OPEN AND INSTANT

HOW TO DELIVER REAL-TIME PAYMENTS IN AN OPEN API ENVIRONMENT
Open and Instant: How to deliver real-time payments in an open API environment

Based on a webinar presented by FIS and Finextra

The experts

- **Moderator:** Thea George, Research Director, Finextra
- **Damian Richardson,** Head of Innovation and Strategic Initiatives, Royal Bank of Scotland
- **Gareth Lodge,** Senior Analyst, Celent
- **Tim Van der Wee,** CTO enterprise payments, FIS
- **Claus Richter,** Head of Cash Management Customer Solutions, Nordea

There has been a great deal of discussion about PSD2 and the potential impact of real-time payments in an open API environment. But with 2017 underway, the time is right to consider the practical implications of these transformational developments. Here we consider the views of a panel of experts with a wealth of practical experience.

Why Open and Instant?

Open APIs and instant payments are, in practice, inextricably linked. Together, these two components have the potential to bring about great change.

The world has embraced ‘instant,’ which is driving innovation and new use cases on a global scale. The arrival of ‘open’ means that trusted third parties will have access to account information and payment initiation and a host of new propositions will emerge.

As Gareth Lodge comments, “It’s like giving a child a new toy...a giant box of colorful Lego. The only thing that limits what can be achieved is imagination.”

Open APIs without instant delivery will always be a second-rate experience. Likewise, instant payments without added value are just faster, which is not always better. “Open APIs are the missing link that connects the instant payment rails and the context of where the payment is needed” says Tim Van der Wee.

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– GARETH LODGE, CELENT
Much more than technology

Both open and instant are unprecedented in their potential impact on bank operating and business models. Gareth Lodge suggests “We’ve the potential to flip the market 90° from a vertically integrated product market to a flexible operating model. But banks must be willing to do something with this opportunity – other companies are making good headway and have established momentum.”

In practical terms, the payments value chain is being disaggregated into its discrete elements, which creates many new opportunities and challenges for the banking industry. APIs are about a lot more than technology. New business models are required, which requires new thinking on many different levels.

Tim Van der Wee predicts the availability of open APIs means that the production and distribution of products will be decoupled, “It will be third parties who distribute your payment instruments via their own channels, so as a bank you have less control with open APIs.”

It was agreed that real-time banking and open APIs herald a new era of choice. A bank can play many roles: infrastructure provider, PSP or partner, but the banks and fintechs must make things happen. “Doing nothing is not an option” says Gareth Lodge.

Claus Richter believes that a bank has broadly two choices: “To become an infrastructure provider, or to play a part in the ecosystem and continue to have the relationship directly with its customers. That’s a strategic choice that all banks must make.”

Payments in context

However, despite all the potential, “There is a very real danger that we API-enable everything and still deliver the same result and deliver products to the market in the same way unless we think differently,” according to Gareth Lodge.

Tim Van der Wee says that consumers expect everything to be available in real time and only a few clicks away. Tablets and smartphones have made this possible. Although instant is the ‘new normal,’ payments must always be regarded in context. “No one walks into a store wanting to make a payment – it is always part of a larger transaction. We have seen many highly-contextualized applications that include payments and instant payments creates even more use cases,” continues Tim Van der Wee.

Damian Richardson suggests that banks, “should start with the customer and work backwards,” because not everyone will move to PSD2 payments on day one. Ultimately, PSD2 is about customer empowerment, so banks must deliver those services that customers want. He stressed the need for banks to learn. “Banks must leverage customer service teams to gain feedback – there is a real need for education.”

Banks will need to pilot and test new services with customers, “At the end of the day, we are going to have different types and flavors of APIs,” says Damian Richardson.

The discussion concluded that customers will face a new world of choice. Every bank must consider its own objectives, risk appetite and development strategy.
Beyond compliance

Gareth Lodge comments “Market leading banks are the ones that are thinking about this strategically – what this means, what they want to do and what resources do they require.” But he is worried that “Most banks aren’t linking the various aspects of a single program let alone joining the two. Many banks are adopting the approach of a compliance program and it’s a lot more than that.”

Successful banks will have a fundamental review of their approach. Gareth Lodge continues “We’ve also talked about banks working with the fintechs to become more agile. But many banks need to adopt a different mindset – APIs have been around for 20-30 years so banks arrive at this place late. There is a need for imagination and creativity.”

Damian Richardson agrees “We’ve opened things up to look for opportunities, rather than looking solely at the mandatory aspects of open APIs.”

It was suggested that we should not underestimate the rate of change in open APIs and their application, especially in the non-regulated area. The pace will inevitably be faster than in traditional, tightly governed banking systems. Banks must realize what is expected of them and how to provide the best possible customer experience.

“IN ADDITION TO THE TECHNOLOGY THERE ARE IMPORTANT OPERATIONAL CONSIDERATIONS. BANKS NEED TO CONSIDER THEIR RELATIONSHIP WITH THIRD-PARTY DEVELOPMENT COMMUNITY; HOW THEY ON-BOARD THEM AND THE ONGOING RELATIONSHIP. THEY MUST CONSIDER WHICH APIs THEY GET ACCESS TO AND WHAT THEY CAN DO WITH THEM.”

– TIM VAN DER WEE, FIS

UK experience

Damian Richardson suggests that, with the Faster Payments service now available for over eight years, “the UK is in some respects ahead of the game. Other countries are watching the UK, particularly with open banking which will arrive early next year.”

Open banking will go live initially with more reference data becoming available, such as ATM locations as well as product data such as interest rates. “The UK is in a good place and can move forward fast. We will see new value-added services emerge, many of which no one had previously thought of, come out of the developer network,” says Damian Richardson.

Richardson suggests that education is crucial to gather feedback and drive success, “Faster Payments was a significant matrix-driven project and with open APIs there is an additional challenge to simplify your architecture to create open APIs on top of it.” He continues “There is a lot of internal training and re-education required to make this a success.”
**Delivery approach**

Although many banks have open API or instant payment projects that are underway, at the industry level, the details are still being worked through on standardization and interoperability which makes delivery more challenging. There are also many different starting points for real time. Some countries have a system, others do not.

Banks must consider the broader implications of real time to ensure they have the right foundations in place. Claus Richter suggests that the big decision is to become a fully digitized bank, end to end. “We looked not only at the payment rails of the bank but at all the surrounding parts: account ledger, customer data, pricing, account billings, and so on, to make sure all parts of the bank are state of the art.”

Open APIs and instant payments are often treated as distinct topics with separate budgets and business owners. But, as a bank it usually makes sense to run these projects as one, with one owner and one budget. “The aim must be to achieve a real-time API driven user experience” suggests Tim Van der Wee.

With potentially so many disparate areas of the bank involved, the key is to encourage openness and transparency. Damian Richardson says, “We invite customers and developers to participate in the development process so we maximize the opportunity for new propositions that were not previously available.”

Careful planning and understanding system interdependencies is critical. Moreover, banks are all at different stages of adoption with real time technology and payments modernisation so this will be a greater technical challenge for some banks than others.

“In terms of real time, it is a challenge for many banks with legacy systems; we will see which banks are able to make the transition here” comments Claus Richter.

Damian Richardson adds “Open APIs are not something banks with legacy systems can necessarily do in one hit - open APIs requires access to many systems.”

All agreed that it is hard for banks to predict transaction volumes as it is not easy to forecast how and when consumer and third-party adoption will happen. Gareth Lodge believes that “PSD2 will increase complexity – there is step-change ahead where volumes will hockey stick upwards. Many systems will struggle to manage projected instant payment volumes.”

There may be sudden surge in traffic, so scalability is an important consideration, and will impact on a bank’s ability to compete. “The performance of an open API will directly impact the user experience of a bank’s customers” comments Tim Van der Wee. He continues “If a third-party app is slowed down by the bank’s performance they may choose to work with another bank. The ability to do non-disruptive upgrades and deployments is essential.”
Concluding comments

● “There is a strong connection between open and instant. I would encourage banks to group these things together to deliver a seamless real-time, API customer experience.”
  – Tim Van der Wee, FIS

● “Think big and think differently. Make the most of the opportunity ahead.”
  – Gareth Lodge, Celent

● “Collaboration is key to make this a success. If we are to get the benefits as an industry, we must collaborate.”
  – Claus Richter, Nordea

● “The biggest potential barrier for a bank is the internal logistics rather than the technology.”
  – Damian Richardson, Royal Bank of Scotland
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