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Exploring the Business Case for Immediate Payments

ABOUT IMMEDIATE PAYMENTS 4

WHAT MAKES A PAYMENT IMMEDIATE? 4

WHY DO WE NEED IMMEDIATE PAYMENTS? 4

IS THERE A CASE FOR 'FAST ENOUGH' 4

MEASURING NEW PAYMENT METHODS: FOUR KEY PRINCIPLES 6

PRINCIPLE 1 – THE PAYMENT METHOD SHOULD HAVE A SOUND AND UBIQUITOUS TECHNOLOGICAL FOOTING 6

PRINCIPLE 2 – THE PAYMENT METHOD SHOULD CREATE FISCAL BENEFITS FOR ALL CONCERNED 6

PRINCIPLE 3 – THE PAYMENT METHOD SHOULD DELIVER TANGIBLE, NON-FISCAL BENEFITS FOR THE PAYER, PAYEE AND THEIR CORRESPONDING THIRD PARTIES (TYPICALLY BANKS) 7

PRINCIPLE 4 – THE PAYMENT METHOD SHOULD IDEALLY DELIVER SOCIETAL BENEFITS 7

EXPLORING THE BUSINESS CASE 8

THE COST OF SETTING UP AN IMMEDIATE PAYMENTS SCHEME 8

MACRO-ECONOMIC BENEFITS 8

SOCIETAL BENEFITS 9

BENEFITS FOR THE BANKING INDUSTRY 10

BENEFITS FOR THE PAYMENT USERS 10

OVERLAY SERVICES 11

HOW OVERLAY SERVICES ARE CONSTRUCTED 11

CASE STUDIES 12

CONCLUSIONS 14

APPENDIX: THE CASE FOR IMMEDIATE PAYMENTS IN BELGIUM 15

THE BELGIAN PAYMENTS MARKET 15

AREN'T OUR PAYMENTS FAST ENOUGH? 15

SHOULD I SUPPORT A DOMESTIC OR EUROPEAN SCHEME? 16

HOW DOES BANCONTACT FIT IN? 17

Executive summary

It's clear that consumers want payments to be immediate. And, they want immediate payments now—and for free and with high levels of security. This also is what regulators want, and so there is a continuing regulatory drive towards payments that are settled in seconds—instant, real time and fast—for the new generation of payers and payees.

However, immediacy presents the banking industry with a significant number of expensive challenges, not the least of which is integrating new systems into legacy banking systems, particularly in terms of real-time balances, data flows and reconciliation.

A European infrastructure to support immediate payments is under development in parallel with a number of domestic initiatives—all at significant cost with no clear understanding of the benefits or rationale for doing so. In this paper, we outline some of the key components for a viable immediate payments infrastructure and dive into how a return on investment can be generated within a tough regulatory environment and in a consumer market that is used to free payments.

CGI believes that the opportunities around immediate payments are beyond mere compliance and that those ready to strategically move forward can capture new business and derive tangible benefits.

About immediate payments

WHAT MAKES A PAYMENT IMMEDIATE?

Call them what you will—immediate, instant, real time or fast—this growing species of retail payments represents the pinnacle of technology in banking systems and schemes that facilitate the movement of money in real time for the mass market. Moving towards a more standard definition, the Euro Retail Payments Board (ERPB), a multi-stakeholder group chaired by the European Central Bank (ECB), declared, "Instant payments, defined as solutions available 24/7/365 and resulting in the immediate or close to immediate interbank clearing of the transaction and crediting of the payee's account, are the next frontier of development in the payments industry."[1]

The ECB is looking to shape the immediate payments debate

With real-time payments comes a great deal of change in the relationship between the payment facilitator and the customer. The first issue is the irrevocability of real-time payments. For years, we've been used to the fact that when a real-time payment is gone, it's gone. Whether delivered in cash, via international remittance, or through a web payment provider, consumers don't expect to get their money back, except in some cases of fraud. This isn't typically what they expect from a bank payment. And, in most cases, it can't be done due to legislation such as the new PSD2, which fundamentally changes roles and responsibilities in the payments market.

All of which means that going real time will typically cost money for the provider if it's a regulated organisation. On the other hand, immediate payments present opportunities. For example, when things are done in real time, you have immediate knowledge of a transaction and typically an open conduit to your customer at the moment of decision. This is an opportunity that retailers have been exploiting for years by placing impulse buy items next to the checkout and asking cross-sell questions like, "Would you like the extended warranty"?

WHY DO WE NEED IMMEDIATE PAYMENTS?

Despite our internal conflict with natural progression as a species, we are still driven by the power of evolution. To quote enigmatic French pop duo, Daft Punk, humans are driven to, "Work it harder, make it better, do it faster, [which] makes us stronger". This, in essence, is Darwinian theory for the 140-character generation. However, evolution is usually driven by a catalyst—a game changer that makes the next evolution possible or necessary. In the case of immediate payments, our increasingly mobile-dependent societies are getting used to instant gratification—the immediate filling of requests via both mobile and Internet channels. And, so consumer perception that payments too should be immediate is driving the evolution rather than any underlying technological shift

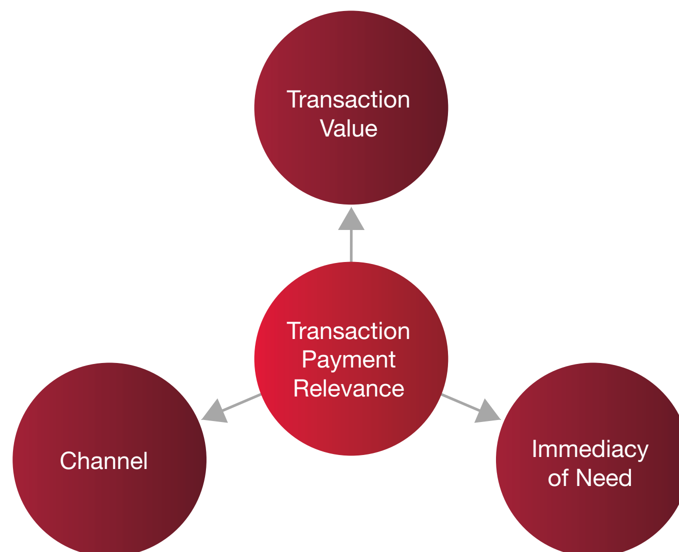
In essence, we need immediate payments to fill the demand of our customers for instant gratification, but can their demands be tempered in cases where the transaction does not require instant fulfilment?

IS THERE A CASE FOR 'FAST ENOUGH'?

Due to the enormous cost of infrastructure and a decade-old perception that we need to be lean wherever possible, the number of payment methods available to a typical banking customer have significantly decreased over the past decade. Customers were told, "Why use a cheque when you can make an online transfer more easily and securely"? This move to a lean payment market was actually flawed logic, as many payment methods that used to be available had their own features that the consumer found useful.

[1]Press release, "ERPB to address instant payments in euro and remaining SEPA issues", 9 December 2014.

Using the cheque, for example, was a guaranteed tokenized method of paying someone immediately with a delayed settlement, unlike a regular credit transfer. The largest benefit of a cheque's delayed settlement was that the payer could theoretically write cheques against an empty account and fill it prior to the clearing date, perhaps two or three days later. The guarantee of payment was the significant factor here rather than the actual movement of money. However, due to the limited value of the guarantee in many cases, cheques were not always appropriate for every transaction and so became less useful as average transaction values rose.



Transaction Payment Relevance (TPR) is the combination of three factors

The link between the transaction value, the need for immediate guarantee of payment, and the interaction channel creates a theoretical triangle which can be used to define the appropriateness of the payment method to the transaction—or its transaction payment relevance. Immediate payments have the highest transaction payment relevance (TPR) in transactions where the availability of funds needs to be immediate and in a channel where the payer and payee can interact electronically in an online environment. Examples can include P2P, remittances, retail payments in FMCG brick and mortar retailers, food service, transit ticketing, deadline bill payments or deposit payments. In face-to-face transactions, cash has a similar TPR to electronic immediate payments, but fails whenever the transaction becomes remote.

Cheques have a high TPR in the remote channel, as they can be sent by post to pay utility bills, to pay for goods in a MOTO transaction, or to donate to charity. In these instances, the window of payment is large, meaning that immediacy is less important. However, the intrinsic cost of cheque clearing means that it is no longer a viable payment method. With a strong TPR in its own space, replacing the cheque requires a payment method with similar strengths.

Measuring new payment methods: four key principles

Now that we have discussed the concept of TPR, we can look in more detail at how a new payment method, whether a governmental interbank system or a closed-loop mobile app, should be designed. Fundamentally, there are four key principles that should be applied whenever you consider creating a new payment method.

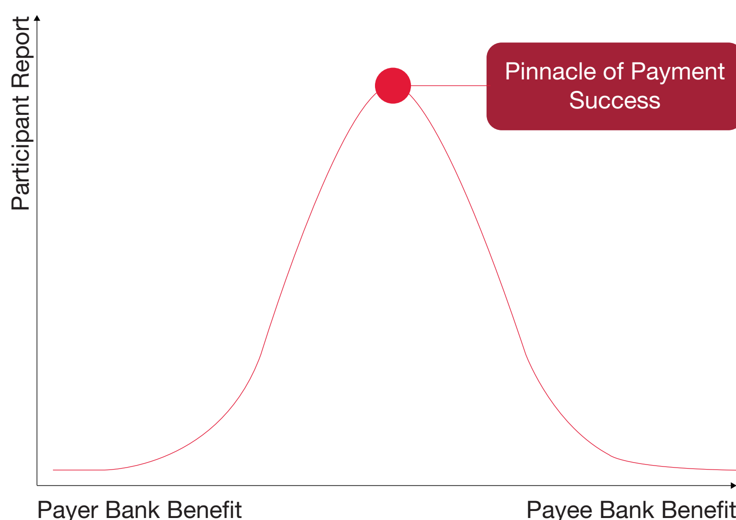
PRINCIPLE 1 – THE PAYMENT METHOD SHOULD HAVE A SOUND AND UBIQUITOUS TECHNOLOGICAL FOOTING

There are many examples available in the market where payment methods have not succeeded due to their limitation in scope or their dependence on future adoption of a technology or standardised messaging format, such as those published by The Berlin Group. The slow uptake of contactless card payments has been directly attributed to the "chicken and egg" principle where a lack of acceptance devices prevents issuers from providing cards (and vice versa).

This cycle has been broken only in a few markets where there has been a concerted drive to adopt technology, or an issuer has begun unilateral mass issuance, regardless, in the hope that the market will adopt. In contrast, the SEPA payment schemes in Europe have been successful in terms of volume due to a standardised underpinning and governmental mandates for bank connectivity that ensure ubiquity.

PRINCIPLE 2 – THE PAYMENT METHOD SHOULD CREATE FISCAL BENEFITS FOR ALL CONCERNED

In essence, if a new payment method isn't a win-win financially, then the impetus to migrate away from existing methods is not found. While the use of credit cards for Internet payment transactions is neither convenient nor low cost, there has yet to be a universal alternative in most markets that reduces costs for the customer, merchant or service provider. However, in the Netherlands, development of a lower cost credit transfer-based alternative, iDEAL, was investment-funded by the banking community and has subsequently delivered a large reduction in card usage to the financial benefit of banks, merchants and consumers alike.



Adhering to Principle 2 achieves the balance of three criteria

PRINCIPLE 3 – THE PAYMENT METHOD SHOULD DELIVER TANGIBLE, NON-FISCAL BENEFITS FOR THE PAYER, PAYEE AND THEIR CORRESPONDING THIRD PARTIES (TYPICALLY BANKS)

However, lowering the cost of your new payment method will not guarantee its uptake. Consumers are willing to pay for convenience, and most mature payment methods that you will be competing with have had years of tuning.

Regulations such as the Payment Services Directive (PSD) have ensured that payments are secure and that consumers are protected. If you then present a new payment method that is unregulated or potentially less secure, then it will likely not attract users, whatever the cost per transaction, unless the non-fiscal benefits are significant and tangible. Non-fiscal benefits can include enhanced transaction data (e.g., what was bought, electronic receipts, etc.), simplified process, or even, if relevant, immediate availability.

PRINCIPLE 4 – THE PAYMENT METHOD SHOULD IDEALLY DELIVER SOCIETAL BENEFITS

IIt is well documented that cash usage has a significant negative impact on society, including the facilitation of criminal and terrorist activity contrary to AML legislation and FATF. However, the liquidity that cash brings and the societal benefits of it are strong arguments for the retention of cash as a payment method.

Unlike new payment methods, cash has evolved over time, and so measures for counteracting the negative aspects of cash usage can be built into new payment methods to deliver strong societal benefits. Evidence from the Swedish cash-free society experiment[2] already indicates significant drops in certain types of criminal activity, as well as increased tax receipts that can be spent on additional services for society or to reduce the tax burden.

Studies from immediate payment schemes show additional societal benefits such as a reduction in accounts receivable/accounts payable (AR/AP) costs, reduced need for trade credit, reduced counterparty risk at many levels, improved AML/CTF/fraud prevention, easier international trade facilitation, and potential GDP growth by increasing the velocity of circulation in the economy. Measuring these benefits is often difficult, but is a key part of understanding the macro business case of a new payment method. Therefore, when delivering a new payment method, great thought needs to be given as to how to best impact society and avoid negative effects.

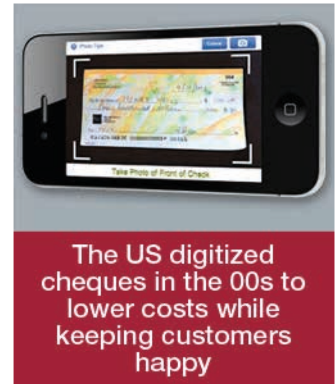
[2]Nina Wenning, CEO, BDB Bankernas Depå AB, "The future of cash in Sweden: On the threshold of survival"?, 14th Annual Nordic Card Markets and Future Payment Solutions Conference, January 2015.

Exploring the business case

For banks to make real-time payments, they are going to have to think differently about their relationship with their customers. Understand what makes them fall in love with a payment method above all else. A good case study for this was the furore over the proposed UK cheque abolishing deadline in 2018.

Although cheque usage volume had fallen from 2.5 billion in 2005 to 545 million in 2012[3] (or less than 8 cheques per adult) and was on a continuing downward trajectory, a proposed logical scrapping of cheques led to a media frenzy and government intervention. The debate that ensued allowed proper conversations on the business of payment methods and a move towards digitisation in this instance.

What this highlights is that payment methods don't always make sense for the providers anymore, but users feel strongly about them based on the perceived value they bring. Even lapsed cheques users fought to stop them from going away. Is a real-time solution going to generate that kind of affinity?



The US digitized cheques in the 00s to lower costs while keeping customers happy

THE COST OF SETTING UP AN IMMEDIATE PAYMENTS SCHEME

Although it is highly likely that a Pan-European[4] immediate payments scheme will appear sooner rather than later, a number of markets have or are considering domestic schemes, as these will cover the bulk of their traffic. However, the costs of doing so are truly significant and will mean that domestic immediate payments are not for everybody.

Given the wealth of information available and its recent timing, the best case study for setup costs comes from the UK's Faster Payments scheme.

The scheme itself cost around EUR 290 million to create[5]. This included:

- Project costs
- Creation of the scheme
- Creation of the physical infrastructure
- Seven years of operational costs
- Marketing and education programmes

Every bank that connected then had an estimated EUR 30-100 million project which included:

- Upgrade of infrastructure to support ISO 20022
- Evolution of core banking systems to support (near) real-time payments
- Support of payee credit funding in the case of gross/net settlement

As the 10 banks covering the majority of the market joined—with an average connection cost of EUR 65 million—this generated a total cost of EUR 650 million. The costs tended to be higher for larger banks than smaller ones.

The final setup costs are known as transfer costs. These costs are attributed to the possible revenue reductions for bank and non-bank money transmitters, resulting from shifting volumes—estimated by UK Payments to be approximately EUR 50 million for its market. This results a total setup cost in the region of EUR 1 billion—a significant undertaking in markets where transaction volumes and revenues won't support a strong ROI.

MACRO-ECONOMIC BENEFITS

However, there is a strong case for governmental or market investment in immediate payment systems. The UK case figures indicate macro-economic benefits that arise from the launch of immediate payments, subsequently supporting principles 2 and 4 of our model.

[3]Figures from the Cheque and Credit Clearing Company, UK.

[4]With Article 2.2 of the Resolution on Payment Services in the internal market (08/10/2015) extending the scope of regulation to all member states regardless of currency.

[5]Figures from Federal Reserve Bank of Boston, "Costs and Benefits of Building Faster Payments Systems: The U.K. Experience and Implications for the United States," Current Policy Perspectives No. 14-5, 24 February 2015.

Firstly, there is a general reduction in the use of cash and the costs associated with it purely due to the availability of an immediate payments infrastructure. In the UK, this is estimated to be a payment market cost reduction in the region of 2.6 percent. This value is the result of a reduction in the physical issuance and maintenance of cash, a reduction in the criminal aspects of cash, and improved tax receipts through increased traceability of transactions.

Payments are increasingly being initiated in new channels and the Internet of Things (IoT)

Immediate payments also have been a proven stimulator of the FinTech sector, facilitating considerable investment in new technology and providing the space for start-ups to flourish in the new environment. On the back of this stimulation by the UK Faster Payments system, venture capital investment in UK FinTech firms during the first six months of 2015 eclipsed the same period in 2014 when firms raised just over EUR 1.5 billion[6] and are hundreds of millions of euro higher than the full 12-month totals from 2010-13.

Immediate payments also have a direct impact on the flow of money. With the systems designed to run 24/7/365, there is a significant increase in economic liquidity that can be realised.

And, finally, with the migration to newer technology, there is a significant reduction in the operating cost of legacy payment schemes and the infrastructure to support them, whether that legacy is paper or electronic.

SOCIETAL BENEFITS

The implementation of immediate payments in most European markets will be the first major change to banking infrastructures this century. Driving banking infrastructure modernisation has a huge societal benefit, not only because of the jobs that the process creates, but because of the growth that a new way of doing things generates.

Likewise, an immediate payments infrastructure creates the baseline for new payment initiatives and products—often referred to as overlay services—which spring from either existing players, such as the banks and vendors, or from a new generation of companies entering the payments market. Invigoration creates innovation which is the spark required for evolving and moving forward.

Similarly, as proven in the UK (Faster Payments), Brazil (SITRAF) and Korea (HOFINET), overall electronic payment volumes increase with immediacy. These systems facilitate regularisation of electronic payments by changing the perception of what a payment can be and how fast it should happen. Remember back to a time before you had your first mobile phone. You probably couldn't see a need for it back then but try living a day without it now. Infrastructure creates the space in which a need can be fulfilled.

But, perhaps best of all, by implementing immediate payments, we make Björn Ulvaeus happy. In addition to being a world famous singer and songwriter, the first "B" of ABBA and owner of the world's greatest trousers, Björn is a renowned proponent of the cashless society for reasons best put in his own words.

My son's apartment was burgled a while ago. He happened to put his key in the door while the intruders were busy doing their job and, rudely interrupted, they fled over the balcony the same way they had entered. The only thing they got away with was my son's sense of having had his privacy violated. A couple of days later it happened again. Most likely the same guys, who understandably wanted to finish what they had started. This time they were left in peace and, work done, they brought with them TV, computer, designer clothes and other stuff that easily could be converted to cash.

We can be reasonably sure that the thieves went straight to their local peddler. We can be absolutely sure that the ensuing exchange of goods never would have taken place in a cashless society. In the long run, it would be extremely impractical for the peddler to trade stolen goods for milk and bread for his children. The drug pusher would be equally uninterested in TV sets and computers. In a cashless society he wouldn't be in his business at all. His business wouldn't exist, full stop.

All activity in the black economy requires cash. Peddlers and pushers can't make a living out of barter. It is highly improbable that a coca farmer has use for my son's jeans. He wants cash. Imagine if there wasn't any. From farmer to addict, a drug changes hands many times, and every time cash is a must. Imagine if there wasn't any.

[6]Finextra.com, "Fintech leads the charge as VC investment in UK tech firms hits record highs," 03 July 2015.

Under Björn's watchful eye, Sweden is rapidly moving towards becoming a cash-free society with cash transaction volume already below 50 percent of total transaction volume versus a European average of around 80 percent. This was made possible only by the implementation of new payment methods which then allowed changes to legislation to drive down cash usage and, in turn, lower certain types of crime, reduce the cost of cash management by over 20 percent, and increase charitable giving significantly.

BENEFITS FOR THE BANKING INDUSTRY

Drawing on studies from the UK, Singapore and Brazilian markets, it's clear that even in these diverse markets there are significant benefits for the banking industry in implementing immediate payments. Primarily, there is an average 15 percent year-on-year growth in non-cash payment volumes for a number of years after launch. This growth facilitates a potential float benefit for the payer bank in gross or net settlement systems, typically due to the gap between the deduction of funds from the payer and settlement with the payee[7].

It also is unusual for immediate payments to be implemented on existing platforms, meaning that, after the initial investment, gains can be achieved from a reduction in the use of more expensive, aging payment systems. However, evidence from Mexico, Singapore and the UK shows that there is little or no cannibalization of debit card volumes, but rather a large reduction of legacy credit transfers, cheques and cash usage.

Immediate payments also have been shown in all markets to reduce the number of branch visits. Typically, there is no paper element to an immediate payment, and so those customers visiting the branch to submit a credit transfer or draw a cashier's (counter) cheque will no longer do so. This, coupled with an ability to charge for some overlay services, can create an interesting opportunity for banks.

BENEFITS FOR THE PAYMENT USERS

Looking at principles 2 and 3 of our payment model, the final recipients of fiscal and non-fiscal benefits need to be the users of the payment system—the payer and payee, debtor and creditor, merchant and customer. One of the greatest benefits gained by customers from immediate payments is greater surety of their cash position. Knowing what you have allows you to make more informed decisions at the moment of purchase and will likely lead to increased spending or a reduction in unexpected overdrafts.

Immediate payments also have been directly linked to a reduction in late fees incurred on items such as unexpected overdrafts or utility bills which can now be paid immediately upon reminder rather than on a D+n basis. Given that the lowest late payment fee for a UK utility bill is GBP 6 and the cost of building and running Faster Payments around GBP 3 (EUR 4.50) per capita, preventing a single late fee per household can already create the ROI for the system. Further, if each bank client visits his or her branch one less time per year, banks can and should pass on some of the savings in terms of lower account costs or better deals.

In fact, reducing visits to the branch can be a direct saving for the customer. With a decreasing number of bank branches serving wider areas, the cost of fuel and parking or use of public transport to go there already can be significant. There also is a reduction in the time taken for banking, a benefit treasured in today's time-poor society.

Immediate payments through the banking system also lead to significantly lower fraud than traditional payment methods. Unlike traditional remittance (cash-to-cash) services or card payments, immediate payments are typically triggered through secure banking portals or trusted overlay services. Figures published by UK Payments show that fraud volume and value in its Faster Payments system is significantly below that of the card systems operating in the same market.

And, finally, for the payment users are the overlay services. These new services, underpinned by an immediate payments infrastructure, often bring unique and tangible benefits to end users, whether through providing immediate access to loan capital, facilitating P2P transactions, or allowing high value purchases to be made more securely and without large cash volumes. The availability of overlay services is the largest benefit for payment users.

[7]Benefit achieved if system has gross/net settlement and interest is >0%.

Overlay services

Overlay services are essentially the front-end components that leverage an immediate payments infrastructure to deliver services to payment end users. While the interbank infrastructure for immediate payments is often common among markets, there are significant differences in the overlay services delivered—usually due to the unique market circumstances.

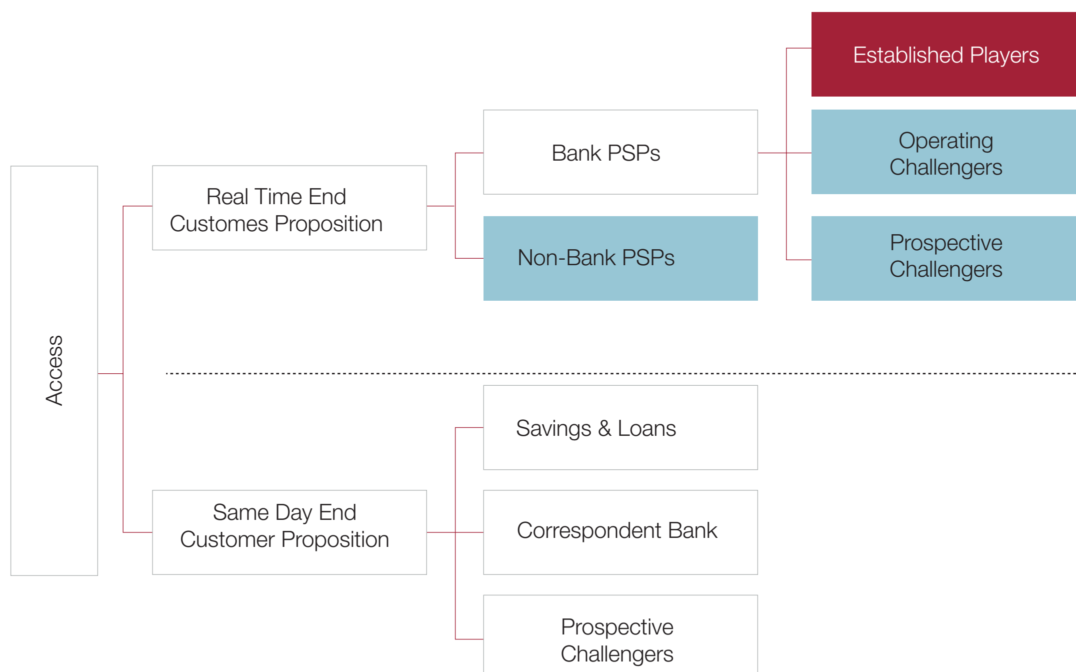
One common thread in markets where payments are generally free to the consumer is that overlay services need to deliver considerable real or perceived value if they are to be chargeable services. This means that those with a weak service proposition will invariably need to be delivered for free. However, in markets where interbank costs are heavily controlled—such as the European Union—overlay services are the revenue generation engine for ongoing operations. They are also the most competitive part of the system, with established players facing challengers from operating players such as outsourced processors and new players taking advantage of the benefits of instant payments.

HOW OVERLAY SERVICES ARE CONSTRUCTED

In all markets where immediate payments have been implemented, so too have a variety of overlay services, typically covering the direct payment area but also as a complimentary component that make other services possible. Immediate payment systems have four unique features that are not wholly replicated in any other payment system:

- **Fast**
- **Guaranteed**
- **Remote**
- **Low Fraud**

These features of immediate payments create a sound basis for new services or offer the opportunity for banks to create a new proposition for their customers.



Access to an immediate payments infrastructure creates new opportunities

CASE STUDY: PAYM

Paym is a mobile overlay service in the UK that is effectively a tokenized mobile payments scheme built on top of Faster Payments. Its key unique selling point is that it uses the mobile phone number of the user as the key token to facilitate a payment, made possible if the user's bank is a participant in the scheme and if the user registers his or her account with Paym. Once registered via the Paym mobile app, users can then send or receive payments of up to GBP 300 (EUR ≈425) to and from other registered users. With over 1 million users registered in the first 100 days, Paym is rapidly growing, particularly with use cases in the areas of ride share petrol money, IOU fulfillment, online auctions, bill payment, and cost sharing.

As a key provider in building the infrastructure for UK Faster Payments, CGI was leveraged further to help create Paym, implementing diverse workstreams, including security and fraud, rules and governance, central marcomms, and member engagement.

From our experience, the key success factor for this service is market saturation. By getting the UK's top 5 banks on board from day 1, Paym could reach 97.8 percent of bank deposits. And, this was a situation that could be replicated in most European markets, unlike in the U.S. where the top 5 cover only a little over 55 percent of the market. However, industry participants believe that the overall success has been tempered due to inconsistency in branding—each bank marketed the product in its own way—and a confused message that has made acceptance more difficult.

Additionally, with Paym marketed by each individual bank, the consumer value perception was linked to a bank payment, and so generating direct revenue from use of the service has been impossible due to the existing environment of "free" banking services. Many industry watchers believe that the lesson from Paym is it should be a bank recommended, rather than bank delivered, service despite bank ownership of the product.

CASE STUDY: WONGA.COM

A controversial business at the edge of where most banks practice business is Wonga.com, part of a sector that serves the "under-banked" population and riskier customers by providing credit and remittance services, typically with higher interest rates or high fee products (particularly in countries with usury regulations). This is a space that many banks either deny the existence of, or find distasteful, but the growth of this sector indicates a strong need.

A good example of this type of business is the UK's Wonga.com, a business that grew out of the financial crisis and leverages UK Faster Payments to fund loans in a short period of time, sometimes in as little as 15 minutes. These loans, designed to bridge short gaps between cash shortfalls and payday, are known as payday loans and typically carry significant interest rates in line with the pawn industry. Due to the risk pricing model that can be applied in the UK, Wonga.com's representative APR is listed as 1,509 percent in its web examples[8] —although recent pressure has made it cap repayments at a maximum of the loaned amount plus 100 percent.

Prior to the availability of immediate payments, businesses like Wonga.com were much less commercially viable and cash driven due to the immediacy required for services like payday loans—typically arising out of desperation or a gap between a need and available funds. This space was previously inhabited by the pawn industry, or often with cheques which offered an immediate payment guarantee with a delayed requirement for settlement (longer if the "cheque is in the mail"). As traditional banks decreased the availability of cheques due to processing costs, they failed to deliver a viable alternate product and, by providing new infrastructure without overlay services, they left this space open to new providers.

[8]Examples shown on www.wonga.com.

CASE STUDY: SINGAPORE MOBILE PAYMENTS

Implementation of immediate payments in Singapore, known there as G3 or commercially as Fast & Secure Payments, has created a battleground for mobile payment services, with lack of a cohesive market plan seeing each major bank initially tying in with a separate telco or going it alone:

- Standard Chartered Bank + Singtel created Dash
- DBS + M1 created PayLah!
- Maybank created Mobile Money
- OCBC created Pay Anyone

Each of these is competing in an already crowded space with MasterPass, PayPal Wallet and a number of smaller proprietary solutions. Each bank approached the market differently, with some providing apps that offer the ability to pay anyone regardless of his or her bank, and some linked exclusively to customers shared by the bank and telco, creating a narrow, but well-defined scope.

Facilitated by the easy API connectivity that G3 provided, each service typically began with P2P payments and then expanded to provide NFC connectivity, facilitating immediate payments at point of sale. This directly competed with the cards space, giving the country the number one spot in MasterCard's Mobile Payment Readiness Survey published mid-2015.

With over 20 percent of the population using mobile payments regularly[9] and year-on-year transaction volume growth of 42 percent, Singapore is clearly a market that is ahead of the curve. However, the decision not to have a single banking approach and the API infrastructure is leading to an increasing number of entrants and many apps owned by each customer. It's likely that consolidation is only a matter of time away.

[9]Figures from the World Bank.

Conclusions

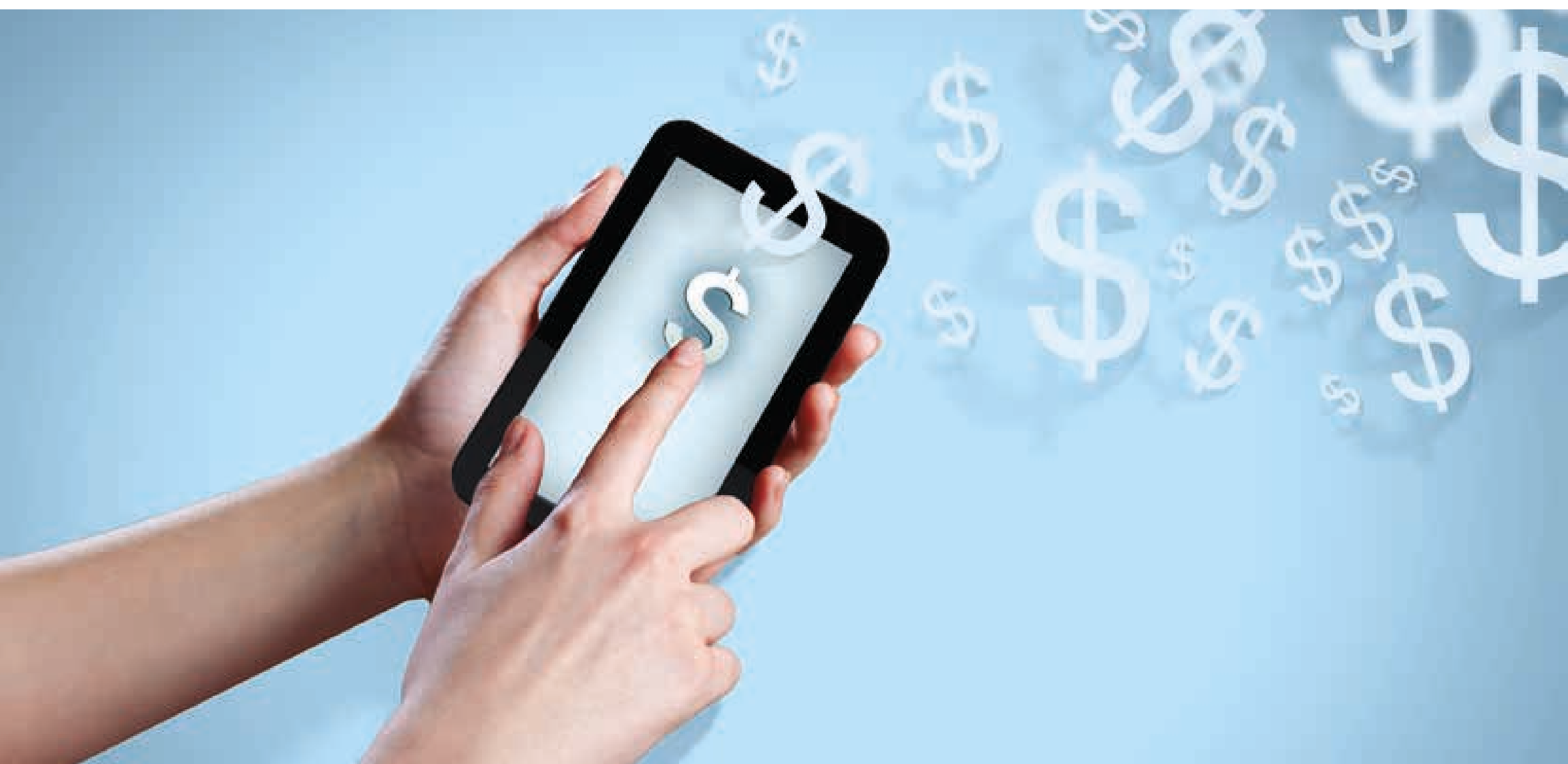
Undoubtedly, the estimated EUR 1 billion spent by the UK payment industry in rolling out its brand of immediate payments, Faster Payments, has had a strong theoretical ROI. Indeed, the savings purely at a societal level justify such expenditure, but also bring into question as to whether the banking industry should have footed the bill. Set against the regulatory framework in Sweden, where cash-free living is growing in plausibility and driving transaction volumes for the electronics payments infrastructure upwards, societal benefits are clearly the driving force for immediate payments.

European initiatives in this space may cause domestic banking communities to adopt a “wait and see” policy, particularly given the large investment required and reported short timescales for the announced European scheme to become available. However, market pressure from external players may force hands.

It’s clear that users are unlikely to pay for immediate payments when adequate alternatives such as SCT and debit cards are currently free to use. Regulators also will likely ensure that this is the case through the inclusion of immediate payments in the next iteration of payment directives. This means that in order to generate revenues and create a direct ROI opportunity, the creation of valuable overlay services is key.

These cannot be uniquely around the payment, but will need to leverage access to account (XS2A) rules to bring new and unique services deemed valuable enough to be payable. The true opportunity for revenue generation may be in the merchant sector or in lower-value, urgent corporate payments. Exploring the international remittance space also could be an area where value can be generated. Working with an external third party well-equipped to deliver in this space could be the easiest route to success.

Overall, while existing payment methods are generally adequate, there is a thirst for faster which makes immediate payments inevitable—whether provided in the interbank space or in the cosy communities of social media. Revenue will be driven by overlay services.



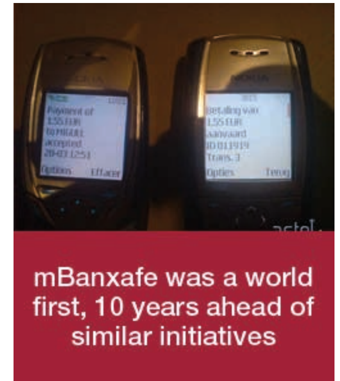
THE BELGIAN PAYMENTS MARKET

For more than three decades, Belgium has been ahead of the curve in payments technology. While the media raves about Apple Pay, mobile P2P and other innovative start-ups, in Belgium this is yesterday's news. Belgium has had mobile payments available on every deployed mobile SIM since 1998, thanks to a collaboration between Banksys and the three mobile telcos under the mBanxafe brand.

Belgium was the first market to mass issue electronic purse cards through the Proton scheme and has a unique market standardisation of credit transfer messages to drive easy bill payment. But, more importantly, Belgian legislation guarantees a bank account to every resident of the country, with the exception of one percent or so of adults[10] barred due to incapacity or financial mismanagement crimes. Even the bankrupt are guaranteed a basic payment account, as this is laid down in law. Again, Belgium is years ahead of upcoming European legislation on financial access.

While the UK finally rolled out chip cards in 2003, Belgium was already celebrating its 10th anniversary at that point. And, today, as the U.S. finally migrates to chip cards, it's now been 25 years since they were introduced in the Belgian market. Belgium also is home to sophisticated infrastructure and innovation as the European headquarters of MasterCard, the global headquarters of SWIFT, and the presence of a healthy FinTech industry rivalled by few locations.

However, against this background, there are a few hairs in the butter. Belgians have the highest per capita current and savings account balances in Europe, with EUR 67,000 average in accounts (double that of Germany), EUR 42 billion sitting dormant in current accounts, and over EUR 770 billion in savings accounts. Essentially, Belgians generate wealth but tend to do little with it.



mBanxafe was a world first, 10 years ahead of similar initiatives

Today, despite this entire infrastructure, 80 percent of payment volume is still in cash. Even with new legislation preventing cash payments greater than EUR 3.000, the market is still heavily cash reliant. This is often attributed to the tax system, but likely more linked to low confidence in the authorities and the banking system, and a history of rainy days for which to save.

Regardless, it means that, if you implement a new payment system, you are not only going against strong legacy competition, but also competing with a society that prefers the crinkle of notes over the bleep of a mobile payment.

AREN'T OUR PAYMENTS FAST ENOUGH?

Thanks to a well organised and standardised approach to credit transfers—standard references, the unified "red slip" system and a mandatory acceptance of cash for bill payment via bpost—the payments infrastructure has become robust and efficient with most domestic transfers settled the same day or D+1. Even the closure of the domestic clearinghouse and movement to French-based STET did little to unsettle this and same-bank, on-us transactions often clear within minutes.

[10] 2014 figures World Bank data warehouse.

However, incoming payments legislation from Europe (PSD2) is driving change. Coupled with changing consumer expectations where demand is for instant gratification and increased demand from the retail sector for payments to become lower cost and more efficient, it can be questioned whether the banking sector is continuing to deliver to market needs.

Regardless of recent interchange adjustments, the inherent costs of card payments due to their third party nature and exceptions model are considered high, with retailers pushing for new payments based on the interbank model rather than the card model. Already there have been a first few tentative steps in this direction with Colruyt and SEQR, ING's Payconiq trial in Leuven and first trials with Digicash in the south, but in order to compete directly in the retail and P2P space with Bancontact, the interbank space needs immediacy. However, with immediacy comes a considerable number of problems, not the least of which can be real-time updates of account balances or ways to perform transaction risk analysis in a short enough timescale.

SHOULD I SUPPORT A DOMESTIC OR EUROPEAN SCHEME?

Recent months have seen a number of announcements in the immediate payments space. The ACH supporting Belgian interbank payments, STET, has announced that it will build an immediate payments platform to launch in the coming years. Only a week earlier, EBA Clearing launched an RFP to find an infrastructure provider for its proposed pan-European immediate payments infrastructure. And, the European Payments Council followed with its plan to build the scheme rules around this. EBA Clearing's timeline sees pilots in 2017, ahead of a full launch in 2018.

And, so begins the discussion as to whether to wait for a European solution or to push ahead with investing in a more Belgian-focused platform—or whether to provide immediacy at all. From a regulatory perspective, there is currently no legal framework to force connectivity (or reachability) to any immediate payment system, and this is unlikely to come in the near future given the challenging regulatory framework already in place.

However, PSD2 has granted new powers to the European Banking Authority, established by Regulation (EU) No 1093/2010, to provide new regulatory technical standards and establish the timeframe in which they are to be implemented. Therefore, it's likely that this will be used to drive immediate payments should market forces alone not be enough.

Focusing on the domestic model has a lot of key benefits. Much of it can be done within the existing infrastructure framework, the service providers are well known and trusted, and migration timetables can be set by consensus rather than external drivers. It also keeps the banks in charge of third party access, as it could be argued that the payment method will not be fully covered by PSD2.

However, linking into a European system could be a driver of liquidity and volumes, as well as a gateway to low-cost routing across payment groups. It would allow Belgian banks to challenge legacy international remittance providers in the EEA across volume channels such as Belgium-Poland and Belgium-Romania. With Belgian residents remitting over EUR 240 million per year through official non-bank channels, this could be a good first target for volume generation to bring early ROI.

Whatever the choice, CGI can offer significant support in delivering the new infrastructure and services required for immediate payments.

"Critical to CGI's success in supporting the [Current Account Switching Service] programme has been its commitment of critical, highly skilled consultants to form the core of the team, maintaining continuity over the rapidly evolving programme. Their ability to demonstrate mastery of the subject has allowed them to win commitment from the diverse participants."

Gary Hocking, COO, Payments Council, UK

HOW DOES BANCONTACT FIT IN?

Today, it's hard to see precisely how Bancontact will fit into the future payments landscape, as it faces an ever-competitive landscape from a defensive position. What is clear is that the Belgian payments infrastructure owes a lot of its stability to the past work of this organization and that it's reviewing how it can play a part.

In the point-of-sale space, it's battling other card schemes, but as yet the interbank-based overlay service providers are failing to dent their volumes due to a lack of guarantee or immediacy, cost for the merchant to implement, and complexity of model and usage for the consumer. However, with the existing ownership model for the Bancontact scheme and its strong penetration into Belgian mobiles through its app, regardless of usage, the scheme is already well positioned as a potential provider of immediate payments overlay services on behalf of the banking community, perhaps replicating the model deployed by Paym in the UK.

However, with question marks still over the future funding of Bancontact and the participation of some major banks, it's hard to tell if the organisation will remain at the forefront of retail payments in Belgium.

DEVELOPING NEW SERVICES IN BELGIUM

The creation of overlay services in Belgium has typically been the domain of banks (SixDots, Payconiq) with some initiatives coming via entrants from other markets (Ingenico, Seamless). However, with the changes in market conditions driven by PSD2 and the launch of immediate payments, it's likely that many more contenders will enter Belgium or be created in the near future.

As a service provider in this sector, CGI has considerable experience in Europe in the development of overlay services for immediate payment systems, particularly through its work in the UK with Paym and current projects across the continent. This experience covers all project aspects, from strategy development right through to implementation and operations,

Our Belgian team includes experts in all aspects of payments and infrastructure. Bringing together accredited card consultants, SWIFT specialists, and a unique knowledge of payments and the market in Belgium, we have expertise in developing all aspects of payment services and direct experience in launching greenfield payment products to fruition.

CGI in Belgium also provides IT services that allow organisations to minimize upfront capital outlays while achieving significant business outcomes in this space. Our approach combines deep business expertise and innovative technologies to support a full spectrum of IT managed services—from outsourcing to systems integration and consulting. Contact us to find out more.

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With 68,000 professionals operating in 400 offices in 40 countries, CGI fosters local accountability for client success while bringing global delivery capabilities to clients' front doors. Founded in 1976, CGI applies a disciplined delivery approach that has achieved an industry-leading track record of on-time, on-budget projects. Our high-quality business consulting, systems integration and outsourcing services help clients leverage current investments while adopting new technology and business strategies that achieve top and bottom line results.

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