



Why banks must prepare for an Instant future

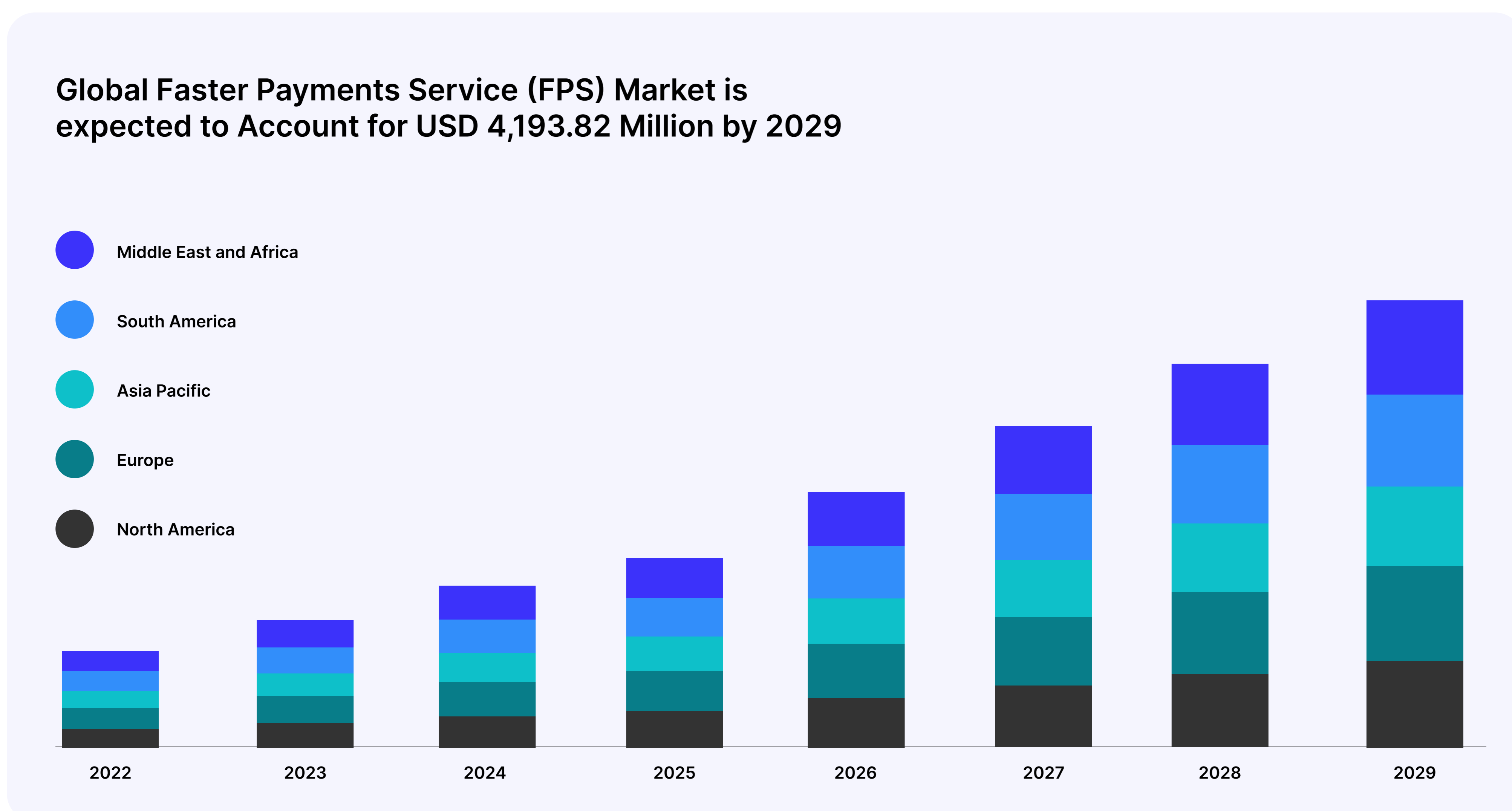
2024 White Paper



Around the world, new Instant Payment schemes are taking over – both domestically and across borders. Radi El Haj, CEO of RS2, explains why banks need to grasp the instant payments opportunity – and how they should manage the serious risks that are emerging in this new environment.

Even as you read this paper, Instant Payments, or Faster Payments, are changing the way people pay. In the last ten years, the growth of instant payments has been stratospheric, at 29.1% per year: it's predicted¹ they will account for one in three of all consumer transactions globally by 2029.

One in three payments will be instant by 2029



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Instant payments (IP) have advantages for everyone. Consumers love the speed and convenience of being able to pay right away and seeing transactions complete within seconds, rather than hours or days. Meanwhile, 2019 research from Deloitte shows² how IPs reduce the cost of transactions for businesses by up to half, with businesses and governments carrying much less “dead” cash to cover outgoing payments because their bills are settled immediately. In turn, that enables these organizations to invest funds in future growth, rather than sitting on account.

¹ Data Bridge Research, “Global Faster Payments Market – Industry Trends to 2029”: <https://www.databridgemarketresearch.com/reports/global-faster-payment-service-fps-market>

² Deloitte, “The Economic Benefits of Faster Payments”: <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/financial-services/deloitte-uk-economic-impact-of-real-time-payments-report-vocalink-mastercard-april-2019.pdf>



Not just a local phenomenon

As the above graphic from Data Bridge shows, IPs are global – and not confined to domestic markets. From India to Indonesia, Asian markets have grabbed hold of the IP opportunity, and are now linking up their systems. In April 2021, Singapore’s PayNow and Thailand’s PromptPay joined forces to offer instant payments across borders. Last November, the Monetary Authority of Singapore (MAS) and Bank Negara Malaysia (BNM) launched a joint real-time scheme between Singapore’s PayNow and Malaysia’s DuitNow. Most recently, India’s Unified Payments Interface (UPI), which processes more than 12 billion payments every month, has connected with Singapore’s PayNow and announced a partnership with Google to enable connectivity with other regions and markets world-wide.

In Europe, all four Nordic markets have now connected their IP schemes, while Spain, Italy and Portugal have also announced a link-up. Finally, the European Payments Initiative (EPI) has ambitious plans to connect all domestic IP schemes in Europe, and announced the acquisition of iDEAL (the Netherlands) and Payconiq (Belgium) to help them achieve that aim.

New possibilities – and new risks

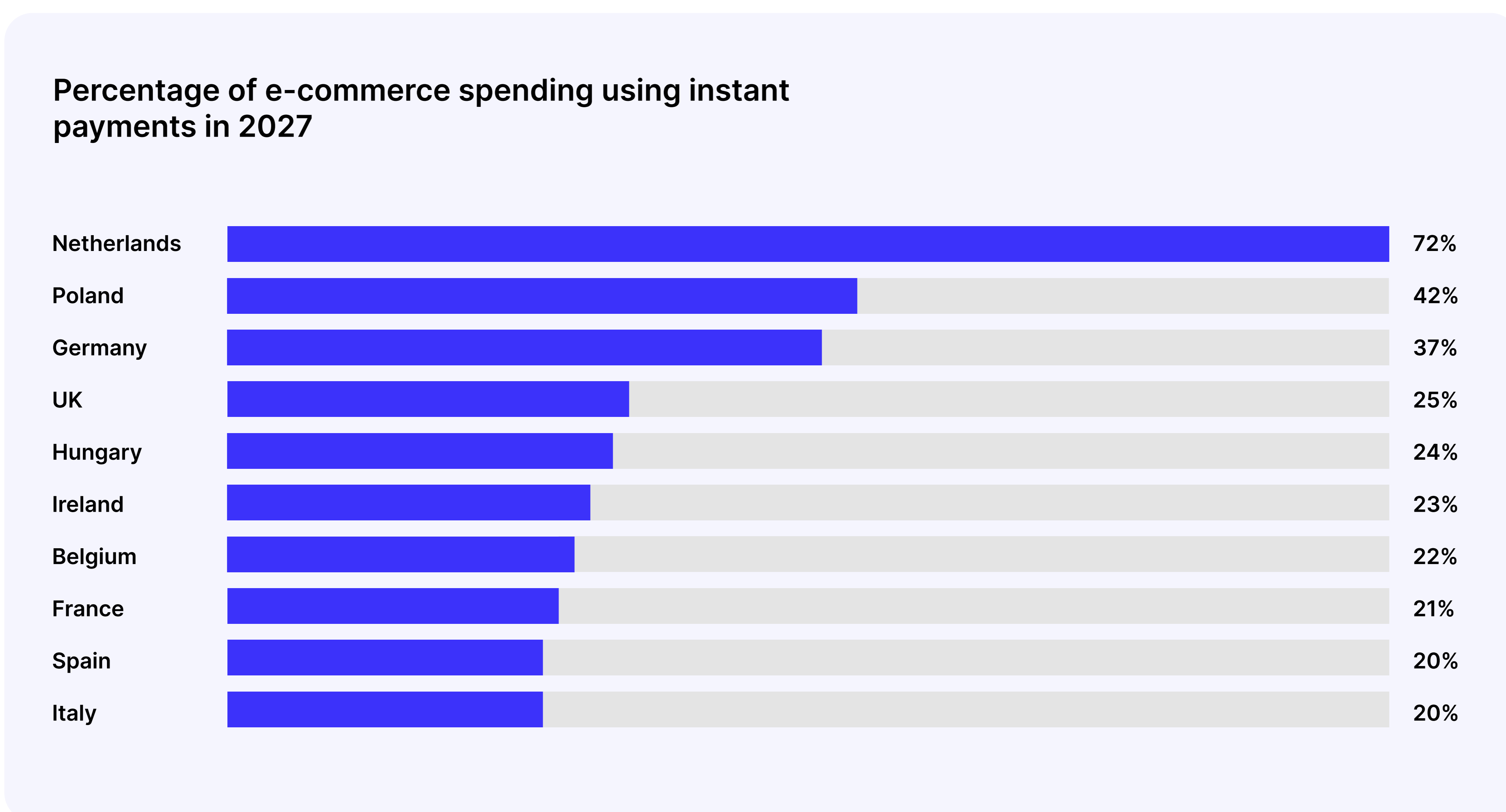
Instant Payments are proving so popular that a range of payment types are emerging connected to them, powered by the emergence of Open Banking in Europe, Asia and elsewhere. In Europe and North America, Account-to-Account (A2A) payments have experienced strong growth through API connectivity between banks, while new payment types such as request to pay (R2P) – in which companies are permitted to take instant debit payments from consumer accounts – are also forging ahead.

However, another popular form of Instant Payment – Authorized Push Payments, or APPs – shows the massive potential risk of the instant payment phenomenon, and explains why banks need to change. APPs enable consumers to authorize an instant payment, either one-off or regular, to a company or other organization. In recent years, scams associated with APPs have rocketed, such that APP fraud now accounts for 75% of all digital payments fraud, and is predicted³ to hit \$5.25 billion in the US, UK and India by the end of 2026.

³ UK Finance, 17 October 2023: “Tackling APP scams in the wake of new PSR regulation”: <https://www.ukfinance.org.uk/events-training/tackling-app-scams-in-wake-new-psr-regulation>

What's more, other high-growth fraud types such as Account Takeover and Synthetic ID fraud are particularly risky in an instant payment environment where the transfer of funds – and therefore liability – happens immediately. This means once a user is scammed, dispute resolution is complicated. Meanwhile, the rise of online instant payments for e-commerce, estimated by Ovum⁴ to hit one-third of all digital transactions by 2027, will only create further challenges for banks.

Instant payments to be one-third of Europeane-commerce by 2027



CREDIT = OVUM

What it means for banks

“Banks spend 70% of their budgets on legacy tech, rather than investing in innovations like Instant Payments.” - McKinsey

The rise of instant payments is creating a whole range of challenges for banks. To start with, many banks have legacy technology stacks that struggle to cope with integrating instant payments – recent research from McKinsey suggests⁵ banks spend 70% of their technology budgets just keeping old systems going, rather than focusing on innovative new products like Instant Payments.

⁴ Cashand Treasury Management: “We’re all amazonians now”: <https://ctmfile.com/story/we-are-all-amazonians-now-with-instant-c2b-and-b2b-modelsnts/financial-services/deloitte-uk-economic-impact-of-real-time-payments-report-vocalink-mastercard-april-2019.pdf>

⁵ McKinsey & Co, 8 September 2022: “Winning in Digital Banking”: <https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/tech-forward/winning-in-digital-banking>

In some jurisdictions where banks still operate within local working hours (9-5) or on an overnight settlement basis, the cut-off times they work with are going to mean delays in the communication and settlement of instant payments. Such banks – and others – may also struggle with liquidity issues, since instant payment systems require significant cash reserves to enable clearing 24/7/365, especially for cross-border or multi-currency instant payments.

When it comes to cross-border instant payments, particularly for e-commerce, another headache arrives in the form of orchestrating payments – for example, exchanging US dollar payments into local currencies and confirming receipt with the payer's bank in real time. Finally, regulations for Instant Payments, such as Confirmation of Payee (CoP) legislation, are still emerging. For most banks, maintaining compliance with these new regulations is enough of a challenge by itself, not to mention coping with growing consumer expectations for instant, safe and secure transaction and settlement.

Delivering in the instant world

As instant payments become the norm, banks are going to have to cope with new levels of complexity – whether that's managing regulatory compliance, ensuring adequate capital to cover continuous settlement 24/7, foreign exchange, transaction data messaging standards or anti-fraud measures.

At RS2, we embrace complexity as a puzzle that needs to be solved. Our goal is to transform the challenges banks face in terms of legacy technologies, regulatory requirements, data encryption and security, new payment methods such as cross-border instant payments and foreign exchange in to a single, elegant and simple approach that works.

BankWORKS®, our end-to-end acquiring and issuing solution, is a single platform for all your payments needs. The software solutions in BankWORKS® are developed in-house and cover all areas of payments, from card issuance, merchant acquiring and clearing and settlement to online switching and authorization, PIN management, customer service, e-commerce and dispute and fraud management. Built for flexibility, BankWORKS enables banks of all sizes, anywhere in the world, to set up instant payments rapidly and cost-effectively as required by their business.

Very few if any banks will be able to handle the seismic changes coming in the next five years by themselves. For almost every bank, working with outsourced partners is the only solution: the alternative is multiple integrations from several vendors across various jurisdictions and time zones – an approach that risks creating as many problems as it does solutions.

What's needed is a single-vendor solution that's easy to integrate with your existing systems and able to cope with the demands of global instant transaction and settlement. We have built BankWORKS® for precisely this purpose, empowering banks with the software, connectivity, capital and regulatory know-how to deliver for a digital future.

Contact RS2 for a discussion about how BankWORKS® can deliver market-ready global digital banking infrastructure, including cross-border instant payment solutions, that work for your bank:

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