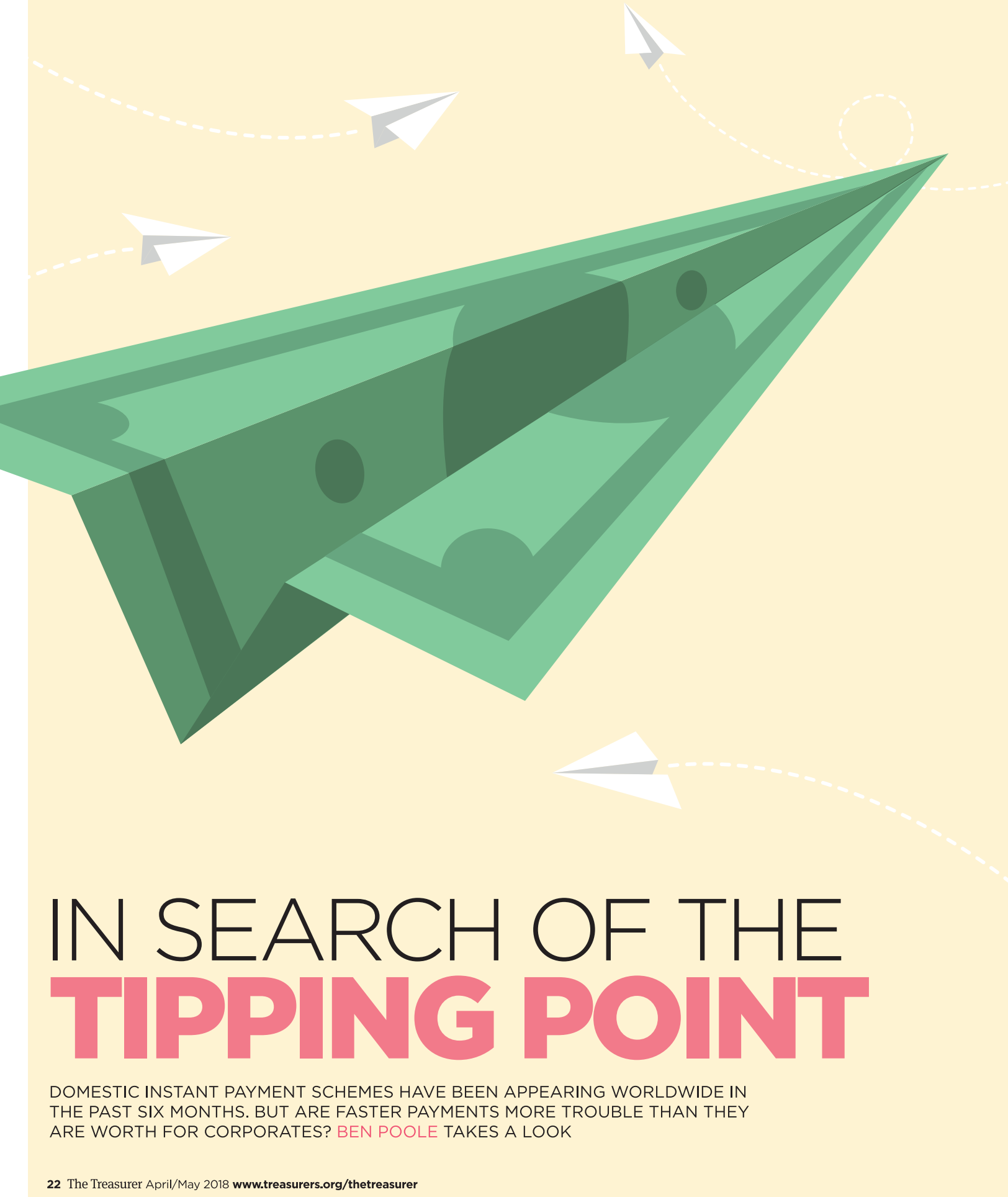
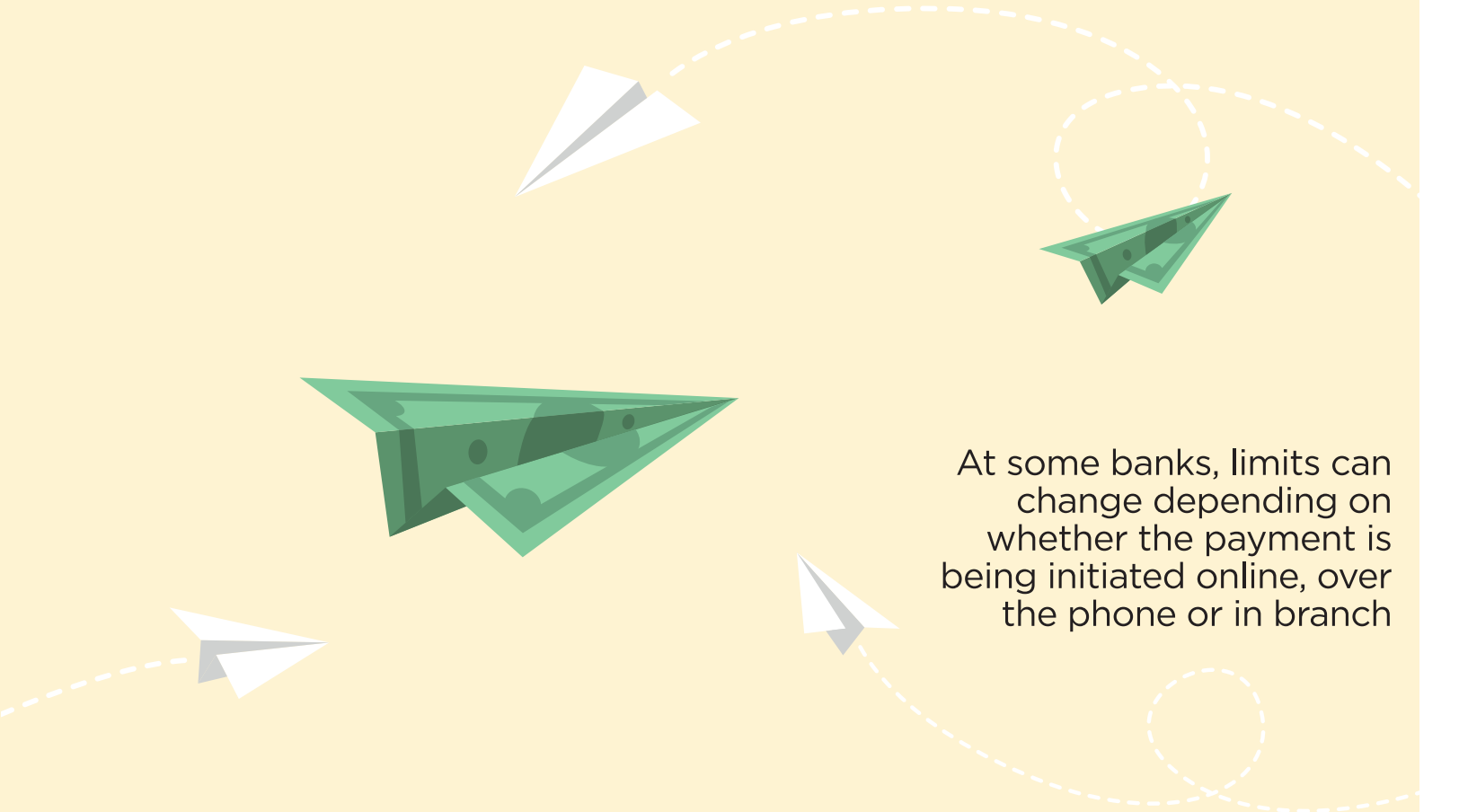


IN SEARCH OF THE TIPPING POINT

DOMESTIC INSTANT PAYMENT SCHEMES HAVE BEEN APPEARING WORLDWIDE IN THE PAST SIX MONTHS. BUT ARE FASTER PAYMENTS MORE TROUBLE THAN THEY ARE WORTH FOR CORPORATES? BEN POOLE TAKES A LOOK



At some banks, limits can change depending on whether the payment is being initiated online, over the phone or in branch

In February this year, Australia's New Payments Platform was launched. This is the latest in a series of single-currency payment schemes that have the concept of real-time payments at its heart, and follows the notable additions of both Europe's SEPA Instant Credit Transfer (SCT Inst) and The Clearing House Real-time Payments System in the US that both came online in November 2017.

In contrast to these newcomers, the UK's Faster Payments scheme has been operational far longer, reaching its 10th anniversary this year. In 2017, the scheme broke the record for the highest amount of payments processed in a single year, up 16% on the previous year, to over 1.7 billion payments. In terms of value, more than £1.4 trillion was transferred via Faster Payments last year, an increase of 18% on 2016[1].

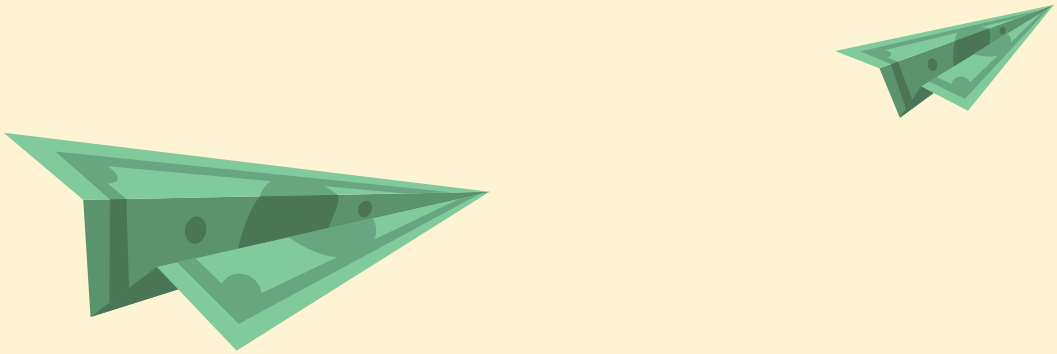
An area where UK Faster Payments distinguishes itself from similar schemes around the world is the maximum value of a transaction that can be sent over the network. The limit in the UK is currently £250,000, a figure that could increase as soon as this year. Sixteen participants have been involved in a live proving exercise where a Faster Payment valued in the tens of millions of pounds was sent and received. In comparison, SCT Inst has started with a €15,000 limit, and the US Real-time Payments System caps transactions at $25,000.

Lower limits may hinder the business case for corporates using faster payments schemes for the time being, although this should not be a complete roadblock, as the rise in limits in the UK has proved. However, it is not only the scheme limits that corporates need to be aware of. Individual banks can impose their own limits on the size of faster payments that corporates can send. In the UK, banks differ in the size of payments that corporates can send over the scheme – while some do offer the full £250,000 option, others have a cap of just £10,000 in some circumstances. At some banks, limits can change depending on whether the payment is being initiated online, over the phone or in branch.

"One of the outcomes from individual bank limits is that it is a way for a bank to charge a higher CHAPS fee for a large-value payment, when in theory, anything up to the scheme limit should only generate a small fee for businesses, and no fee for a consumer," says Marcus Hughes, head of strategic business development at Bottomline Technologies. "There is some inconsistency between these limits that creates a complex landscape for a treasurer to navigate. It is vital that treasurers ask the banks what their limit for this type of payment is, in order to avoid any nasty surprises."

OPPORTUNITIES AND CHALLENGES

The more recent launches around the world have been able to study the UK model and enhance it with additional functionality that has particular relevance for corporates. For example, the US Real-time Payments Solution includes 'request to pay' and remittance advice, both of which are valuable for corporates to ensure they get paid. "The reconciliation information is missing in many payment networks,"



says Hughes. "The request to pay is essentially an electronic invoice, so it is exciting to see that coming through in one country. The UK will follow that in a couple of years' time with the New Payments Architecture."

Request to pay opens up opportunities for corporates, for example, with supplier payments. Instead of doing a fortnightly supplier payments run, they can request additional discounts for early payment. A corporate could notify their supplier that they have approved the invoice and are ready to pay, but propose a 2% discount, for example, for immediate payment rather than paying on the invoice due date.

In future, this could potentially see banks participating in the cycle, where the bank could offer immediate payment to the supplier providing that they accept to be part of a supply chain finance arrangement – so as soon as the invoice is approved, the supplier has the flexibility to immediately request payment. Access and visibility to monitor the status of a purchase to pay or order to cash flow is getting closer to reality.

In respect of accounts receivable, faster payments could create a challenge for organisations. While customers could pay faster, with dramatically shorter processing times, the possibility now exists for customers to delay payment. For example, on 30-day payment terms, the customer may choose to pay on the 30th in an instant payments environment, and if there's an issue with that payment, the corporate may not receive the funds within the window. "Of course, when customers do pay, they now expect that money to be applied to their account as quickly as possible, and those accounts receivable functions that are either not staffed up or supported by IT enough face a challenge to be able to respond to that," says Jonathan Williams, principal consultant at Mk2 Consulting.

The increase in the pace of payments requires real-time cash-flow information, cash visibility, liquidity management and real-time fraud monitoring. With a slower Bacs payment, there is more time to stop the payment in case of fraud or error. With faster payments, it is irrevocable. "There are quite a few control considerations for a treasurer and the accounts payable team to have solved before fully embracing the real-time payments world," says Hughes. "Twenty-four-seven fraud monitoring is an important element of the move into faster payments, monitoring user behaviour, abnormal transactions and payments to new payees, for example."

Irrevocable faster payments are a natural target for financial criminals because of the speed of payment and the difficulty to recall. If criminals receive faster payments in a fraudulent manner, they can then be forwarded on to a network of 'money mules', seemingly authentic bank accounts that are being used to transfer the proceeds from financial crime.

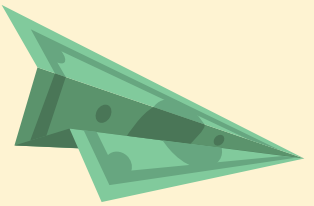
Young people are particularly targeted to be money mules, and figures from Cifas, the UK's fraud-prevention service, showed that there were 8,652 cases of 'misuse of facility' among 18- to 24-year-olds in the UK between Q1-Q3 2017, a rise of 35%[2]. Faster payments allow the financial criminal to instantly move fraudulent funds between a succession of different bank accounts once the initial payment has been sent. This is hard to detect and recover. "The danger is that it is very difficult in those circumstances to detect that sort of fraud because it is a perfectly legitimate person who is undertaking the transaction," says Williams.

CROSS-BORDER POSSIBILITIES

As previously described, there are a number of active domestic or single-currency initiatives for faster payments. However, these vary widely in terms of transaction limits, data formats used and associated payments data required. For corporates assessing the potential to use faster payments for instant cross-border payments, the lack of a unified global approach can be a barrier.

A survey[3] from SWIFT and EuroFinance in Q4 2017 found that there is significant demand from businesses of all sizes for real-time payment tracking on cross-border payments. For treasurers of organisations with turnover of less than $1bn: 75% want real-time payment tracking; 25% want to be able to make instant payments. At the top end of organisations with turnover of more than $10bn, the demand for cross-border payments was higher: 66% want real-time payments tracking; 44% want to be able to make instant cross-border payments.

For UK Faster Payments, the Payments Systems Regulator has been looking at whether using richer data flows would be possible as part of the Payments Strategy Forum work. In terms of data standards, ISO 20022 XML is common in the more recent faster payments schemes, but is not used by the UK scheme. "In the



UK, we are geared up around UK-based standards," says Williams. "We need to catch up to where the rest of the world is in terms of what they think is the right way of encoding a faster payment. As the UK payments system continues to develop, it should move towards the similar sort of data standards seen in more recent fast payments schemes around the world."

While it is unlikely that there will be a direct connection between different faster payments systems, gateways could be developed that facilitate trade and enhance payment services for multinational corporates. Aggregator services, for example, can provide banks with access to a number of systems and therefore create an international network of access into clearing systems. This could be a cloud-based offering, or it could be an on-premises offering for accessing different systems directly into their countries and having the real-time offering in the variety of applicable currencies.

Blockchain and distributed ledger technology also have a role to play. "We see blockchain as another protocol or network that we can add on to our offerings," says Hughes. "In the industry, a lot of this is still in testing. There are a few areas where banks are going in to commercial production, but these are quite embryonic initiatives. They have quite a way to go before they are commercially viable and making money for those organisations, but I do think that is probably the way forward."

Ben Poole is a freelance writer and editor specialising in treasury and transaction banking

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1 www.fasterpayments.org.uk/statistics
2 www.cifas.org.uk/newsroom/new-data-reveals-stark-increase-young-people-acting-money-mules
3 www.eurofinance.com/sites/default/files/wysiwyg/Barcelona2017/PaymentReport2017.pdf

For more, visit blogs.treasurers.org/australias-new-payments-platform-a-guide-for-the-international-treasurer

CORRIDORS FOR CORPORATES

UK–US

Who: American Express and Santander
Scope: In November 2017, American Express announced it was making blockchain payments commercially available. Santander UK is the selected partner to initiate the transaction channel. With the integration of Ripple into the American Express FXIP platform, non-card payments are routed through the RippleNet real-time payment network. Initially, Ripple is connecting American Express customers to Santander in the UK.
What they said: "This blockchain solution opens up a new channel between the US and the UK, and presents significant opportunity for payments globally." – José Luís Calderón, global head of Global Transaction Banking at Santander.

SINGAPORE–INDIA

Who: Axis Bank and Standard Chartered
Scope: Axis Bank launched a service for its corporate customers in India to receive payments from Standard Chartered Bank in Singapore. The instant international payment service uses Ripple's enterprise blockchain technology solution.
What they said: "While there have been significant innovations in domestic payments, cross-border remittance has seen limited developments. Using APIs and distributed ledger technology, there is an opportunity to radically change the way international payments are handled." – Himadri Chatterjee, president of Transaction Banking, at Axis Bank.

SWEDEN–US

Who: SEB
Scope: SEB signed an agreement with Ripple to use its blockchain technology solution as a basis for payment transactions. The first step will be to enable customers to make real-time transfers between SEB accounts in Stockholm and New York. One targeted benefit is to offer the bank's customers real-time transfers with later cut-off times than previously available.
What they said: "By using distributed financial technology, our customers can initiate real-time transfers between their SEB accounts in Sweden and the bank's branch in New York. In the next step, we plan to expand the solution to include all geographies and time zones in which we operate." – Paula da Silva, head of Transaction Services at SEB.