Real-Time Payments Have Arrived

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Real-Time Payments Have Arrived

BY RUSS KANIAM

Prepare for payments transformation. In November 2017, The Clearing House (TCH) and 25 partnering banks launched the first new core payments structure in the United States in more than 40 years. The new system permits real-time payment clearing, marking a major change for treasury operations that have been using the one- to two-day Automated Clearing House (ACH).

Qualifying payments are domestic, interbank electronic transactions. Their payment messages are transferred, and funds are available to the payee, in real time—literally within seconds—on a 24/7 basis. The new system, dubbed RTP for “real time payments,” was designed and built through the collaborative efforts of TCH and its partnering financial institutions. RTP meets the objectives of the Federal Reserve Faster Payments Task-Force, which has been tasked by the Fed to identify and assess alternative payment services.

In a business-to-business context, RTP is a credit “push” system. Payments are pushed from the bank account of the business making the payment to the bank account of the company receiving it. In between, RTP supports the financial institution’s customer-facing systems for services like bill payment, cash management, peer-to-peer (P2P) payments, and emergency disbursements. Messages such as requests for payment, payment confirmations, requests for additional information, and remittance detail are used to create frictionless customer-facing interactions.

TCH is working with a wide array of industry stakeholders, including community banks, credit unions, and financial institution service providers, to drive adoption of the long-sought real-time payments system. “The reality is that we’ve been talking about payments transformation for the past 25 years,” says Casas. “Having these confirmations gives treasurers the ability to free up working capital by more precisely managing their cash flow.”

This unique capability was designed and developed using technology from Vocalink, the software vendor that built the U.K.’s faster payments system and which is now owned by Mastercard. TCH wrote the code for RTP and is the system operator.

Treasury Opportunities

Treasurers who leverage the RTP system may help their companies achieve competitive differentiation in their markets.

“With RTP, the payments system can actually become a customer engagement tool,” says Casas. “An insurance company, for example, can provide instant claims payments to a company devastated by a natural disaster.”

Now that the United States and several other nations have introduced independent systems for faster payments, other countries around the world are expected to follow suit, resulting in significant changes in how businesses and consumers send and receive payments globally.

“Today’s payments systems are the building blocks upon which future payments innovation will be built,” says Casas. “Nevertheless, we’re not predicting that all payments will move to a real-time payment channel overnight. RTP is an additional option for payers and receivers to support unique use cases.”

He provided the example of a consumer who has not paid his or her electricity bill on time. “RTP will allow for a request for payment to go from the utility to the consumer’s bank,” Casas says. “When the bank receives the request, it can instantly process the payment to the consumer that the payment is now overdue. There are multiple benefits, including the avoidance of late fees and the improved credit score of those who use the service.”

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fees and/or service disruptions while simultaneously helping to build trust and customer loyalty.”

The business owner sees that if the bill isn’t paid immediately, the electricity will be turned off. “If the person chooses the ‘click to pay’ option, the money is moved from the bank to the utility in real time to avert a shutdown in power—and possibly even a late payment fee,” he says.

Treasurers’ Next Steps

Treasurers interested in adopting RTP need to first determine its value in the context of their current business operations. Moving to RTP might require new payment technology, particularly if the company’s current system releases batch payments periodically to address specific deadlines.

“Business customers need to contemplate API [application programming interface] connectivity with their banks to release transactions in real time, as opposed to batch,” Casas advises.

Treasurers may also need to change the way they manage liquidity and working capital, creating models in their accounts that move money from point A to point B, he adds. Furthermore, with an RTP system, security needs to be embedded in the company’s operational processes at the item level as opposed to the batch level.

Citi is working closely with its commercial accounts to prepare them for these changes. Ledford says the other five TCH member banks are also assisting their business customers with the transformations required.

Response to RTP has been highly positive thus far. “We’re already hearing from the treasurers now using RTP that the big difference for them has been immediate confirmation of a payment,” says Ledford. “What might have taken weeks to resolve in the past takes a couple hours and less, due to the new system’s certainty [of payment] and speed.”

Down the line, more and more financial institutions and their customers will be engaging in real-time payments. “We’ll see material adoption [of RTP] in 2019, when more banks are online with more features and functionalities, such as requests for payments and extended messaging,” says Casas. “By 2020, we’ll see a high number of banks on the system and payment volume ramping up in a significant way. Beyond that, it will eventually become the material payments method and the primary alternative to existing systems.”

These developments will be felt worldwide. In anticipation, Citi has developed a comprehensive toolkit that addresses its connectivity to all payment methods and channels globally. Casas explains, “We’re focused on building globally interoperable capabilities to provide a common experience through a central real-time payment gateway. We see this as a significant differentiator.”

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T he picture painted by Fintechs would have you believe they are the only ones who are innovating when it comes to payments. Turns out, there is more to the story. In fact, banks are leading the charge when it comes to payment innovations. A perfect example of this is the advent of instant payments.

Instant payments—which are inter-bank electronic transactions where the transmission of the payment message and the availability of funds to the payee occurs within seconds on a 24/7/365 basis—are not entirely new. Many parts of the world already have different variations of instant payments; however, the U.S. market is just now joining the party.

There’s no doubt that Fintechs have demonstrated a propensity for bringing technology innovations to market quickly, but in the case of instant payments, banks have been at the forefront. Citi has long been committed to instant payments in the U.S. as an influential member of the TCH initiative, Citi is one of the first banks in the country to offer instant payment capabilities to its clients utilizing TCH’s Real-Time Payments system.

Smarter transactions improve the customer experience

Today’s consumers have come to expect a better customer experience—one that offers a seamless, immediate and frictionless payment process. Fintechs were quick to address this market demand, but they are not alone in the pursuit of innovative payment solutions. Banks have also made tremendous strides in developing technology solutions that help ensure a fast, seamless experience for commercial transactions like bill pay or receiving payments from employers or other commercial payers.

Instant payments are expected to have a real impact on a number of different types of business transactions. As new business models emerge, instant payments have the potential to become instrumental in a multitude of scenarios. One such example is claims adjustment for the automotive insurance industry. Instant payments could be used to issue a claim payment immediately after an adjuster determines the extent of damages following a collision. Putting a claim payment in the hands of a customer moments after the damage appraisal, would dramatically improve the customer experience. Instant payments will likely have many applications, such as royalty and residual payments, paying bills and medical payments, etc.

Payment data improves treasury efficiency

One of the most significant benefits of instant payments is the ability to transmit more transaction data. Access to this rich data makes it possible to improve treasury efficiency, enabling more effective use of cash flows and potentially minimizing exposure to fraud.

With ready access to data, treasury can improve efficiencies in exception management, along with enhanced posting and reconciliation of invoice-related information associated with the payment, thereby reducing back-office costs. This can also empower treasury to integrate payment data with Enterprise Resource Planning (ERP) systems to attain further treasury efficiencies.

Ultimately, by shortening the time frame for recognizing receivables, instant payments can help speed up the flow of commerce and straight-through reconciliation, making it easier to access much needed liquidity and better manage vital working capital.

A matter of trust

While banks and Fintechs are similarly focused on instant payments, one thing that banks can provide corporate customers that Fintechs cannot is an established, trusted banking relationship. Banks have proven, secure systems that corporates have come to rely on for all of their cash management needs. The greater regulatory scrutiny that banks face contributes to making them highly reliable and stable partners. As trusted advisors, banks already have a deep understanding of client needs and are best positioned to support their unique business requirements with solutions that include instant payments.

It only makes sense that when it comes to sharing valuable data collected from ERP systems, many corporates may feel more comfortable with their banking partner, who they can expect to utilize insights gained in an effort to provide more effective services and solutions.

Joining the global community

As the U.S. joins a growing global community of countries that have introduced, or will be introducing instant payments, more and more businesses are likely to begin exploring the potential advantages of these payments. This means organizations will need to gain a clearer understanding of how instant payments work, what situations warrant their use, and how they can be leveraged to deliver the greatest benefits for treasury and overall business objectives.

Today there are 25 countries offering instant payments, in addition to the recent TCH Real-Time Payments system in the U.S. Fintechs are working to make inroads in these markets, but it’s important to remember that some banks have already established a long track record of success with instant payments in international markets. For instance, Citi is a direct clearing member in 12 of those international markets, and has been facilitating instant payments for many years now. As a leader in digital transformation of the payments space, Citi is continuing to expand its footprint as additional countries invest in real-time payment systems.

While cross-border instant payments are not currently allowed, Citi is committed to a goal of building a truly global payment platform of the future where instant payments are both ubiquitous and borderless.

Getting beyond the hype – choosing the right banking partner

It is true that Fintechs have brought a greater focus to technology innovations, but in the case of instant payments, banks arguably have an advantage due to the significant investments being made to integrate these new payment methods into existing treasury management portals.

As treasurers begin to explore instant payments and examine how these types of payments might benefit their business, it’s important to look for a banking partner that can help drive treasury success. This means choosing a bank that can offer the most comprehensive, user-intuitive, connected and globally compatible suite of services—short, a bank that has been at the forefront of efforts to move instant payments forward in the U.S. and is already supporting instant payment systems around the world. A clear choice would be Citi and that’s no hype.

Taking the Wheel: Banks are Driving Innovation with Instant Payments

Banks helping set the standards for Instant Payments in U.S.

While many countries have introduced instant payment standards by government mandate, the U.S. has taken a different approach. In the U.S., the Federal Reserve recommended, but did not mandate instant payments. As a result, several financial industry consortia and a Federal Reserve-assembled group were formed to develop standards and guidelines for the industry. Banks in general have played an instrumental role with these initiatives.

Case in point: The Clearing House (TCH) Real-Time Payments initiative created consistent industry standards and is responsible for the first foray into instant payments in the U.S. As an influential member of the TCH initiative, Citi is one of the first banks in the country to offer instant payment capabilities to its clients utilizing TCH’s Real-Time Payments system.

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