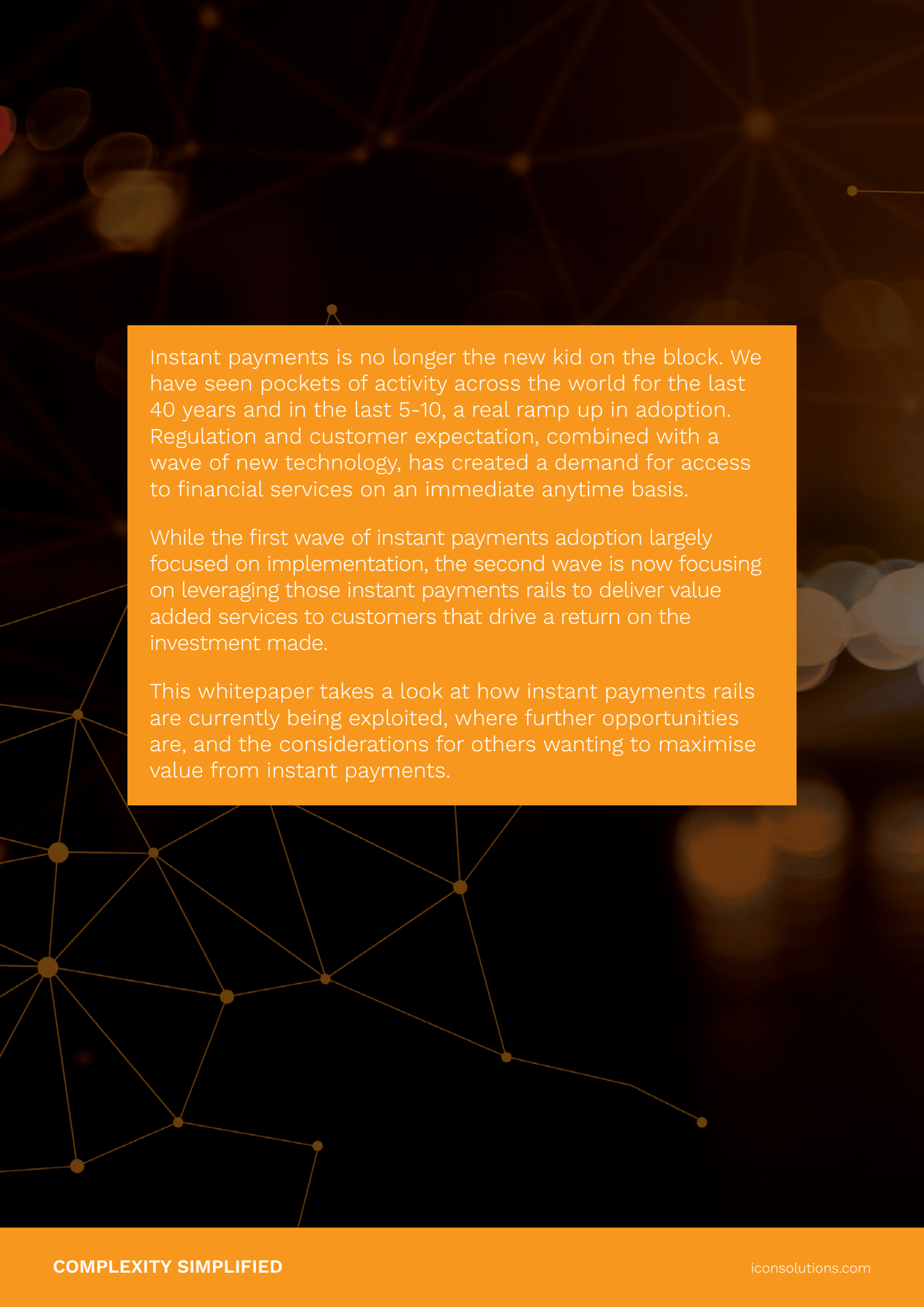


Maximising the value of investments in instant payments



Instant payments is no longer the new kid on the block. We have seen pockets of activity across the world for the last 40 years and in the last 5-10, a real ramp up in adoption. Regulation and customer expectation, combined with a wave of new technology, has created a demand for access to financial services on an immediate anytime basis.

While the first wave of instant payments adoption largely focused on implementation, the second wave is now focusing on leveraging those instant payments rails to deliver value added services to customers that drive a return on the investment made.

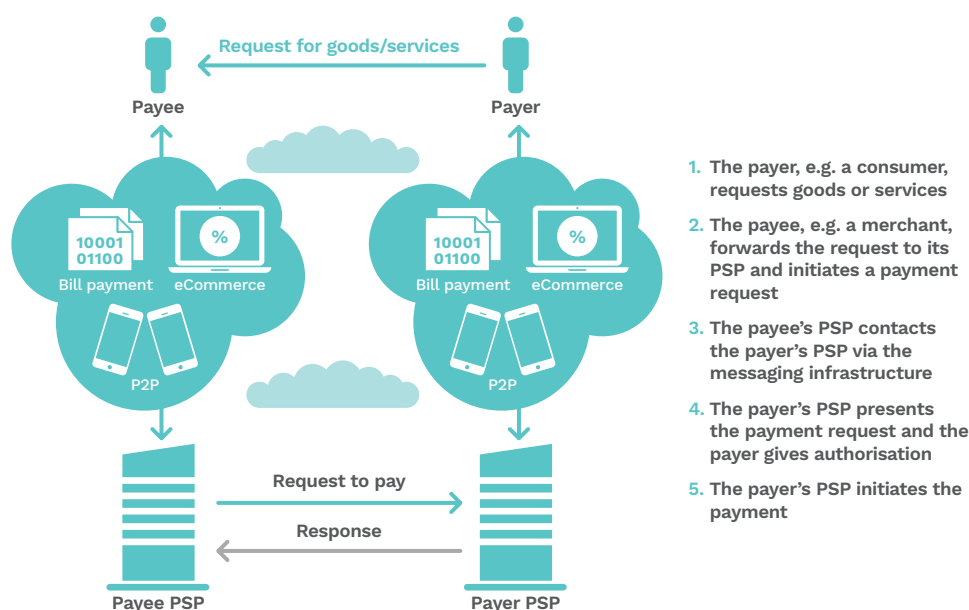
This whitepaper takes a look at how instant payments rails are currently being exploited, where further opportunities are, and the considerations for others wanting to maximise value from instant payments.

EXPLOITING INSTANT PAYMENTS

There are already a number of initiatives that enable banks and Payment Service Providers (PSPs) to maximise the value of instant payments - here are our top three:

1. THE CHAMPION - REQUEST TO PAY

Instant payments has opened up opportunities to develop new ways to initiate payments and Request to Pay (R2P) has perhaps become the most valuable new service. In its simplest terms, R2P is an umbrella for a number of scenarios in which a payee takes the initiative to request a specific payment from the payer. In contrast with Direct Debits, R2Ps are “push” payments, are in real-time, and are suitable for single or ad hoc payments. They do not require a static upfront mandate from the payer and can be sent via multiple channels. The two main examples where R2P services are being used, are as an alternative to paper bill presentment and payment, and as an alternative to card payments both at Point of Sale (POS) and online.



Source: EBA Clearing

How does R2P deliver added value?

Currently around the world, retail customers pay bills via Direct Debit, cash, cheques or bank transfer. R2P can provide an alternative and a means of differentiation by allowing an organisation to request a payment from their customer via the customer's bank. R2P significantly benefits the consumer as it gives them much more autonomy over their funds. They are presented with a payment request rather than the funds being debited automatically, which allows them to better manage their accounts.

In fact, R2P solves two critical issues facing corporates today - they only receive funds when a customer wants to pay them, and they only receive the information that the payer chooses to provide. This makes reconciliation difficult and negatively impacts workflow and even working capital. An R2P option for bill presentment and payment can significantly reduce cost, liability for chargebacks, and fraud risk, as well as improve reconciliation and liquidity.

A secure R2P service also has the potential to significantly ease the burden of managing receivables for corporates. It can enable smoother reconciliation because the payer will not be able to modify the payment references detailed in the request, enabling every payment to be automatically matched into the corporate's enterprise resource planning (ERP) system and thus reduce processing costs. For R2P to be a success in the corporate space, however, partial payment will need to be factored in. This is particularly important for corporates that are issuing invoices for large amounts and are faced with a situation where the customer is querying a relatively small percentage of a very large invoice.

As a result, R2P can also have a significant impact on the bottom line of some corporates. For every card payment, retailers pay an interchange fee – usually between 1% and 3% per transaction. Retailers in the UK alone received £227.7bn in card payments in 2017, and a migration to R2P-based initiation could drastically reduce operational costs.

R2P in practice

Recently, a number of new solutions have emerged under the banner of R2P; promising quick, safe and standardised payments and promoted by institutions such as EBA Clearing, Pay.UK and Central Bank of Mexico.

In Thailand, the instant payments system PromptPay, operated by Vocalink Mastercard, has an R2P layer which is now integrated into most merchant websites. Additionally, the Unified Payments Interface (UPI) instant payments platform in India allows for R2P services to be built commercially over the infrastructure and can be offered to a customer's Virtual Payments Address (VPA). A VPA acts as an identifier that can be used for all transactions made via the UPI system. Multiple bank accounts can be linked to one VPA allowing a payment collection request to be actioned from any account owned by the customer.

From a European perspective, the Netherlands has the most well-established R2P solution in Europe. Launched in 2005, the iDEAL scheme allows customers to pay direct from their bank account. The service reaches over 90% of Dutch individuals and is the most popular method for online payments in the Netherlands, greater than credit card use. In 2018, the system processed approximately 524 million transactions, and is now also moving into the Point of Sale (POS) space.

Traction across Europe is likely to take off with the development of a pan-European R2P solution by EBA Clearing due to go live in 2020, and Pay.UK's R2P specification in the UK.

Equally in the US, we are seeing traction with certain banks going live with The Clearing House ISO 20022 R2P messages using the RTP infrastructure.

NatWest's newly launched Payit™ solution allows customers to pay via Faster Payments when online shopping, directly from their bank account. According to NatWest, Payit™ transactions are at least 25% cheaper for average transaction values of approximately £80 compared to traditional credit or debit card offerings.

2. THE GROWING PAYMENT ROUTE - QR CODES

Quick Response (QR) code offerings have multiplied as an alternative to card payments at POS and online, giving customers more choice over the way they pay but also giving merchants greater choice over their checkout experience. A number of banks and payments industry players have already started reviewing their strategies to take full advantage of this payments alternative combined with instant payments rails. In fact, the Central Bank of Brazil recently announced the roll out of an instant, 24/7 payments system enabled via QR codes.

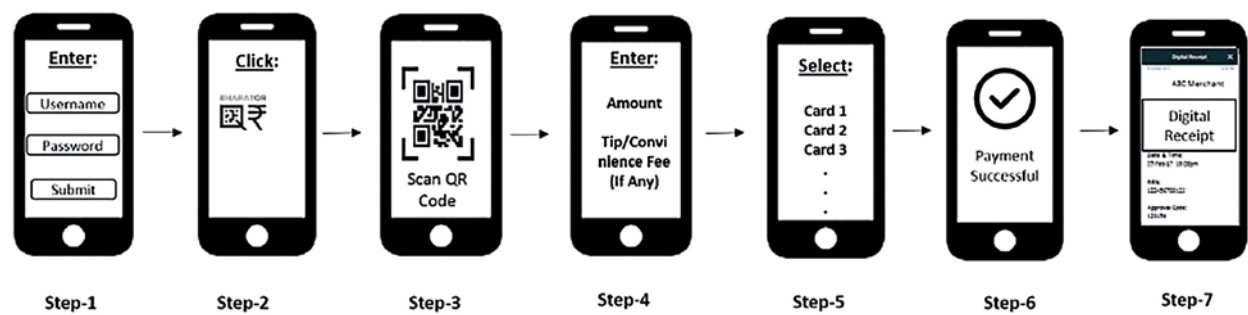
QR codes in practice

Thailand, India, China, Singapore, Malaysia and Hong Kong have all established payment services based on QR codes that use real-time payments rails. In fact, QR codes are used all over Eastern Asia to pay for anything from street food to a lobster dinner. In Thailand, hospitals have implemented their own QR based solutions, in conjunction with their commercial banking providers, to allow patients to pay via a QR code, that then initiates a real-time payment over PromptPay (the Thai instant payments infrastructure mentioned earlier).

In Singapore, a single standardised QR code compatible with 27 e-payment solutions (SGQR) has been launched. To complete a transaction, customers can log into the app of their preferred payment schemes, scan the SGQR code and put in the payment amount. It can then be executed over the FAST instant payment system.

India is perhaps considered one of the most innovative when it comes to using their UPI instant payment system. Bharat QR is an overlay to the UPI system and can be used to make P2M (Person to Merchant) digital payments. The QR code can be used in store and online to pay for goods, services and bills. The Indian government plans to make QR codes mandatory in shops 'above a certain threshold' to offer UPI payments and give customers and shopkeepers Good and Services Tax benefits for using UPI.

Below outlines the customer-facing payments flow for an online QR-enabled payment: the customer can choose to make a card payment or UPI payment from their bank account.



Source: NCPI

Fictitious example for illustration purposes

Ms
Pia Rutschmann
Marktasse 28
9400 Rorschach

Robert Schneider AG
Rue du Lac 1268
2501 Biel
Telefon: 059/987 6540
Mobil: 079/987 65 43
E-Mail: robert@rschneider.ch
Internet: www.rschneider.ch
Date: 01.07.2020

Dear Ms. Rutschmann,

We are billing you as follows for completion of the assigned activities:

Item	Description	Amount	Individual price	Total
1	Garden work	28 Std.	CHF 120.00	CHF 3'360.00
2	Disposal of cuttings	1	CHF 307.35	CHF 307.35
	sum			CHF 3'667.35
	VAT rate			7.7 %
	VAT amount			CHF 282.40
	Bill amount			CHF 3'949.75

Thank you for the assignment. Please pay the bill amount within 30 days.

Yours sincerely,
Robert Schneider

Receipt

Account / Payable to
CH58 0079 1123 0008 8901 2
Robert Schneider AG
Rue du Lac 1268
2501 Biel

Payable by
Pia Rutschmann
Marktasse 28
9400 Rorschach

Currency Amount
CHF 3 949.75

Acceptance point

Payment part

Currency Amount
CHF 3 949.75

Account / Payable to
CH58 0079 1123 0008 8901 2
Robert Schneider AG
Rue du Lac 1268
2501 Biel

Additional information
Bill No. 3139 for garden work and disposal of cuttings

Payable by
Pia Rutschmann
Marktasse 28
9400 Rorschach

Source: Six Group ‘What a QR-bill Looks Like’

Europe and the US have been slow to adopt QR codes as a payment method. Consumers are more card-centric than their Asian counterparts, therefore mobile payments in general have been relatively unsuccessful. However, with the rise of instant payments and Open Banking in Europe, there is a refreshed focus on QR codes. One successful implementation has been in Sweden: Swish, the real-time mobile payments platform enables QR code payments (both in-app for invoice payment as well as at-terminal payments for store) and now has over 6.9 million users. Additionally, Switzerland has mandated the corporate community to utilise the new QR-bill, replacing all current Swiss payment slips as of 30 June 2020. This Swiss QR Code contains, in digital form, all the information necessary to make a payment and uses ISO 20022 components.

While some nations across Europe have embraced QR technology, this is not widespread across the region. In an attempt to rectify this, the European Payments Council has launched a pan-European QR standard to promote ubiquitous usage of QR codes, and some large banks have already launched the technology.

Progress in the US has also been slow, however, retailers such as Target and Walmart have a QR Code payment system in place for their customers, although this is yet to execute payments over The Clearing House RTP system.

QR codes have the capacity to revolutionise both POS payments and bill payments by providing a low cost, easy-to-use method of payment - effectively cutting out the card schemes altogether. Research undertaken by Icon Solutions and Ovum predicts that within 10 years of its widespread implementation, instant payments will have become one of the three main online payment tools, accounting for roughly one-third of e-commerce spending¹. As a result by 2024, instant payments will have overtaken payment cards (credit, debit, and prepaid cards, whether payment details are entered each time or the details are held on file) as a part of e-commerce expenditure. Combined with new options at the POS (such as QR codes) over €725bn would be spent annually in annual instant payment transactions online and in-store.

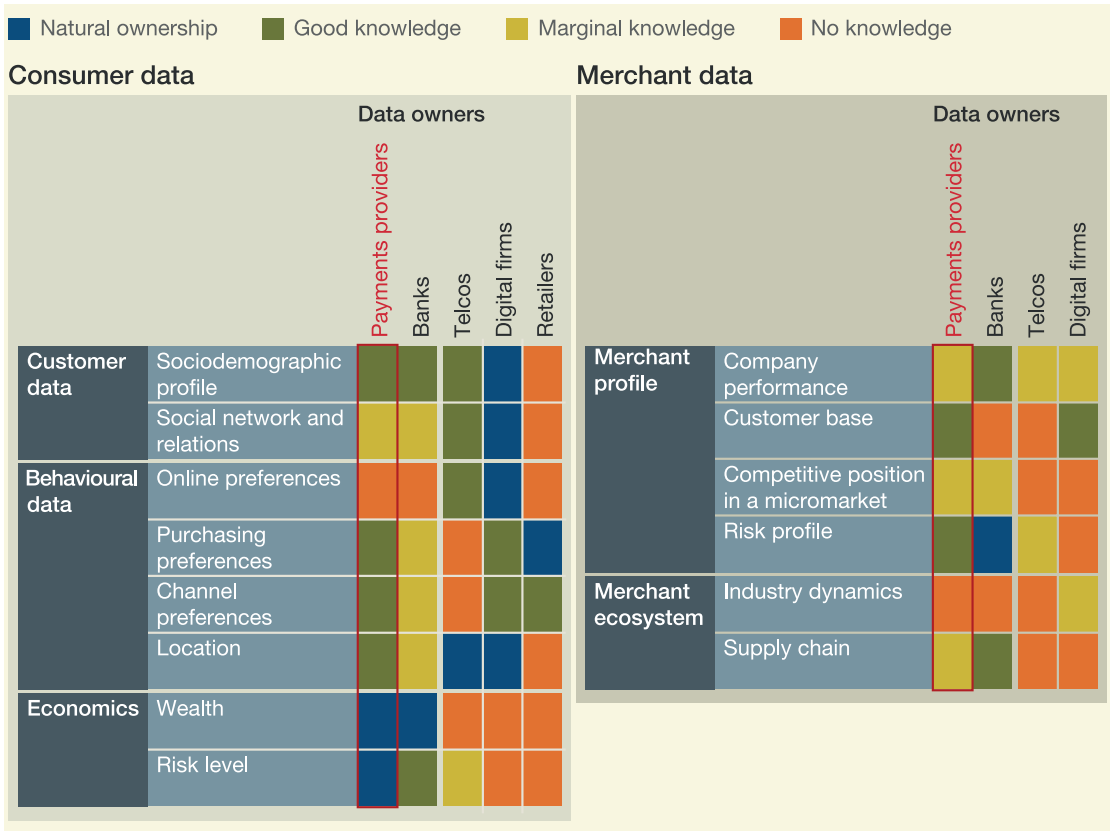
¹ Ovum & Icon Solutions ‘Instant Payments and the Post - PSD2 Landscape’

3. A ROUTE TO LEVERAGING VALUABLE REAL-TIME DATA

While instant payments in and of itself does not provide for enhanced data opportunities, most of today’s instant payments systems are built using the ISO 20022 data standard. One of the main reasons for this is the extended data carrying capabilities opened up by its implementation, and the added value it can offer banks' customers. For data to be truly valuable, it needs to be machine readable, consistently structured and standardised – ISO 20022 enables all that. It also permits as much data to be included in the message (including supplementary data elements) as the implementing organisations will allow.

However, merely collecting data is not enough: mining and extracting value from this data will be a decisive differentiating factor for banks and other players looking to compete and take their customer propositions to the next level. McKinsey & Co recently carried out an analysis of the relative strengths of payments providers, banks, telecom companies, retailers, and digital firms in terms of their access to customer and merchant data and highlighted that banks and PSPs are well placed to capture emerging data monetisation opportunities. The challenge is not finding the data, but knowing how to use it to their advantage, while still remaining compliant.

Payments providers have particularly good access to consumer and merchant data



Source: McKinsey & Co

Enhanced Data in practice

One of the main ways for banks to monetise data is to team up with retail firms to offer customers special deals or services that align with their interests. For example, some UK banks such as Lloyds and Santander, have partnered with a data advertising firm to offer a loyalty programme that offers discounts at shops that a customer frequents, as well as deals involving favourite foods. The banks then get a percentage of the fee that the agency charges to run the campaign.

With the rise of Open Banking, combined with instant payments, banks have the ability to offer an enhanced financial picture to customers. This can provide a full view of the history of inquiries and transactions (regardless of the interaction channel) and insights on the customer’s family and business relationships. These insights allow more focused and in-depth interactions with the customer, e.g. offering immediate credit at POS (being trialled by Ikea).

We will also no doubt see the increase of payments data being used to benefit the consumer by digital banks who have built their technology stack with data as a central component.

OTHER OPPORTUNITIES FOR MAXIMISING VALUE

There are other clear areas where banks can maximise the return from their instant payments investments:

1. Delivering corporate instant payments

The road to corporate instant payment adoption is challenging but the rewards are great. The combination of instant and enhanced data carrying capabilities is extremely attractive to large corporates, and in turn, greater corporate usage of an instant payment system will increase volumes and lower costs.

Instant payments give corporate treasurers greater control over their payments, allowing them to make on-the-spot payment decisions, as well as to hold on to their liquidity for longer. Instant payments enable informed and timely views on cash positions, enabling management of treasury risk. ISO 20022 data carrying capabilities also allow corporates to attach invoice data to a payment, allowing for more efficient reconciliation.

Benefits are not only limited to corporate treasurers, but also B2C treasury departments. Adopting instant payments allows organisations to offer new ways to make payments to their customers. Innovations such as R2P can also lower cost, reduce risk of fraud, and increase information around each transaction, all of which are key requirements for modern treasury departments.

While uptake of instant payments among larger corporates has been relatively slow, we are seeing it being utilised in the gig economy space and amongst SMEs. Uber recently partnered with PayPal to allow the Venmo P2P system in the US to operate as a payment method for rides, and to split bills on an Uber Eats order. Rental management platform Cubbi has launched instant rental payments as part of a series of new features aimed at offering an improved rental experience for owners and tenants.

2. Enabling cross-border instant payments

As domestic instant payments schemes grow, there is an opportunity to line these systems together to deliver cross-border real-time movement of both funds and data. For large corporates, the increasing internationalisation of value chains is likely to continue; cross-border instant payments are an interesting development that can be used to support international reconciliation processes and enhance working capital. But the cross-border instant payments space is not just for large corporates: 15 to 20 percent of e-commerce transaction value is international. This trend is steadily increasing across B2B and C2B use cases. Cross-border payments growth is particularly compelling in marketplace payments and the gig economy: combined with the growth of retail remittances and the growing role of SMEs in international business, this means that a cross-border instant payment has increasing value in the retail payments space.

SMEs in particular need easier access to international payments. In the age of the smartphone, standards are no longer set exclusively by traditional brick-and-mortar correspondent players. E-commerce is a key channel for smaller retailers, either directly, or through platforms such as Rakuten or Amazon. And unlike those large players, smaller retailers seldom have on-the-ground infrastructure that utilises local payments, and instead rely on international payments channels (including credit cards). The industry has seen a mushrooming of providers, e.g. Transferwise and Revolut, and the growth of choices for SMEs to offer cross-border instant payments is likely to be further explored.

3. Using social media as a new payments channel

As payments become further embedded in our daily lives, it is inevitable that instant payments will become more ingrained in the social media experience. This is already the case in Asia but is yet to take off in Europe and the US. However, this is changing: UK bank First Direct has launched its Fdpay service, allowing customers to make P2P payments within social media apps. Customers can use the in-app PayKey technology to tap a payment icon on the phone's keyboard within a conversation and manage a payment without having to open the bank app. Fdpay is available in WhatsApp, Facebook Messenger or any other messaging app where the phone's keyboard is used. Real-time payments of up to £350 a day, via the UK's instant mobile payments system Paym, are possible using Fdpay. Social media apps such as Instagram, WhatsApp and Facebook are all exploring instant payments and checkout options.

4. Changing Government payments

Real-time payments have the potential to drastically change a governments treasury, welfare and tax departments. Government themselves have the opportunity to bring value-added services to their citizens. Governments are traditionally large users of cheques, as they can be easier to reconcile than less modern electronic payments: however, with real-time payments and ISO 20022, the enhanced data carrying capabilities can ensure more timely, accurate reconciliations.

Real-time payments are also seen as important when dealing with emergency payments, e.g. a humanitarian crisis. Australia utilised the New Payments Platform when welfare agency Centrelink made payments to clients during recent catastrophic flooding. Governments, however, are often one of the last behemoths to adopt technological innovation. While having some of the biggest drivers, it is unlikely that we will see wholesale change in this space in the near future.

BUILDING THE FOUNDATIONS TO DRIVE INSTANT PAYMENTS ROI

There is no doubt that instant payments have become the "new normal". The opportunities available for banks and PSPs to leverage the investments they have made in instant payments are vast. However, what is clear is that, in order to fully realise the return on investment, banks will need to overcome the legacy payments environments many are encumbered with, and will need to develop a powerful transformation strategy to ensure their payments landscape is equipped to fully harness the benefits.

There are key areas that will need to be addressed:

RESILIENCY

Enable continuous service which is resilient to failures in processes, technology, and react to unpredictable volume demands



EFFICIENCY

Deliver more for less – reduce costs of both Cost and Run, without impacting quality of service



AGILITY

Deliver changes more rapidly and respond to threats and opportunities quickly and proactively



INNOVATION

Provide a foundation to differentiate themselves and tap into new opportunities



From our experience working on key payments transformation programmes for Tier 1 banks, our recommendations are to:

→ DECOUPLE THE PAYMENTS VALUE CHAIN

- Segregate Channels, Initiation Management, Execution, Clearing and Settlement functions
- Build a business case and roadmap for each of the main domains
- Distinguish Value Added Services from Commodity

→ LAY THE FOUNDATION FOR FUTURE STATE

- Real-time 24/7 and full STP by design
- API enablement (Internal AND Public APIs, API consumption)
- Data driven & ISO 20022 based (Operational data, BAM, Analytics)
- "Failure is a certainty": design for it

→ LEVERAGE LEADING EDGE TECHNOLOGIES

- Support an elastic, cloud-native architecture to scale up and down with demand
- Leverage Open Source Technologies to lower TCO with FinTechs
- Microservices and containerisation

→ ACCELERATE CHANGE

- Embrace DevOps
- Collaborate and create new partnerships with FinTechs
- Minimise vendor dependence

If you want to maximise your investment in instant payments and are exploring the benefits and challenges of payments transformation, Icon Solutions can work with you to design a payments strategy that suits your organisation's individual needs.

We bring a unique combination of experience in the real world and leading-edge technology and architectural insight. Our payments experience comes direct from working with global financial institutions such as BNP Paribas, Citi, HSBC, Lloyds and Nationwide.

Speak to us today to discover how we can help you with your payments transformation challenges.

→ ABOUT ICON SOLUTIONS

Icon Solutions provides world class payment and enterprise solutions to the global financial services sector. Clients include leading international institutions such as BNP Paribas, Citi, HSBC, Lloyds and Nationwide. Whether it be assessing payments systems, producing transformation roadmaps, or simply providing subject-matter expertise, Icon enables clients to be leaner, innovative, and responsive to the demands of the future.

If you would like to find out more about how Icon can accelerate payments transformation, call us on **+44 (0)20 147 9955** or email **info@iconsolutions.com**



LEARN MORE

iconsolutions.com | info@iconsolutions.com |  [iconsolutions](https://twitter.com/iconsolutions)