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Global FinTech Perspectives

The Rise and Rise of “Real-Time” In Payments – Are Banks Ready?

Demand from customers and banks is accelerating the shift towards instant payments

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Consumers have a plethora of payment options today, from traditional methods to emerging digital options such as digital wallets and apps. While a customer might use the options in a varied manner, the expectation remains the same – that their funds are sent and received in real time. According to a pymnts.com research report, consumer interest in real-time payments (RTP) has accelerated globally. In fact, 33% of consumers are willing to pay a fee to receive money in real time. To further substantiate this point, the use of real-time disbursements has tripled since 2020.

A similar trend is observed across business customers as well. Many businesses globally have reduced the circulation of cash by instituting contactless payments, and RTP offers a range of further benefits such as faster processing, immediate settlement, and the ability to send and receive data-rich payments messages, assisting them in automating the many elements of payments processing and reconciliation.

From the banks’ perspective, RTP can leverage efficiencies with fraud checks using multifactor authentication and scanning, while opening doors for a host of value-added services.

Figure 1: Real-time payments schemes across select European markets

Type of payment schemes	Strengths of payments scheme				
Domestic peer-to-peer	▲	▲	▲	▲	▲
Customer to business	▲	▲	▲	▲	▲
Business to customer	▲	▲	▲	▲	▲
Business to business	▲	▲	▲	▲	▲
Cross border peer-to-peer	▲	▲	▲	▲	▲
Markets	UK	Sweden	Poland	Germany	Spain
Speed	0-120 seconds	1-2 seconds	<60 seconds	0-60 seconds	0-30 seconds

High ▲ Medium ▲ Low ▲

Source: IBSI Research Analysis



Regulations across the globe have also propelled growth in real-time payments. For example, SEPA Instant Credit Transfer has enabled pan-European credit transfers with funds being made available in under a minute in most cases.

That said, availability of RTP as a service remains mixed at best in most of the markets. In Europe, while Spain has a robust instant payment implementation, regions such as Poland, UK, and Germany are relatively lagging behind in certain areas. This could be attributed to two key factors: dependence on cash and a legacy payments infrastructure.



Legacy infrastructure – a significant hindrance in the adoption of real-time payments

Real-time infrastructures can have differing points of origin – launched as an initiative to modernise the existing payment system or a market-driven strategy to tackle the advent of new-age players in the real-time payments space. However, connecting a new payments technology to an existing legacy infrastructure is not enough, and searching for synergies in the third-party marketplace could prove equally futile.

To overcome the hurdles and adopt the right strategy, traditional players need to get a holistic view of their infrastructure, as many banks today utilise the same architecture developed over decades. The legacy codes written on the banking core hinder the real-time peer-to-peer (P2P), business to customer (B2C), customer to business (C2B) and business to business (B2B) payments in domestic and cross-border activities.

Moreover, legacy systems were designed for batch processes, and often lack the capability to process, settle, and reconcile each transaction individually. RTP necessitates 24/7 system availability and support or monitoring, which is also a challenge that legacy systems continue to struggle with.

And that's not all. RTP exposes banks to additional compliance risks that cannot be easily resolved with a legacy architecture. Adapting inflexible, legacy control infrastructures for compliance is a significant challenge in a real-time environment. Yet it is critical for banks to have capabilities to meet new and evolving requirements, such as regulated screenings for Know Your Customer (KYC), Anti-money Laundering (AML), sanctions, and fraud and once equipped with these functions, the ability to capture and review the relevant data within seconds.

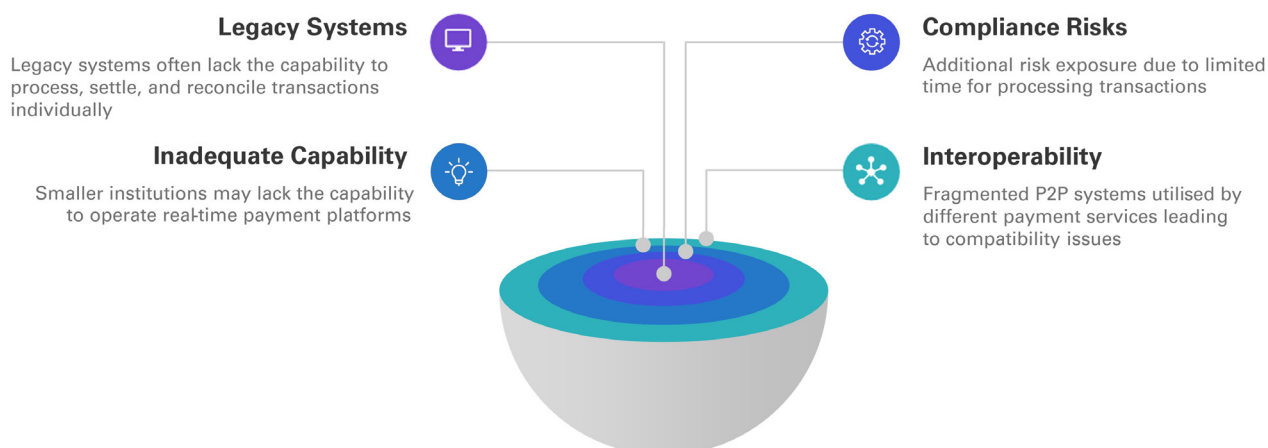


With more users accessing digital RTP services, the exposure to risks such as fraud, phishing, or virus/malware is also increasing. Additionally, financial institutions have limited time to process and manage real-time transactions – further compounding the risk of fraud and cybersecurity. For example, a trojan horse malware targeted high value SEPA accounts in Germany. A faster payments process introduced by SEPA was one of the reasons for a gap being exposed

for trojans, malware, and the like, to exploit.

At the same time, banks find it difficult to undertake a complete overhaul of their payments infrastructure, as it requires a robust transformation programme, a new way of operating and a significant investment, not just for “building” the new systems but also “running” the enhanced system.

Figure 2: Challenges in adapting real-time payments



Source: IBSI Research Analysis

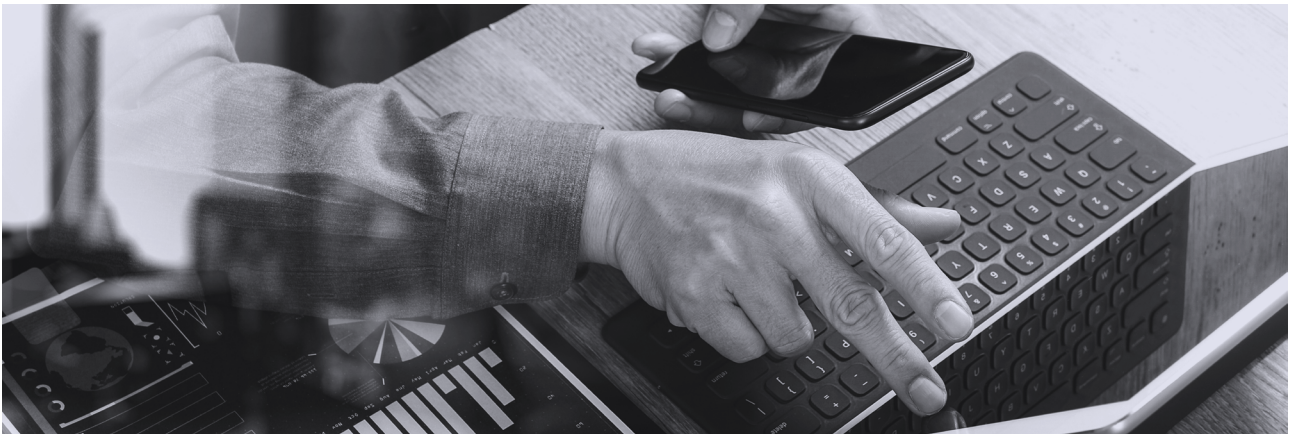
Interoperability remains more than a technological challenge

Complexities relating to RTP increase for cross-border and inter-bank transfers. European payments infrastructures are fragmented, with multiple systems that have developed to cater for domestic needs. Interoperability of national infrastructures therefore becomes an essential element to enable RTP in such cases.

While operating to a common industry standard such as ISO 20022 helps, ensuring interoperability with

other systems and having multiple payment platforms that can enable real-time payments still remains a challenge due to the significant financial investments required, new skillsets needed, and rising fraudulent activities, especially for Tier 2/3 financial institutions (FIs).

One thing is certain – firms intending to participate in the real-time payments ecosystem face multi-dimensional challenges.



Breaking down and overcoming the challenges in real-time payments

Legacy infrastructures likely pose the biggest challenge to RTP adoption, closely followed by technological capability and interoperability. The way out for FIs is modernising their legacy systems and utilising Application Programming Interfaces (APIs) to remove internal silos and at the same time interact with third-party applications to offer RTP services to their consumers. FIs can also acquire the capabilities to support large volumes of real-time transactions seamlessly and securely by investing in modern infrastructure or partnering with FinTechs experienced in the RTP space.

FIs can acquire RTP capabilities via multiple approaches such as purchasing a white-label solution, FinTech collaboration, and acquisitions. However, for smaller FIs implementing RTP systems, interoperability at the domestic and international level may be an added hurdle due to lack of resources - both financial and talent. For such institutions, partnering with Payments-as-a-Service (PaaS) providers can be

an attractive proposition. In this way, banks can reduce their upfront costs while expanding and modernising their payments and cash management products, including real-time cross-border payments, with the backing of a dedicated pool of expertise.

The success of real-time payments will depend on two major facets - how quickly and efficiently a global standardisation of the ecosystem is brought about, thus allowing banks to remain prepared for evolving regulations and market changes. It will also depend on the type and variety of RTP-related benefits that are offered to customers in terms of efficiency and personalisation, while driving inclusion by making formal financial services more accessible and attractive to consumers who currently depend on cash and mobile money services.

For more information on the topic of real-time payments, please contact the Broadridge team at global@broadridge.com.

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Jan has over 25 years' experience in Banking and FinTech sectors with a focus on transaction banking, payments and liquidity, and cash management. He is the Director of Payments & Financial Messaging at Broadridge and acts as a product manager for the company's Payment-as-a-Service BPO offering for European institutions, encompassing a hosted platform with outsourced operations and support for both SEPA payments and Broadridge's SWIFT Service Bureau business.



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Nikhil comes with two decades of experience in business research for Financial Services, advising large financial institutions on strategy, technology, and performance issues. He leads IBSi's team of research analysts, focused on providing real-time, data-driven insights on Financial Technology to clients. Nikhil is a thought influencer, having authored several reports covering emerging technologies such as Artificial Intelligence, Cybersecurity and RegTech, and has been a presenter at multiple industry forums.



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