Real-time payments
A roadmap for banks

High performance. Delivered.
The ease, speed, convenience, security and always-on processing afforded by digital technology will soon make real-time payments—the immediate transfer and availability of funds 24/7—a common occurrence.

A mainstay of the new digital Everyday Bank¹ that enables daily financial and non-financial activities, real-time payments allows customers to use their bank accounts to make payments or purchases immediately. They can see real-time balances at the point of payment or make an outgoing payment against an incoming payment, and take advantage of bank loyalty and reward offers.

There are clear and compelling reasons for banks to offer real-time payment services.² Customers who experience the best that digital provides in other industries, now increasingly want and expect instant access to monetary value. Growing expectations are also leading to a dramatic increase in the rate of option for more recent launches of real-time payments systems in countries like Denmark. Additionally, governments are increasing pressure on banks to collectively create a ubiquitous, nation-wide real-time payments system used by all financial institutions. An estimated 35 countries around the globe have already implemented real-time payments capabilities, and Celent estimates that as many as 140 could soon move to real-time payment systems.³

For banks looking to meet expectations—and, in the process, avoid the designation of transaction utility, high costs of non-compliance, possibly being acquired by real-time payments providers and, ultimately, revenue opportunity losses—the question now is “How?”

How to start on the journey

With growing customer demand for instant access, increasing government pressure for nation-wide systems and many countries already making this journey, the time to start transforming payments systems starts here and now.

It requires, for example, redesign and upgrade of internal operations processes across multiple platforms—from staffing and models to fraud and risk—and a fundamental alteration of current batch payments processes and operations. Underlying payments technology platforms and central infrastructures need modernizing, including high-performance access security and data management. Add to this, the need to harmonize and standardize domestic and international real-time payments implementations.

Despite these operational and technology challenges, real-time payments is achievable. The experience in the UK, Australia and other countries points to four key success factors:

• Vision and strategy to shift the bank from a 30-year-old payments model to a 24/7/365 payments model. This means taking a hard look at the big picture to plan both for today and what’s ahead on the horizon. Where is the bank now? How must it change to enable real-time payments? What are the target markets? What are benefits for the bank in structuring real-time payments as a new, independent line of business, rather than an extension of the Automated Clearinghouse (ACH) or wire systems?

• Commitment and patience to stay the course through substantial investments—which could total billions of dollars in the USA alone—and years of leadership focus to both minimize costs and optimize competitive advantage by pursuing new business and revenue opportunities. How will the bank, overall, optimize growth and improvement opportunities as part of the change?

• Clear and actionable roadmap that outlines a step-change path to the end state and reflects lessons learned in other markets. Who are the players and their roles? What are the interbank and intrabank structures to upgrade/implement?

• Skills gained by collaborating with other banks across the national industry and developing alliances and partnerships within the payments ecosystem.

24/7/365 payments model shift for banks.
A roadmap to get there

Each bank’s journey to build real-time payments will be unique based on its market, operational capabilities and technologies.

However, there are common steps in the roadmap from strategy to implementation planning to design, build, test and deployment (Figure 1). Strategy development begins with an assessment of potential business impacts and is followed by a gap assessment between the current and targeted payments platform. Banks can then look at the structural changes needed in the operating model and assess the organizational and process changes to accommodate real-time payments. These steps inform the development of high-level scenarios for real-time payments implementation.

Next, an implementation plan is developed, including the definition of the technical and application architecture to support real-time payments. Sourcing decisions are made and implementation then proceeds through design, build, test, deployment and support. Technology changes are accompanied by identified process and organizational changes and overseen through integrated program management and governance.

Real-time payments in the UK

The UK government and banks collaborated to create and launch Faster Payments Service in 2008, providing real-time payments capabilities for fraud and risk under an innovative infrastructure. UK banks each spent some $307 million to connect to Faster Payments Service, and more than $1 billion to upgrade their internal systems. Because banks underestimated the scope and scale of Faster Payments Service and its impact on their operations, they had to scramble to be ready by the target go-live date. When the solution went live, some banks had so little confidence in their (batch-based) fraud checking they imposed a transaction limit of £10 ($15). Over the years the banks have implemented much more sophisticated real-time controls, with many raising the limit to £10,000 ($15,000) and some to the maximum limit of £100,000 ($150,000).

Faster Payments is one of the few payment systems available day and night, 365 days per year, supporting the demands of personal and business customers. It handled more than 1 billion transactions in 2014, worth over $1 trillion.
Figure 1:
Real-time payments roadmap

Assess market trends and potential business impact
- Which business domains will be impacted by real-time payments?
- What are the key business requirements for implementing real-time payments, as well as non-functional requirements (e.g., downtimes/stand-in processing, response times, capacity)?
- How does the above differ across the countries in which the organization operates?

Assess the gap between current and target payments platform
- What are the key capability gaps (e.g., real-time fraud checking) that must be addressed in order to transition from the current payments landscape to a real-time payment capability?
- What are the 'as-is' and 'to-be' internal/external systems and flows for each payment type along the entire payments value chain (capture, validation, processing, posting and routing, and clearing and settlement)?
- What changes need to be made to the application architecture and underlying infrastructure to enable real-time payments (e.g., batch processing vs. real-time processing)?

Determine operational and organizational impact
- What changes need to be made to operational processes to accommodate real-time payments?
- What structural changes to the operating model and/or organization are necessary to support real-time payments (e.g., new processes and handoffs, greater levels of automation)?

Evaluate implementation scenarios
- What are the high-level scenarios/use cases for rolling out real-time payments?
- Will the bank migrate existing payment transactions to real-time payments, or will it grow volumes organically through customer choice?

Build implementation roadmap
- What are the high-level activities that need to be performed, over what time, and in what sequence?
- What are the estimated costs?

Determine sourcing plan
- What is the sourcing plan for real-time payments design and implementation?

Deployment
- How will progress be monitored and success measured?
Key journey influencers

As banks develop and execute their real-time payments roadmap, there are some factors that will greatly influence the decisions executives must make around payments modernization:

Starting point
Banks that already have a centralized payment hub that supports real-time banking have a good foundation from which to create and launch real-time payments. Those banks without such a payment hub will find the transition more difficult.

Time frame
It is essential that banks understand the time commitment. If starting from scratch, such as without a payment hub, the journey can take two to three years.

Cost
The cost for a bank to modernize toward real-time payments, at least through deployment, ranges from US$50 million up to US$250 million, depending on a number of factors including the current status of the payments platform. According to estimates from the US Federal Reserve and Clearinghouse (a payments company and trade group representing 24 of the US’s largest commercial banks), a multi-year effort to build a new real-time processing platform in the US will cost about $5 billion—at least 10 times that expended in the UK.¹ It is important to calculate the cost impact and assess investments proactively to avoid a knee-jerk response if/when real-time payments become mandatory.

Customer adoption
It was five years after the implementation of Faster Payments before customer adoption in the UK started to hit its stride, driven by digital demand. A much faster rate of adoption can now be expected by banks, as evidenced by the recent launch of a real-time payments system in Denmark. Banks need to start thinking about and planning for the increased pace of the customer adoption curve and how best to get ahead of it.

Ready, set, go

Savvy banks in pursuit of an Everyday Bank strategy will embrace the change required to establish real-time payments capabilities and lead the way to digital currency and profitability.

Banks should begin the work now to transform their payments processing and systems, working in collaboration and in parallel with government and the nation’s industry-wide efforts. It means fully understanding the implications for and impact on their business, followed by beginning the inside (interbank)-out (intrabank) process of change. Certainly for real-time payments and all that it will do for customers, the reward will be worth the effort.