



Instant Payments

tieto



– How is Tieto involved in the introduction of instant (real-time) payments?

– Tieto has a long experience of delivering real-time payments infrastructure which started in the area of inter-bank card switches. The development towards account-to-account based real-time payment infrastructures has subse-

This year, real-time payments are among the hottest trends in the financial services industry. The FUETE magazine asked Valdis Janovs, Head of Retail Payments and Cards at Tieto, to discuss how the adoption of instant payments will affect the cards and payments market

quently been a natural move for Tieto. Today we are providing the national infrastructure for real-time payments in diverse countries like Finland and Kenya. Our experience of real-time payments goes beyond the central clearing infrastructure and includes solutions for connecting banks, e.g. for SEPA Inst, and also front-end apps, e.g. for P2P payments. Beyond technology we are also helping our customers with "softer" but equally critical parts of instant payments, such as defining the rulebook and

how to build an open payment ecosystem.

– What have you learnt from helping build the Siirto instant payments scheme in Finland?

– I would say that in Finland we learnt first hand that technology is only the starting point. What is equally important is how you work with the wider ecosystem and key stakeholders on defining the new services and the rulebook, in essence how you foster a good collaboration that benefits all. In Finland we took a bold approach from the beginning seeking a collaborative and "PSD2-compliant" model, although all regulatory technical standards (RTS) for PSD2 was not defined in detail. This has led to an open payment ecosystem in which both account holding banks and customer facing non-banks are integrated on a common platform. This co-competition approach has been very useful in defining key use cases, from person-to-person payments to in-store payments and value adding services like electronic receipts. By including both banks, challenger banks, retailers and other key stakeholders from the beginning, we believe to have found a more customer-centric and faster way to drive digital payments innovation in Finland.

– Which international markets are you active in with instant payment projects?

– Tieto is actively pursuing opportunities in instant payments area in Nordic, Europe, CIS, Africa regions. We do see large number of similarities in a need for such projects, however having local regional flavour. Europe is very active due to push from several important players, including EBA, SWIFT, and others. But in regions, where there are strong established country payments strategy developed, we also see good possibility to increase country financial system availability and reachability for these solutions.

– How are you finding the level of interest in real-time payments from European banks?

– Banks are moving to instant payments as a means to deliver more innovative services towards end-customers and stay relevant when digital challengers emerge. For instance in Sweden, the instant payment service Swish has been a phenomenal success in helping banks staying relevant at the customer touch points, in an era where disintermediation by new digital brands is a clear threat. Today Swish is not only rated as the strongest digital brand in Sweden but also is quickly gaining market share

as the preferred payment method for online purchases.

Together with the opening up of payment infrastructures to third parties, following PSD2, the basic component of moving money from A to B in real-time will obviously again be commoditised, so there is not a time for banks to be complacent with having implemented the new rails for instant payments. It's just a starting point for delivering new services. The question is what will happen with open payment rails, when strong global brands like Facebook or WhatsApp could launch instant money transfers directly from the chat app. The battle for the customer interface will continue, but constant innovation is the only recipe for banks that want to stay in the forefront.

We are discovering two types of approaches from banks. There are banks innovators – they want to take a lead in instant payment implementation, be one of first banks to provide instant payment services to their customers. Another part are more passive, risk neutral banks. They are awaiting on more mature market requirements as well as more mature solution offerings. Banks innovators of course takes more risk and potentially will spend more money on their solutions as they will have to adopt solution, develop it by learning market. But potentially they can win bigger market share by attracting customers from more passive banks. On the other hand neutral banks can learn from mistakes made by innovators and offer more mature solutions latter on for their customers. And they are mostly looking on add on services which could be provided on top of instant payment solutions. And it is really interesting race and let see who will be winner in longer term.

– Who will be the main beneficiaries from the introduction of instant payments?

– It has become more a question of staying in market rather than making profit. From that standpoint bank customers will be first beneficiaries – both private and corporate. Banks are indeed making business and there are still a lot of opportunities to create business value atop of instant payments. Instant movement of funds 24/7/365 is a natural evolution of how we use and interact with digital services in the 21st century, just like email or messaging. In this respect it is about making payment infrastructure relevant for digital era requirements. On the other hand it will have huge benefits for both consumers, corporates and governments in terms of reducing risk between counterparties when settling funds immediately. From

consumer transactions, from buying a used car, to a corporate that can improve working capital, to the reduction of systemic risks in the financial system when settling obligations between financial institutions immediately. Going forward one could even think about what would be effect on how we pay bills or pay out salaries, e.g. do we need to use bulk payouts of salaries at a certain date of the month, or could we choose more individual payout schemes? Instant payment infrastructure will improve efficiencies of the society and also spur innovation.

At the core of all our development is the value for the end customer and merchant. We see the near future as more than instant payments.

Connected processes will be linked to the customer journey.

And the customer seeks both flexibility and control – to choose how pay and even when to pay. The customer wants to know financial options. Today he or she might use one a plastic card to pay and one loyalty card for each shop but tomorrow we hope to have a reality where the customer doesn't need to think about bringing the loyalty cards and would get instant advice and offer on what is the best card to use for maximum benefits or is automatically chosen and debited from touching a mobile device.

The merchant, on the other hand seeks to ensure a great experience independent of user channel (cash, card, mobile, online) and to optimise supply chain and cash management accordingly.

We cannot predict what are the winners in the online payment and offline payment space, or how long it will take for different methods to reach a mass market...we can however see an importance of keeping the systems agnostic and open..we are moving towards a pure software approach to PoS environment with independence of hardware – and simple updates for supporting various payment methods and access types, no matter the form factor used.

– How do you expect instant payments to impact card transaction volumes? And when will this be seen?

– Currently in markets where Tieto operates we see constant growth in card transaction volumes. At part, this is due to the new introduced features such as HCE or digitized cards, card wallets, and contactless cards. We can also recognize a trend towards legacy systems upgrade – a number of banks are indeed looking for a more performing, flexible and modern card solution. Even in markets where instant payments are in place we see that card transaction volumes

continue to grow. Card is still very convenient payment method and there is little or no business rationale to replace it. On the other hand – we have legacy payment forms such as cash and payments by checks which definitely could be replaced by more modern and convenient payment method as instant payments are. Instant payments is P2P arena – currently cash and bank transfers dominate. For in store or P2B payments– PoS terminals with card acceptance will stay for quite long time as banks and retailers continue to invest in devices and thanks to the fast and convenient infrastructure. However, here we see that cash, checks or bank transfers could be potentially replaced by instant payments.

The only area where we see cards payments could be significantly impacted in near future are fast growing e-commerce payments. There are technological challenges for cards infrastructure in this area, mostly related to fraud protection. Maintaining PCI DSS compliance and 3D Secure are quite costly for banks and e-commerce merchants. Basis of this technological issue is that card payments are debit requests, meaning that technically payment is initiated by beneficiary but actually payment has to be accepted by card holder.



Instant payments are initiated and accepted by card holder, allowing much more transparent and secure process. We see that in next 3-5 years e-commerce will gradually move from cards to instant payments.

Banks have to consider about modern payment switches which allow to switch between different payment methods. This may involve artificial intelligence for payment routing thus enabling fastest and less costly payment execution for each of payment.

The requirements are a paradigm: lowest possible cost for single transaction and high volume processing without single interruption. Tieto is investing in this area. We recently conducted an online performance tests on Oracle SuperCluster M7 in Oracle laboratory in UK. The results showed performance capability of more than 10,000 authorizations per second for switching between networks including HSM cryptographic operations. We believe this is a way where technology should continue to grow.

– How do you advise banks to approach the introduction of instant payments?

– There are different ways to approach the movement to instant payments, depending on what is the existing central infrastructure of the country. We see instant payment infrastructures that have evolved from card switches and from ACH account-to-account rails. Some key considerations we have seen as global best practices and that we think are important as 'design' principles are:

- to use open and global standards, such as ISO 20022;

- to use a co-opetition model, meaning that collaboration should exist between main stakeholders in a country regarding rulebook and scheme, and the technical infrastructure (the rails). Competition are to be made on the customer facing parts of the propositions, where instant payments is a component of a larger service. This will help reduce cost and increase efficiency;

- to create a legal infrastructure for integrating both banks and non-banks. It is important to see instant payments as a basic rails infrastructure, where a lot of gains are to be had if existing rails are interconnected. For instance, in countries with successful mobile money networks, e.g., in Kenya or Uganda there is a huge potential in interconnecting these infrastructures for the benefit of reaching more people, for instance, the unbanked;

- to consider the infrastructure for multiple use cases, not only for P2P payments, but as

a next generation platform for both bill payments, merchant payments, etc.;

- to learn how to work with the larger ecosystem, e.g., including multiple stakeholders (not only banks) when designing new services around instant payments. For example, in Finland Tieto helped the banks to drive in-store payments together with retailers, e-receipt operators and terminal vendors.

The most efficient approach also depends on availability of central infrastructure. We know that in SEPA area there will be number of switches available. First of them will start operations in August 2017 and it will be run by Bank of Latvia. EBA switch will be launched in November 2017 and others will follow. Banks need to begin the enrollment process with particular switch operator considering technical and cost perspectives. Outside SEPA – most often country level central switches have a defined technical framework. There are, of course, countries where instant payments are not considered yet. And this is a right time for banks to come together, discuss and start working on this area.

From the business perspective, banks need to consider instant payments as a new product and reuse their own product implementation frameworks. The main difference with instant payments is that its real time execution. And this is something more closer to the cards world. We would suggest banks to involve their card team in new product development. This is the team that already works with real time operations. They are aware about possible fraud and operational risks.

In addition, banks have to decide are they seek a competitive or a cooperative relationship with the aggressive fintech companies. For competing the focus needs to be on functional payment wallets rather than value added services on top of the instant payments infrastructure. However, for cooperative relationships the focus needs to be on open APIs and ways how to earn money from this cooperation. Most probably banks will end up having to cover both areas.

