Accenture Payments

A Real-Time Revolution: Faster Payments in the US

Creating a digital backbone to power the future of payments
The US joins the global move to real-time payments

More than 20 countries—including Singapore, Denmark and the UK—have now implemented real-time payments systems, also widely known as instant, immediate or faster payments. And adoption is continuing to escalate globally. By comparison, the US has been relatively slow to embrace the opportunity of real-time payments, due partly to the lack of central payments regulation and partly to the absence of a holistic strategy with defined business case.

However, the surging use of peer-to-peer (P2P) payment services offered in the US by Venmo and ClearXChange™ signals rising demand for immediate payments. Further evidence is provided by Accenture's 2016 North America Consumer Digital Payments Survey, which found that 48 percent of consumers have used P2P payments apps to pay other individuals, and that 18 percent make P2P payments regularly.

Against this backdrop, real-time payments services are ripe for adoption in the US. Accenture's experience in other markets has shown that institutions who take a "wait-and-see" approach to real-time payments risk missing out on the opportunities to develop new products, open up new revenue streams, and offer a digital experience that keeps pace with competitors.
Why real-time payments right now?

Why should US financial institutions and companies move to adopt real-time payments—and why now? While the value proposition will vary between banks based on their size, strategy and target customers, it will generally have four key elements in common.

Laying down the “digital banking backbone”
For institutions seeking to provide a compelling digital experience at the heart of their customers’ lives, real-time payments will be an important building-block. Moving funds is for many customers the key digital touchpoint with their bank. Enabling this to happen instantaneously underpins and reinforces the real-time, digital experience. It also provides the foundation for other revenue-generating products and services, underlining that real-time is about the wider customer service experience rather than simply moving money faster.

Meeting customers’ real-time requirements
In a world where we all expect instant access to information and services of all kinds, it is becoming less and less acceptable for payments to take a day or more to be completed. Consumers want cleared funds, available to be spent instantly. The ability to provide this gives genuine real-time payments strategies a clear edge over the pseudo real-time experience offered by services like Venmo.

Unlocking the revenue-generating power of data
In the coming years, the ability to deliver personally-targeted services and partner offers based on data carried in real-time payments messages will become an increasingly important source of revenue for banks. Banks that enhance their systems, processes and teams to capitalize on this rich payments data will open the way to a widening range of digital, data-driven revenue streams.

A springboard for agility and future change
Many banks are still using payment and core banking platforms that are decades old. And while they’re keen to modernize these systems, they’re often deterred by the cost and complexity involved and the need to invest in other areas. For banks in this position, the move to a modern infrastructure that supports real-time payments presents a golden opportunity to consolidate their investments and achieve several goals at once—combining the wide-ranging business benefits of a modernized payments infrastructure with all the advantages of real-time payments capabilities.
What must US financial institutions do to get ready for real-time payments?

Making the switch to real-time payments is a significant step for most financial institutions. Regardless of the institution’s size, market reach or strategy, there are a number of key actions to take to prepare for the move to real-time.

Create a real-time strategy

Financial institutions should develop a clear strategy for real-time payments that aligns with their overall business strategy. For example, a bank seeking to grow its commercial banking business rapidly might look to exploit the richer data possibilities of real-time payments, by offering its business customers automated real-time reconciliation of receivables. Similarly, using a real-time strategy to enable consumers to make payments instantly to each other using their phones could help to drive growth in retail banking revenues.

In devising their strategies for real-time payments, financial institutions should ask some key questions, such as:

- What kinds of customers are we targeting?
- What changes in customer behavior and requirements will come with real-time payments?
- What use cases will be most attractive to those customers?
- What new products and services will we offer to monetize those use cases?
- How will all this impact revenue creation and costs?
- What new risks will we need to manage?

The answers to these questions will help banks to start shaping their strategies for real-time payments.

Invest in technology

With the strategy in place, the next step is to define the business case and technology investment required to deliver it. And in building the business case, it’s important to consider not just the costs, but the wider benefits to the business. For example, creating a payments platform that is simpler, easier to manage and more stable will deliver long-term benefits across the enterprise that go well beyond simply gaining real-time payments capabilities.

That’s why, when building the business case, it’s a mistake to focus just on payment systems. Upgrades or changes will be required across the bank, all the way from channels, integration layers and core accounting systems to fraud and AML systems. The payments engine itself will need to undergo significant change, and payments gateways will need to handle mass payments in real time and at scale.

Significant industry and scheme-specific testing will also be needed ahead of the migration to real-time.

Financial institutions should consider likely adoption trends as a reason for investing now in a full-scale payments transformation. As the pace of real-time adoption grows it is easy to imagine that in a decade or so, legacy ACH payment volumes will have decreased substantially.

It therefore makes sense strategically to build a new real-time payments architecture that will become the core architecture over time, rather than undertaking a shorter-term, piecemeal upgrade to existing systems.

This may sound daunting, but for many banks, the move to real-time is an ideal moment to invest in new payments technology—and deliver a transformation that will ultimately lead to lower run costs, improved product flexibility and a sharper competitive edge.

For institutions that are planning to source new vendor-provided payment hubs, it will be critical to consider the vendor’s own real-time capabilities both now and in future. They should evaluate the vendor’s product roadmap to gauge alignment with the institution’s own payments strategy.

While the focus should be on investing now in real-time readiness, banks should also be aware of the implications of distributed consensus ledger technology, which has potential benefits particularly for real-time cross-border payments. The Ripple network, for example, could reduce cost, improve transparency and increase the speed of cross-border payments. Although these developments are exciting, it will be some time before the technology reaches maturity. Financial institutions should seek real-time platforms and services, with an opportunistic eye for where distributed ledger technology may make sense.
Reinvent your operations

Adopting real-time payments affects many of the people and teams that banks rely on to run their business. The key areas impacted include: 24/7 customer support; technology operations; intraday liquidity management and fraud and compliance.

While some of these areas—notably technology operations—already run 24x7x365, additional scale will be needed to handle higher volumes. The demands of real-time processing requirements will create a need for increased operational speed—in turn impacting regulatory compliance, straight-through processing, exception handling and multiple other internal support functions.

Likewise, the implementation of Robotic Process Automation (RPA)—using software robotics to automate processes—will move from being a luxury to an absolute requirement to support real-time processing. Allied to the opportunities for consolidation and restructuring of operational and support teams, the growing use of robotics should also help to drive further increases in efficiency and reductions in operating costs.

Innovate new products and services

Real-time payments is about much more than moving funds more quickly for customers. Because most real-time payments systems across the world are based on modern ISO20022 messaging standards, they allow banks to develop and deliver “overlay” services. Leveraging data-rich ISO20022 message standards, they allow additional functionality to be bundled in for payers and recipients, such as automated reconciliation of receivables and payables for business customers.

A retail example is payment request functionality. This overlay service—which is being rolled out from day one of Australia’s New Payments Platform, scheduled for launch in 2017—allows a consumer to request a payment using just a phone number or email address. The payer can then respond with a couple of clicks when a retail banking customer, for example, uses payment request functionality to replace cash when sharing a restaurant bill.

Commercial clients are also increasingly demanding real-time payments, opening the way to many new use cases that could deliver big benefits for businesses. Two examples:

- **Reduced warehousing costs.** As soon as a customer’s order is received by a retailer, the order is passed directly on to the wholesaler, who is paid instantly and ships the goods. So retailers can act as the ‘front-end’ without having to manage warehousing and fulfillment.

- **Improved cash flow for small businesses.** Because payments happen instantly, firms can retain funds longer before releasing them. This often means that companies can wait until incoming payments arrive before paying money out. For small businesses, where cash flow is so critical, this is a major advantage.

Banks should consider the opportunities presented by overlay services and aim to capitalize on these opportunities in their payments strategy, product offerings and customer offers. By being creative, banks can offer compelling new digital products and services that are tailored to the needs of specific customer groups.
Retail customers in a real-time world

John goes for dinner with four friends and pays the check. He uses the “Payment Request” button in his banking app, to ask his friends for their share of the bill. His friends receive a notification instantly on their smartphones, which they simply respond to in order to make the payment. The funds are transferred instantly. John and his friends all receive a confirmation that the transactions have completed. No cash is exchanged. No one makes more than five touches on their phone. And all the transactions are completed end to end in less than one minute.

In Accenture’s 2016 North America Consumer Digital Payments Survey, 73% of respondents indicated they used or valued faster payment execution. In the Millennial age group (ages 18–34)—this figure rose to 86%.
The opportunity to build on other countries’ experiences in real-time payments

For the US and its banks, a clear advantage of entering the real-time fray relatively late is the chance to learn from the challenges faced in other real-time payments programs globally. Many banks have underestimated the challenges and issues of introducing real-time payments.

Examples of these challenges seen in other markets include:

- Greater public visibility of operational issues. With real-time, 24x7 payments, any problems with payments typically become widely known in minutes rather than hours via social media, meaning banks have much less time to respond.

- Misdirected payments cause challenges through the irrevocability of real-time payments. Payments sent to the wrong account often cannot be stopped. This means banks should look at improved counterparty validation of beneficiary details to reduce this risk. There will also need to be interbank agreements in place to deal with misdirected payments.

- Many corporates’ ERP systems are integrated with bank payment systems (e.g. via host-to-host connections) and changes can be complicated. Banks should think about the likely impacts that the new real-time systems will have on their large corporate clients.

**Indirect participant.** Under this option, the bank joins the real-time payments scheme as an “indirect participant” via another bank that acts as its “sponsor”. While this allows banks to brand themselves as offering real-time payments, the payments are typically not instant in practice. For most banks, this option would require little change to existing systems, meaning it involves the lowest level of up-front cost. However, this approach would involve making trade-offs in areas including control, the differentiation of the bank’s capabilities in the market, and the pace of innovation. In the UK, indirect participants in the Faster Payments scheme have started to find themselves at a significant competitive disadvantage—and as the market matures, there is a rise in direct participation as a result.

**On-par with market.** Under this option, on top of meeting the minimum requirements for membership of the real-time payments strategy, the bank would also offer its customers a set of additional products and overlay services. These might include offerings such as P2P payments as part of a wider digital offering; payment via cell phone/email; bill payment; and payment request functionality, as described earlier. Depending on the bank’s current systems and the customer value proposition it intends to deliver, this adoption strategy may require significant investment—possibly including upgrading or replacing the core payments infrastructure, and changing the interfaces with back-end systems to process payments messaged in real time.

**Market leader.** Under this approach, the bank repositions itself as a market-leading digital bank, by investing both in new overlay services and also in the core processing capabilities to deliver them. The additional products and services offered could include payments integrated into personal financial management (PFM) services within banking apps, or industry-tailored overlay services for businesses in sectors like health and real estate. This strategy would tend to suit banks that have already invested in an up-to-date payments processing platform. Banks taking this approach would also be likely to use their API platforms to collaborate with carefully-chosen third-parties, enabling them to provide their customers with a wider range of services. However, the potential rewards from these innovations need to be weighed against the required trade-offs in terms of delivery risk and cost.

Whichever approach is adopted, it’s important to remember that speed of adoption is increasing globally. Early adopters like the UK were able to adapt and improve their systems over the seven-plus years it has taken to reach mass adoption. Countries such as Denmark that have introduced real-time payments more recently have tended to see very rapid take-up. Given this experience, financial institutions in the US should look to build systems that can prepare for explosive, early growth.
Real-time payments are here—how will your organization respond?

While the US has been slower than many other countries to seize the real-time payments opportunity, the competition in a global economy will not wait and will not slow. Now is the time to think about what real-time payments will mean for you and your customers, what strategy to adopt, and what investments are required.
Accenture has been working with real-time payments systems globally since the early 2000s, when we helped multiple UK banks prepare for adoption of the UK’s Faster Payments Scheme. Since then we have advised on and implemented dozens of real-time payments programs globally, ranging from strategy work to industrialized core payment renewal and integration at pace and scale. Through these engagements, we have developed a range of assets to help your company capture the real time payments opportunity.

Real-Time Payments Analysis Framework

Our Real-Time Payments Analysis Framework analyzes real-time payments implications in our client’s operating environment. The framework is centered around four key layers of payment: Product, Scheme, Settlement, and Clearing. This framework is complemented by assets refined across multiple real-time payment implementations.

Real-Time Payments Diagnostic

Our Real-Time Payments Diagnostic helps clients understand their own readiness for—and the implications of—real-time payments, using a set of assessment criteria across strategy, technology, operations and products.

Real-Time Payments Requirement and Test Repository

Our Real-Time Payments Requirement and Test Repository contains a large number of requirements and test cases captured from our global real-time payments work, which can be used in the design and build of real-time ready payment systems.

Real-Time Payments Target Operating Model and Reference Architecture

Our Real-Time Payments Target Operating Model and Reference Architecture provide a reliable, best practice foundation for architecting real-time payments systems.
Case study: Accenture helps one of the UK’s largest banks migrate to real time payments

This corporate and retail bank with over 10 million customers turned to Accenture for help in implementing Real-Time Payments capabilities as part of adoption of the UK’s Faster Payments Scheme. The two-year delivery program involved design, build and six phases of testing over 18 months, from self-certification testing to final integration testing. Four new payment systems were developed in a new back office architecture with a new payments hub and real-time payments gateway, requiring the creation of 45 new interfaces between legacy systems and the real-time payments gateway. Five core banking systems were changed, and eleven core channel systems were upgraded. These technical changes helped the bank to deliver better customer propositions, and have since formed the bedrock for new products and services.
ABOUT ACCENTURE PAYMENTS

Accenture Payment offerings help bank and nonbank payment service providers and processors improve business strategy, technology and operational efficiency, covering retail payments, corporate payments and transaction banking, card payments, digital payments and innovation, compliance and operations. Accenture has more than 4,500 professionals dedicated to helping payment service providers and processors set strategy, reposition for the digital economy (including deploying open APIs, cloud services, real-time and distributed ledger technology and working with FinTechs), develop new mobile and digital services, maintain payments as a revenue-generator, reduce costs and improve productivity, meet new regulatory requirements, and simplify and integrate their payments systems and operations. Accenture has helped some of the world’s top payment service providers and processors turn their payment operations into high performing-businesses. To learn more, visit https://www.accenture.com/us-en/banking-payments-services

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1 A service of PayPal, Inc.

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