



Faster Payments

One Critical Link in the Payments Value Chain

Being charged with shaping and building payments strategies within a financial institution is one of the most challenging roles in the industry today. The trifecta of tension – regulation, customer demand and legacy systems – builds pressure within the walls of an institution. Meanwhile, a seemingly endless army of bold, new market entrants batter the walls of the castle.

Instantaneous, transparent and yes, even free, are words being used to describe requirements in payments. These requirements are no longer simply asked for; they are expected. The rules for payments innovation are changing; that's for sure. The challenge – and opportunity – facing a financial institution is to translate an informed, future, global view tactically. Here are some things to consider.

IS FAST PASSÉ?

Let's face it. We must assume that the speed of payment technology will continue to increase until eventually the transfer of funds becomes instantaneous globally. More than 20 countries now have various flavors of faster payments. In the United States (the largest payments market of all), the Federal Reserve has assembled a 19-member industry task force with the year-end 2016 goal of identifying an approach, or approaches, for implementing a ubiquitous, faster payments capability. Although the timetables around the globe vary, instantaneous payments are coming. Prepare for that.

Some industry experts – particularly those situated globally – have moved past discussing fast and on to the conversation of innovation as the key differentiator ahead.

"Speed gets a lot of attention in the emerging interbank payment systems and there is certainly justification for this, yet creating end-customer value is always the prime objective," says Warren Gardiner, a payments strategist with FIS™.

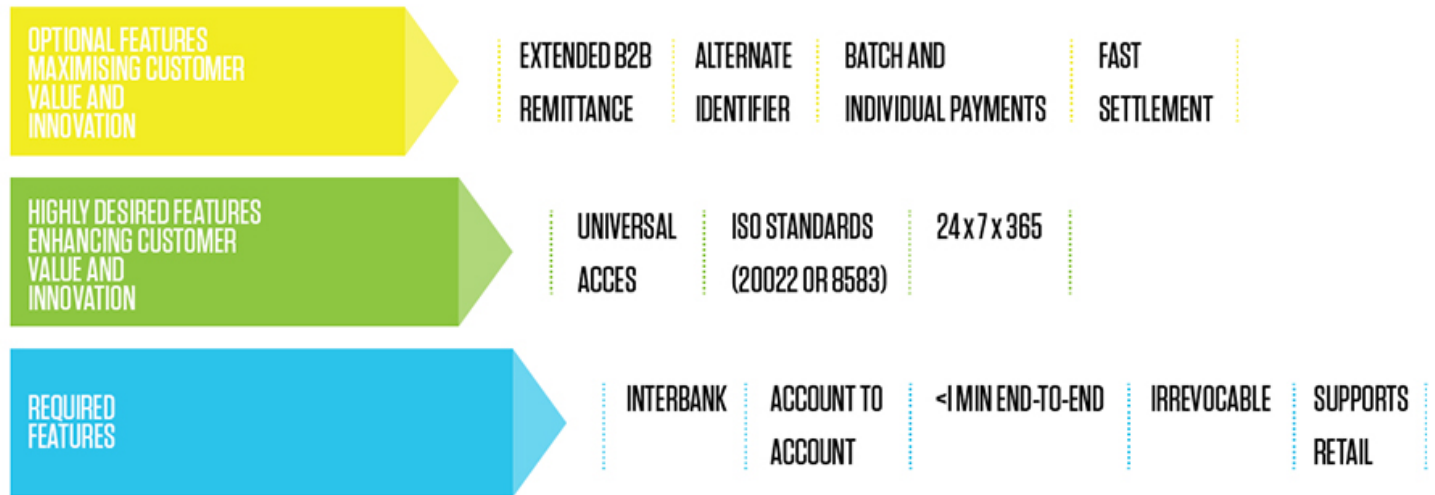
Convenience, security, universal access, scalability, financial inclusion of previously unbanked populations, adoption of international standards, enhanced remittance capacity for B2B transactions and low cost are just some of the other important characteristics of emerging interbank payment systems, according to Gardiner. Although speed is certainly important, it is one of several requirements of advanced payment systems.

32 FLAVORS AND THEN SOME

FIS' recent study comparing international payment systems, entitled "Flavors of Fast," offers a new and comprehensive hierarchy of criteria to help financial institutions analyze and plan payment technology strategies. The Fast Payment Innovation (FPI) Index® incorporates an array of emerging, critical areas that should be addressed by countries and companies developing their own systems. This new view of assessment assigns value to addressing consumer demands and positioning oneself for future innovation.

Gardiner explains, "The FPI Index was crafted to measure which countries are nascent in the world of fast payments and which countries are positioned to adapt quickly to the innovation that will potentially link with other countries in a move toward a globally efficient payment system."

FAST PAYMENT INNOVATION INDEX[®]



SCORING

SEEDLINGS OF NEW PLATFORMS	2	MEETS SOME HIGHLY DESIRED OR OPTIONAL	4	MEETS SOME ALL HIGHLY DESIRED AND ONE OR MORE OPTIONAL
1 MEETS REQUIRED FEATURES ONLY	3	MEETS SOME HIGHLY DESIRED AND OPTIONAL	5	MEETS ALL FEATURES

SOURCE: FIS

IMPLEMENTING INFINITY

Rolling out new payment systems is not a minor task. The electronic payment systems designed for banks in previous decades can no longer serve a society where devices with enormous computing power are literally in the hands of most individuals. That is for certain. And yet, a program to deliver the depth of change necessary has implications for every aspect of a payment system's design, development, implementation, maintenance and customer service. The checklists of activities that must continue consistently and advance seamlessly include, but are not limited to:

- Detection of real-time fraud and money laundering
- Sophisticated routing decisioning
- Automation of exception management processes
- Flexibility to meet changing regulatory requirements
- The reliability and scalability to ensure 24/7/365 service.

This type of transformation is not for the faint of heart.

THE QUESTIONS

- 1 What are the challenges that our existing customers have in making and receiving payments and in managing payments information?
- 2 How can we leverage our fast payment system in order to solve those problems?
- 3 How will fraudsters attempt to take advantage of the specific characteristics of the fast payment system?
- 4 What kind of dispute management capabilities do we need in order to handle transactions that are either erroneous or fraudulent, in spite of the irrevocable nature of fast payments?

THE CHALLENGES

- 1 The challenge of internal integration with legacy systems that tend to be batch oriented and not designed to handle a continuous flow of messages and responses, 24x7x365.
- 2 The needs for changes to the bank's infrastructure to support payment processing within seconds on a reliable basis, including staffing, hardware and services designed to ensure high availability.
- 3 An entirely new paradigm of multi-channel customer experience that is required to manage the end-to-end initiation and confirmation of payments within seconds, including the potential for payment rejection when the bank on the receiving end is unable to validate and confirm.

THE GOALS

- 1 Make the initiation and receipt of non-automated payments easier and less expensive.
- 2 Facilitate the entire transaction value chain – helping the end customer to make purchasing, delivery and financing decisions.
- 3 Enhance payment information flows to make it easier for customers to efficiently reconcile their financial accounts, easily retrieve historical activity and conduct trend analysis to better inform budgeting and forecasting.

SOURCE: FIS

“...WITH A LITTLE HELP FROM MY FRIENDS”

According to FIS research, the development of a domestic payment system that is worthy of an FPI Index rating of five is a multi-stage process — best achieved by partnering with experienced payment subject matter experts. A financial institution's senior management must be very clear that it will be necessary to adopt a multi-year plan that involves a current state assessment, a target operating model and a road map defining stages and deliverables of program.

Capco Payments Partner, Tommy Marshall shares, “Partnership is essential. Programs of this complexity, involving competing stakeholders with differing priorities, makes the implementation of an optimal, viable solution all the more difficult.” Marshall reports, “My clients tell me that an experienced partner is valuable in steering conversations and work efforts around previous lessons learned and providing credibility and objectivity outside organizational silos.”

The industry is proving that much can be achieved when all stakeholders cooperate in true partnership.. When shaping future payments systems, it takes a village.

About the Authors

Tommy Marshall

Tommy is a partner in the Banking and Wealth Management practice at Capco. His passion for consumer finance, payments, and wealth management has been fulfilled through more than 15 years of successful management consulting engagements. Tommy seeks out and thrives in the midst of transformation initiatives. He currently plays a role in the evolution of digital financial services across the enterprise and the re-engineering of the payments capability at some of the world's largest financial institutions.

Tim White

Tim White has more than 25 years of experience as a manager and consultant to the financial services industry. He has worked extensively with some of the largest retail banks in North America. The engagements have ranged from strategy-related initiatives to transformational programs, which involve either outsourcing or insourcing functions that extend the clients' capabilities.