

# The Rise of Real-time Payments in North America

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The foundation for the future of commercial banking

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## Executive summary

### Real-time payment infrastructures are coming

Real-time payment (RTP) infrastructures are being rolled out in many countries around the world, but with the final stages of implementation now imminent in the US, the Eurozone countries, and Australia, banks in these countries will have to finally modernize their ageing batch processing systems and move to real time.

Despite competing claims on firms' budgets, many banks are realizing that this is a unique opportunity to put in place systems that will enable them to address the challenges of digitalization and the emergence of new open banking ecosystems where the secure sharing of customer data is the norm.

While much of the impetus for RTPs has come from the consumer and small business sectors, commercial banks are recognizing that the changes that will follow in the wake of RTP adoption will provide the foundation for new product and service offerings for their corporate clients.

### The US will have RTPs by 2020

In North America, the US intention is to have a ubiquitous faster payment system operational by 2020, and banks are beginning to put systems in place in order to meet that deadline. According to Ovum's ICT Enterprise Insights data, 50% of commercial banks in the US plan to increase their IT spending on RTP systems in 2018, and of those, 28% say they will increase budgets by more than 6% on 2017 levels. There is also increased spending on related ACH and wholesale payment systems, as reported by 42% of institutions.

While the US and Canada are implementing RTP infrastructures several years later than other countries such as the UK, Ovum's data also shows that commercial banks in the region are looking beyond the basic implementation of new payment rails. They are also investing in products and services based largely on real-time account data, recognizing that RTPs are a strategic opportunity, not a compliance issue. This investment will enable commercial banks to address core corporate treasurer pain points in several areas, notably cash management, which is cited by 67% of commercial banks in the US and 20% in Canada, of which the latter has yet to confirm its national implementation plans.

### RTP infrastructures will enable new products and services

In addition, the move to real-time systems will be a key enabler in the development of new customer services and business opportunities. Incumbent banks need to prioritize investments in RTPs to take advantage of this opportunity.

RTP systems are a strategic investment that will determine banks' ability to be agile in the face of a rapid digitalization of the financial services sector as a whole and the open banking movement in particular.

Open banking is an unstoppable development and banks must address the development of application processing interfaces (APIs) at an industry level and in conjunction with other stakeholders – not least of whom are their customers. Existing API initiatives have concentrated on consumer and

SME banking, but payments rails are converging and banks will need agility – and agile technology – to address rapid developments in this area.

## Introduction

### Catalyst guarantee

The introduction of RTP infrastructures internationally, combined with regulatory change, the rapid developments in open banking, and competition from technology-driven new market entrants, means that commercial banking systems – and the expectations of corporate customers – are changing more rapidly than ever before.

To better understand the interplay between these different drivers of change, Icon Solutions, an independent payment technology provider and consultancy, worked with Ovum to examine industry views. Using data from Ovum's ICT Enterprise Insights research, which includes interviews with 211 commercial banking executives at tier one and two institutions, the research shows myriad factors affecting their product and IT strategies, and identifies strategic imperatives for commercial banks.

### Ovum view

North American commercial banks have clearly noticed that their commercial banking peers in countries with RTP infrastructures are benefiting at least as much as retail banks. As a result, there is greater RTP-related activity among US and Canadian commercial banks than was the case in other international markets, where RTP regulation was largely driven by consumer-oriented concerns.

As corporates digitize their own businesses, and new market entrants provide improved services based on new technology, banks can no longer assume that they have a captive audience. RTPs provide a clear opportunity to invest in new service propositions, and is an opportunity that commercial banks should embrace to retain and grow their commercial banking business.

### Key findings

- Delivering greater access to real-time information, in addition to analytics and other services based around transaction data, are key areas for institutions (beyond providing RTPs functionality).
- Spending on RTP systems is cited as a top three priority by 25% of US institutions, 20% of Canadians, and 19% in the rest of the world, with ACH and wholesale payment platforms cited by 31%, 20%, and 8%, respectively. This is an indication of the different stages they are at on the lifecycle of RTP system development: Efforts in North America are focused on building RTP capabilities while the rest of the world priorities have moved on to developing overlay services; although it should be borne in mind that some major economies, such as Australia, are yet to implement RTP.
- The increase in spending in RTPs in 2018 is largest in the rest of the world, with 59% of institutions saying that they will increase spending, compared to 50% in the US and 40% in Canada. Several factors are at play here: US spending in this area was already high, so year-on-year growth would likely be more modest. Secondly, the data is for commercial banks, which were less driven by RTPs in early adopter markets – they are, however, driven by the needs of open banking in several

markets, while the cross-border capability of the Eurozone RTP scheme will impact commercial banks more than retail or consumer banks.

- Real-time cash positions across global accounts top the product and service plans of 44% of US institutions, with both scenario-based forecasting and direct integration with client systems cited by 39% of respondents as a top three priority development area. Some 60% of Canadian institutions see better onboarding of new client systems as the top priority.
- On top of the RTP rails, banks see value in artificial intelligence (AI) and machine-learning strategies driving product and service enhancement, with 78% of US and 80% of Canadians planning to incorporate AI technology in their products and services.
- Open APIs are cited as an important part of their strategies by 80% of Canadian institutions, 67% in the US, and 78% in the rest of the world.

## Investment in real-time platforms is booming and will drive investment in wider services

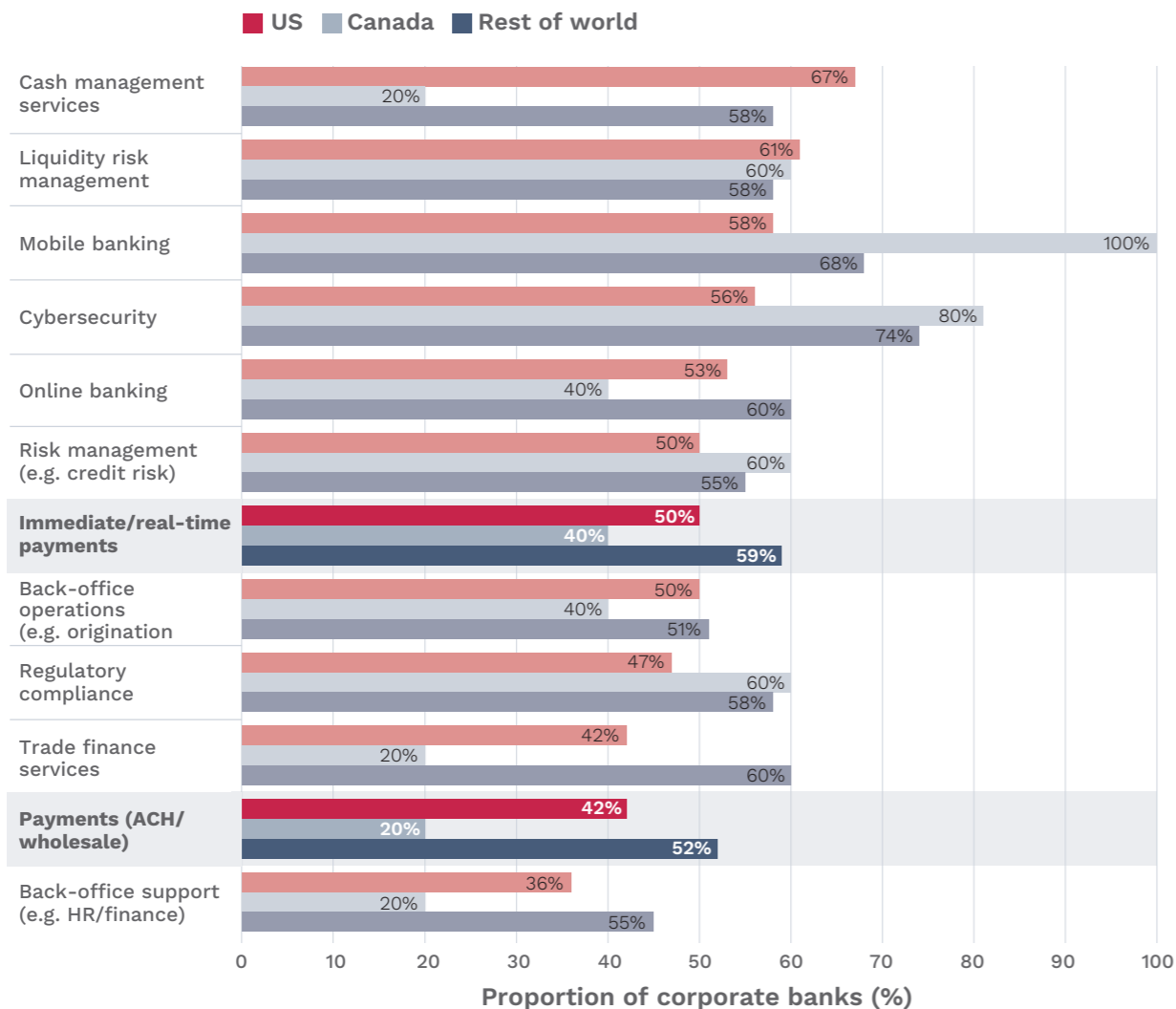
### RTP spending is increasing ahead of market adoption

Commercial banks in the US and Canada are building a new digital banking environment, with investments in underlying payment platforms and the products they support planned for 2018.

In the US, 50% of commercial banks plan to increase their IT spending on RTPs, and of those, 28% say they will increase budgets by more than 6% on 2017 levels. There is also increased spending on related ACH and wholesale payment systems, as reported by 42% of institutions. For many banks, this reflects a focus on developing new propositions and services around the essential functionality of real-time and other payment services (see Figure 1).

**Figure 1:** In 2018, 50% of US banks plan to increase their IT spending on RTPs

What are your IT spending plans for each of the following areas during the next 18 months?



Source: Ovum ICT Enterprise Insights 2017/2018 – Corporate Banking

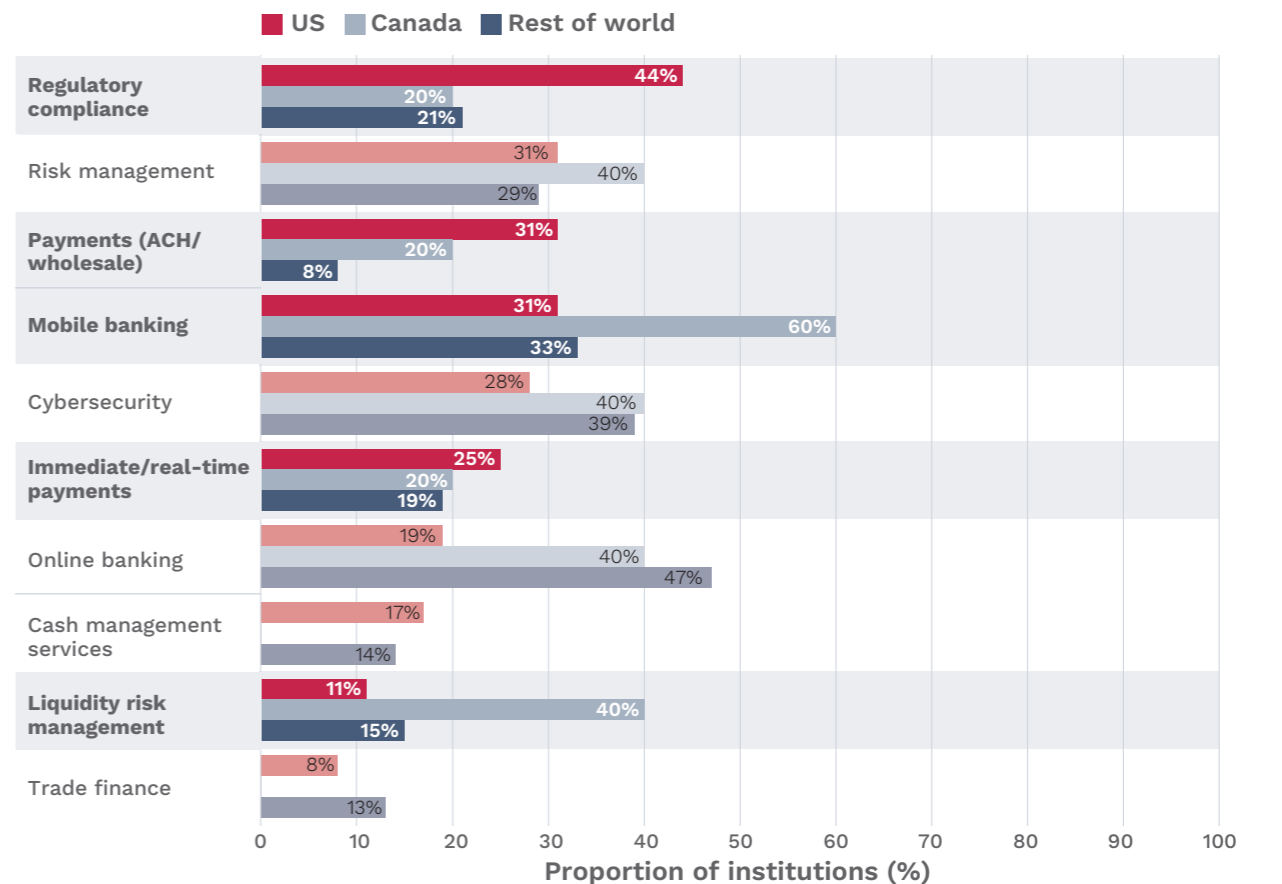
In Canada, there is a similarly marked increase in spending budgeted for projects and upgrades around ACH, commercial, and RTPs. RTP systems will see a significant budget increase in 40% of banks (each of which will grow investment by more than 6% on the 2017 level), while ACH and commercial payment systems will see growth at 20% of banks. As with real time, those banks increasing their investment in 2018 plan to increase the level by 6% or more.

The increase in spending in RTPs in 2018 is largest in the rest of the world, with 59% of institutions saying that they will increase spending, compared to 50% in the US and 40% in Canada. Several factors are at play here: US spending in this area was already high, so year-on-year growth would likely be more modest. Secondly, the data is for commercial banks, which were less driven by RTPs in early adopter markets; they are, however, driven by the needs of open banking in several markets, while the cross-border capability of the Eurozone RTP scheme will impact commercial banks more than retail or consumer banks.

Ovum research shows that North American commercial bank IT spending will increase by \$3.3bn on 2017 levels to reach \$17.1bn per year by 2021. Much of this growth is driven by the move to an RTP environment. Many banks are coming to see real time as essential to the development of the new services they will need in order to compete for the business of their corporate clients in the future. Spending on RTP systems is cited as a top three priority by 25% of US institutions, 20% of Canadians, and 19% in the rest of the world, with ACH and wholesale payment platforms cited by 31%, 20%, and 8%, respectively (see Figure 2).

**Figure 2:** IT investment at US banks is led by regulatory compliance

What are your top three IT projects (in terms of total investment value) for the next 18 months?



Source: Ovum ICT Enterprise Insights 2017/2018 – Corporate Banking

Cash management services – a top priority for corporate customers – are a key investment area for commercial banks in those countries that are about to implement RTP infrastructures, including the US and many in the rest of the world. Banks in Canada, not as advanced on the RTP implementation timetable, are far less active in this area, but can be expected to turn their attention to it in the future as customers demand greater real-time availability of real-time data.

Even so, it is noticeable that a large number see regulatory compliance as their top IT investments in the next 18 months. In the US, 44% cite regulatory compliance as their top investment, compared to 21% in the rest of the world – despite the fact that there is no regulatory mandate for RTPs in the US.

In Canada, where decisions about the development of the national infrastructure are still being finalized, regulatory compliance is cited by just 20% (see Figure 2). This might also explain why other investment areas currently have a higher priority among Canadian institutions – mobile banking services is a top three IT investment for 60% of them, compared to 31% in the US and 33% in the rest of the world. The likely explanation for this is the relatively small number of players in the Canadian market going through a period in which they are aiming to differentiate their services through mobile offerings.

Canadian institutions also give liquidity risk management a much higher priority than other regions, with 40% citing it as a top three IT investment, compared to just 11% in the US, and 15% in the rest of the world. As this expenditure is focused on improving the banks' own liquidity, rather than a customer service, it reflects pressures on their capital ratios, not least of which is their traditional caution.

### Development strategies are building for the future

While some of the priorities of commercial banks are driven by wider issues such as data security and regulatory compliance, the preponderance of RTP-related topics in the top three issues banks are focusing on is striking. It provides evidence that corporate banks see RTPs as providing a foundational capability to address various existing service limitations (see Figure 1).

This is particularly true outside North America: In the rest of the world, service-related items are further up the list of priorities, with trade finance services cited by 60% of respondents outside the region as an area where spending will be increased, compared to 42% in the US and 20% in Canada.

Furthermore, new payment infrastructures will provide a platform for banks' transition into an open banking environment over the next few years; open banking will require the real-time data access that banks will have to develop for RTP infrastructures.

Investment decisions made now will have a significant impact on how able banks are to adapt to the emerging digital banking ecosystem – something that is reflected in the increasing investment in key areas by many commercial banks. Indeed, even though many will have completed initial development work, 50% of US commercial banks plan to increase their IT spending on RTPs in 2018 to further enhance their client-facing capabilities.

Looking more closely at the focus areas for enhancements within corporate payments services, there are several key areas to build on top of RTP functionality: Delivering greater access to real-time account balances, for instance, is a top investment priority at 33% of US banks and 20% of Canadians, with the rest of the world at 30% (see Figure 3).

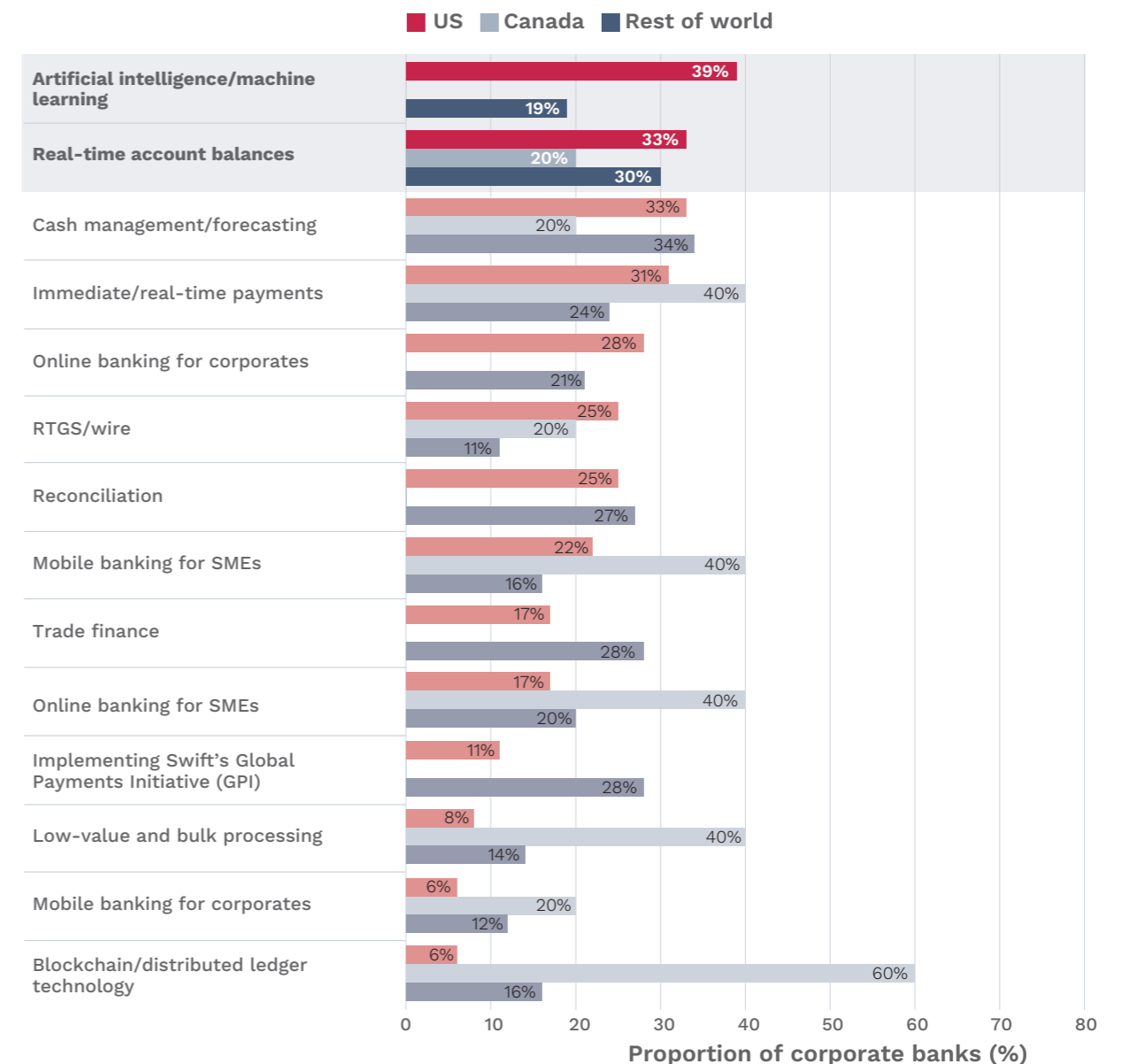
Analytics and other services based around transaction data are key areas for US institutions. Indeed, there is a strong focus on the role that AI can play in these areas, with 39% of US banks citing it as a top investment priority.

For institutions in Canada, the focus is concentrated more heavily on providing access to RTP, along with enhanced services via digital interfaces.

Despite differing priorities from institution to institutions and across geographies, real-time transaction information is an enabler for the three most important IT products, as well as RTPs itself ranking fourth.

**Figure 3:** Banks focusing on client-facing services underpinned by RTP capabilities

**What are your top three commercial and SME payment product IT investment areas for the next 18 months?**



Source: Ovum ICT Enterprise Insights 2017/2018 – Corporate Banking

## Real-time payments lead to service innovation

### Up-to-date account data is essential for improved analytics

The provision of real-time cash positions, scenario-based forecasting and direct integration with client systems are top priorities for corporate treasurers, and US and Canadian banks are looking to improve their service offerings in this area.

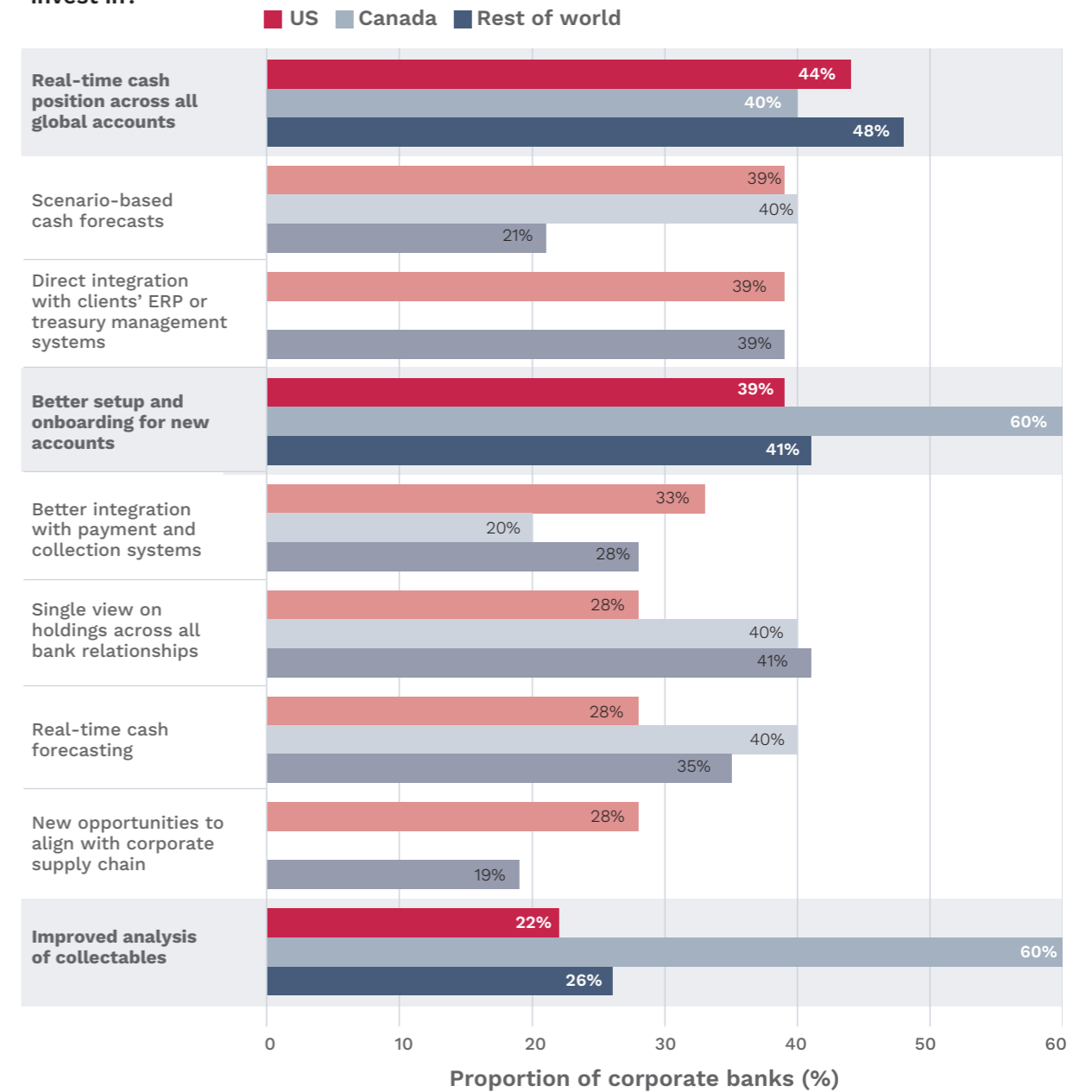
For US institutions, being able to provide real-time cash positions across global accounts tops the list, with 44% putting it as a top three priority, along with direct integration with clients' ERP or treasury systems. The move to RTP infrastructures will help here, but most, if not all, banks will find that they have to replace their core systems or find workarounds. In countries such as the UK, where the Faster Payments system has been in operation for nearly a decade, a typical solution has been to get the consumers' real-time account balances using stand-in systems from ATM networks.

Among Canadian banks, improved onboarding and improved analysis of collectables are considerably higher priorities in the immediate future, with both cited by 60% of respondents, but this likely reflects the fact that the Canadian payments authorities have yet to decide on its direction and final timetable.

The service improvement priorities of banks around the globe are broadly similar, with the provision of real-time cash positions a goal in all regions. This reflects customer demand, which the arrival of RTP capability and associated real-time data is allowing banks to satisfy more easily. Outside North America, real-time cash positions is the top priority, cited by 48% of respondents, compared to 44% in the US and 40% in Canada. Again, this is an indicator of where they are in the RTP implementation cycle.

**Figure 4:** Banks are focused on client-facing services, leveraging investments in payments

What are the top three cash management product and service enhancements you plan to invest in?



Source: Ovum ICT Enterprise Insights 2017/2018 – Corporate Banking

### Open banking will be a differentiator in commercial banking

As well as embracing RTPs without need for a regulatory mandate, North American corporate banks are at least as convinced as the rest of the world that the movement towards open banking is underway, and are taking steps to prepare themselves for it.



Much of the impetus for open banking came initially from the so-called Access to Account provisions of the European Union's second Payment Service Directive (PSD2) under which account holders can authorize trusted third parties to access account data or initiate payments.

In reality, technology is pushing the industry in this direction, as the capabilities of API-based services in other industries drawing on open data sources educate consumers about what is possible.

Canadian institutions in particular are embracing the concept of open banking, with 100% of the respondents reporting that they have or are developing APIs to enable third parties to create new products and services. This compares to 79% in the rest of the world and just 56% in the US, though several large US banks have recently announced API connectivity for corporate clients (see Figure 5).

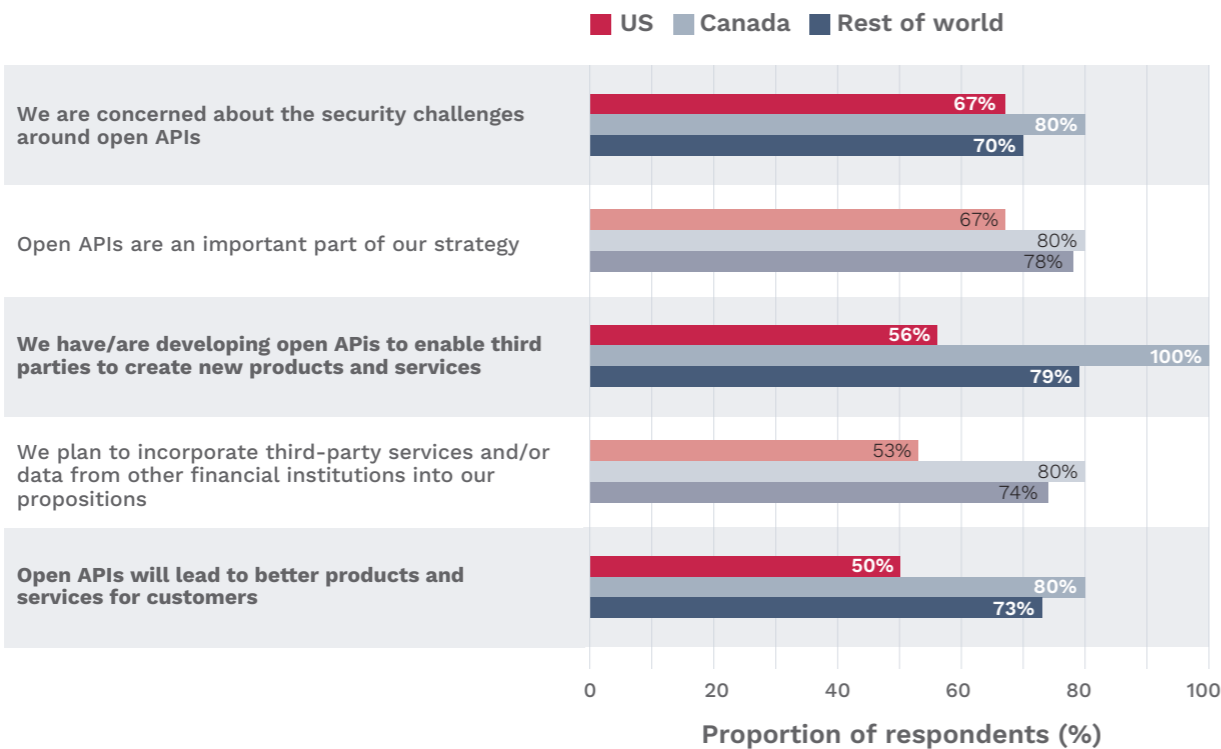
Overall, US institutions seem to be less convinced of the merits of open banking, with just 50% saying it will lead to better products and service for customers, compared to 80% of Canadians and 73% in the rest of the world.

Canadians are also committed to the idea of providing APIs that will enable third parties to offer services to their clients, with 100% indicating that they plan to do this, compared to 56% in the US and 79% in the rest of the world.

Security challenges are a major issue, however, cited by 67% of US banks, 80% of Canadians, and 70% in the rest of the world.

**Figure 5: Open banking is high on the agenda for all commercial banks**

Please indicate your level of agreement with each of the following statements (proportion who 'agree' or 'strongly agree')



Source: Ovum ICT Enterprise Insights 2017/2018 – Corporate Banking

## Conclusion

The US and Canadian markets provide a snapshot of a pattern that is being replicated around the world, showing the need for banks to continue to invest beyond core payment capabilities in order to deliver the next generation of services to corporate clients.

The rapid adoption of RTP capabilities and global standard financial messaging, in the form of ISO 20022, that the current investment trends suggest, coupled with the forward-looking product enhancement plans based on APIs, open banking, and AI-based product development, means that banks' IT will need to be far nimbler in the future.

Those capabilities will be essential once open banking becomes the dominant operating model for financial services. Banks are investing now, but they need to accelerate the transition from the old architectures to new frameworks that will allow them to address many of the areas where their service offerings have lagged behind their customers' expectations and needs, such as cash management, account balance visibility and integration with client ERP, management information, and accounting systems.

RTP infrastructures can act as a catalyst for that acceleration and should be central to the investment plans of all banks.

## Key takeaways

- **RTPs provide a platform for innovative customer propositions.** RTPs will enable commercial banks to address core corporate treasurer pain points in a number of areas, notably cash and liquidity management. In addition, the move to real-time systems will be a key enabler in the development of new customer services and business opportunities. Incumbent banks need to prioritize investments in real time to take advantage of this opportunity.
- **RTPs are a strategic opportunity, not a compliance issue.** RTP systems are a strategic investment that will determine banks' ability to be agile in the face of a rapid digitalization of the financial services sector as a whole. The most successful banks in five years will be the ones that recognize the strategic opportunities around RTPs today, invest early, and get ahead of the competition.
- **Transaction data analytics will unleash a wave of powerful new services.** Over time, and as international roll outs of RTP infrastructures continue, this functionality (and the benefits it brings) will increasingly become part of the standard commercial banking offering. Consequently, the focus of banks and customers will shift towards deeper relationships and service enhancements driven by analysis of transaction information.
- **Open banking demands easy and direct access to clients' transaction data.** Open banking is an unstoppable development and banks must address the development of APIs at an industry level and in conjunction with other stakeholders – not least of whom are their customers. Existing API initiatives have concentrated on consumer and SME banking, but payments rails are converging and banks will need agility – and agile technology – to address rapid developments in this area.

## Appendix

### Methodology

ICT Enterprise Insights presents the data from more than 7,000 interviews of CIOs and other senior IT decision-makers conducted between July and October 2017. The survey covered more than 60 countries worldwide, looking at industry technology trends across the financial services, telecoms and media, public services, utilities, and retail sectors. This included responses from 211 commercial banks.

The data was subject to industry-leading levels of rigor. Respondents were drawn from panels of pre-qualified CIOs/senior IT decision-makers who then had to clear a series of screener questions set by Ovum. Interviews were conducted in the respondent's native language where English was not commonly spoken and administered online or via telephone. The resulting data was reviewed by Ovum's primary research analysts as well as our sector experts, using quality assurance tools developed by Ovum.

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### About Icon Solutions

Icon Solutions is an independent award-winning payment and specialist technology provider serving global financial institutions. From IT strategy and architecture and design, to project delivery and software development, Icon enables institutions to rapidly capitalize on the latest innovative technology and market drivers to reduce costs, boost revenues, and ensure compliance with regulatory and industry standards.

The critical value Icon offers its clients is the combination of deep subject matter expertise in instant payments, a proven track record in delivering bank critical systems, and a FinTech approach to the use of technology. This is evidenced by longstanding client relationships with some of the most important global financial institutions.

Instrumental in helping financial institutions across the globe efficiently deploy RTPs, Icon Solution's world-class advisory team has a proven track record and unparalleled payments knowledge. It has spearheaded a number of the world's most high-profile and pioneering payment projects including the UK's Faster Payments and Singapore's G3 FAST schemes.

With clients including major financial institutions such as Citigroup, HSBC, and Banco Sabadell, and infrastructure partners such as The Clearing House, Icon has unparalleled experience and expertise in the real-time payments arena.

To find out more, visit: [www.iconsolutions.com](http://www.iconsolutions.com)

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