stock levels through ordering goods on demand for immediate dispatch, enabled by an instant payment to the supplier with each order.

In addition to payment assurance and lower fees for transactions, many small businesses and large retailers alike are looking at instant payments to enhance their cash flow management, reduce fraud activity and provide incremental value to their customers. Instant payments also bring with them high levels of security and do not penalize the merchant with additional fees.

6 NEW ENTRANTS TO THE MARKET

Ultimately, instant payments act as a springboard for innovation — mobile, eInvoicing and eCommerce payment solutions are all enabled by instant payments systems. At a time when banks around the world are struggling against increased competition from new financial services players, the leading edge gained by banks and other players which embrace instant payments cannot be underestimated. New market entrants, free of the shackles of complex legacy IT systems, are agile and responsive to consumer demands. If banks are to avoid becoming marginalized in the payments market by these new kids on the block, and maintain hold of potentially valuable revenue sources, they need to step up to the instant payments table.

Technological advancements have created opportunities for non-banks to enter certain areas in payments where banks have often not played a role. Consider the payments value chain, which can be broadly divided into five phases: pre-transaction, authentication/authorization, clearing, settlement and post-transaction. Non-banks have increased their presence in all phases, except the settlement phase, which is still core to banks’ activity.

A prime example is PayPal, where a person can store credit card information and other details by opening an account. Each time the person wants to transfer money or carry out an eCommerce transaction, they can just do so using their PayPal account and password, without keying in credit card details. There is also no need to go to a bank website for initiating a payment; PayPal completes the authorization and settlement of the card payment offline for the customer. Additionally, depending on the country, PayPal accounts can also be linked to a customer’s bank account by direct debit, allowing PayPal to pull funds from a bank account whenever the PayPal account is used to make a purchase.

Another example is proximity payment, like Apple Pay, which lets Apple devices wirelessly communicate with point-of-sale (POS) systems using near-field communication (NFC), a dedicated chip that stores encrypted payments information (known as the secure element), and Apple’s Touch ID and Passbook.

However, while the use of alternative payments is on the rise, they also have several shortcomings. Although they are simple to use and have fund verification, they can be expensive and payments

settlement can take several days. In addition, since accounts are funded by account payments or through automated clearing house (ACH), this payments method relies on traditional payment networks to operate. Card payments are quicker and have positive fund verification, but are also costly and businesses are hindered by government regulations. ACH payments are inexpensive and scalable, but ACH networks tend to lack instant fund verification and settlement can take up to three days, increasing the risk of non-payments for merchants and other billers.

This builds the case for instant payments, where customers have direct control over their money. Billers, consumers and businesses pay directly from their accounts. This payments method is inexpensive, quick and secure, and synchronous processing allows instant notification of cleared funds to both payer and payee. It helps retailers and billers reduce their interchange costs, and helps banks reclaim their direct relationships with customers.



AUSTRALIA WILL BE WATCHED CLOSELY

Later this year, the Royal Bank of Australia (RBA) will roll out a new system called the New Payments Platform (NPP). The NPP will allow for near-real-time funds transfer between bank accounts, regardless of with whom people bank. All a user will require to perform an “instantaneous payment” with the forthcoming system will be the recipient’s email address or mobile phone number. The payments project is a cooperative effort between the bank and the payments industry to modernize key parts of our electronic payments system, which has been actioned under the guidance of the RBA’s Payments System Board.

The RBA kicked off the project in 2012 when a review of its internal innovation capabilities laid out “strategic objectives” for the Australian payments system. These included the ability for users to make instant payments, send more complete remittance information with payments, address payments in a relatively simple way, and make and receive payments outside of normal business hours. The technology will also support “overlay” services, meaning banks will be able to create their own payment services to attract new customers.



CONCLUSION

The future payments landscape is straightforward to predict — all payments will be either instant or initiated in bulk and processed instantly, 24x7, and credit transfers will dominate, with the payer in control. Transaction volumes will be 10 times, perhaps 100 times greater than they are today. Payments will be embedded everywhere, including in apps, devices, meters, machines and cars. They will be both visible and invisible to the payer, depending on the use case and the customer experience, and they will be borderless, operating seamlessly within countries and between countries anywhere in the world. Not only will payments be more frictionless than today, they will be more secure and less prone to fraud.

The big question is when will this vision materialize — in three years, five years, 10 years? No one can know for sure, but in many ways, it does not matter. Change is starting to happen and the risk of taking action is low. Instant payments are at the heart of this new landscape, and by building for this future now, businesses can position to win for the next decade and beyond.



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Jeremy Light leads Accenture Payment Services in Europe, Africa and Latin America. He is responsible for taking Accenture's strategy, technology, digital and outsourcing propositions to clients across the region, covering cards issuing and acquiring, domestic, international, retail and corporate payments, and front-, middle- and back-office payment functions. This responsibility includes driving innovation and deploying and sharing Accenture's best thinking, capabilities and skills in payments across clients and client teams.



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