

A FINEXTRA RESEARCH SURVEY

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# THE VALUE OF INSTANT: BUILDING A BUSINESS CASE FOR BANKS



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# FOREWORD

## THE OPPORTUNITIES – AND CHALLENGES – OF INSTANT



By Martin Coen  
President, Enterprise Payments Solutions, Fiserv

I think all of us involved in the payments world can confidently say that right now we are experiencing a period of unprecedented change and interest in our industry.

New payment solutions have come to market, with plenty more to follow, and customer expectations are changing rapidly, starting with consumers but quickly moving into the business and corporate worlds. Regulatory pressures are building constantly and the competition from both new players and existing providers continues to heat up. Add to this potent mix the challenge of ageing legacy systems and the necessity of digital transformation (whatever shape that has to take) and it's not surprising that many banks wonder which way to turn.

One area of both opportunity and challenge for banks is instant payments.

Last year's Instant Payments Global Survey, produced by Finextra in association with Fiserv, looked at the instant payments market globally. It highlighted how the majority of banks see instant payments as one of their top priorities, with two-thirds of respondents stating that instant would be live within their banks within two years and most acknowledging that any investment required would have to be based on strategic necessity, rather than a conventional business case.

So the roll-out of instant payments globally is inevitable. It will happen faster in some markets than others, but it is going to happen. The introduction of this new payment type is, nevertheless, putting many aspects of the payments business provided by banks under the microscope – from exposing infrastructures that cannot handle instant, to the service and pricing of existing mechanisms.

There is no hiding. Banks need to be ready in all aspects of their payments businesses.

It is not surprising that regular requests from banks over the last 12 months, including through our client engagement groups, have been for help with business cases, including information on the pricing of instant. We have tried to address this requirement through this year's survey.

Looking at the market through the lens of payments pricing, in markets that have either already introduced instant payments, or are in the process of doing so, has produced some interesting data and insights.

- There are a number of different approaches to the pricing of instant payments between markets. These range from the 'Nordic' model where instant payments are priced at a premium relative to other payment types, to the 'UK' model where they are often free.
- Some markets are adopting a hybrid model, recognising the need to provide the service for free to consumers but charge businesses and corporates.
- It is also evident that within markets banks have adopted a range of pricing approaches to instant.

What becomes clear is the importance for banks of establishing an overall payments strategy with defined propositions, including the pricing, for each customer segment (aligned with the broader set of banking service propositions for that segment). Taking this step ensures a customer centric approach in which payments can be optimally positioned and developed.

I hope you find this research helpful. We at Fiserv look forward to being able to help you with both the challenges and opportunities of instant payments, and your wider digital transformation journey.

# INTRODUCTION

As the banking industry continues to undergo change, it challenges the essence of how banks meet the growing expectations of their customers - not just to retain them in the face of new competitors, but also to compete in a digital age that has changed customer attitudes to the way we shop, work and socialise.

In a connected world where instant access to goods, services and information is expected, banks wrestle with the effects and expectations across the financial sector. Digital innovation is changing the banking industry and disruption in payments will continue, with established banks facing credible competition from innovative challengers and regulation reducing the barriers to entry.

This is a real driver for the growing global adoption of immediate payments – a better, faster way of making payments that guarantees virtually real-time credit to the beneficiary. And the expectation is that the schemes are priced competitively or offered free and settled in seconds with high levels of associated security.

**Immediate payment schemes are under way in nineteen countries and several more are committed to launching a service, but banks are tasked with the demand to move money with greater speed and convenience.**

There are challenges and additional costs. The legacy payments infrastructure used by banks is not readily scalable to meet the requirements of immediate payments, nor is it agile enough to offer innovative overlay, chargeable services to offset the loss of payment fees.

**All of this affects how banks offer payment services and products. As immediate payment services roll out, they will compete with and draw volume from other domestic payment types – such as ACH and RTGS payments.**

This report examines the pricing of payment types across seven countries, based on information from 16 banks. The charts illustrate the outcome and prompt debate on the continued effect of a global move towards the free, instant transfer of credit through immediate schemes and supporting infrastructures.

Of course, banks are guarded about their pricing strategies, and they differ widely depending on products, customer segments, client relationships, geographies and competition. Published tariffs are merely a starting point for negotiation, and the report captures this information and combines it with independent research and interviews with market specialists.

## 03

# IMMEDIATE PAYMENTS: BACKGROUND AND CURRENT POSITION

Immediate payment schemes, also referred to as faster, real-time or instant payment systems, are proliferating around the world.

The global trend toward immediate payment schemes is accelerating, with several countries committed to launching or evaluating a service.

Market research suggests that 22 countries have implemented immediate payment schemes with at least a further three under development and another four in the early stage of assessment.

There are many variants to immediate payment schemes (in terms as rules, standards, overlay services and monetary limits).

Immediate payment schemes differ widely, but all deliver virtually instant credit to the beneficiary, predominantly at present to the retail sector, but also with a growing demand from corporates for better payment related services to improve cash management.

Most immediate schemes operate within domestic borders, although Sepa instant payments operates within a single currency across EU borders.

The evolution of current immediate payment schemes will focus on how domestic schemes are interlinked and interoperate to deliver cross-border options.

Inevitably they will compete with and draw volume from other product payment types.

### Immediate payment schemes in operation

Australia, Bahrain, Brazil, Chile, China, Denmark, Iceland, India, Japan, Korea, Mexico, Nigeria, Poland, SEPA (pan-European), Singapore, South Africa, Sri Lanka, Sweden, Switzerland, Turkey, UK, US.

### Immediate payment schemes under development

Netherlands, Spain.

### Immediate payment schemes under evaluation

Canada, Malaysia, Philippines, Vietnam.

## Access and development implications.

What drives immediate payment schemes is largely consumer demand and regulatory pressure to open up markets to provide greater choice and generate competition from new providers.

The rise of instant payments is also driven by the growth of online commerce, consumer attitudes and thirst for immediate access to a range of services that govern how we shop, work and socialise.

Access to immediate payment schemes and the reaction of traditional banks (the current members and often business stakeholders) to new entrants who compete drives direct competition, but also offers the opportunity to collaborate.

New entrants build their enterprise solutions on the business case benefits of offering 24/7 payment capability and compete with traditional bank providers who, to date, largely resist the competition.

The incumbents have invested heavily over decades in the provision of the technical platforms and schemes to effect payments and often resist the move to allow new entrants access without the burden of cost and or dependency on sponsorship through current membership.

However, it is merely a matter of time before this is overcome through the provision of competitive third-party fintech based access platforms (aggregation services), collaboration and partnerships.

In general terms, the payment systems infrastructure is too complex, siloed and costly to scale to meet the demands of 24/7 immediate schemes.

Typically the infrastructure lacks the agility and open access to meet the core requirements of immediate payments such as 24x7 operation, digital connectivity, virtually instantaneous transfer of funds and the capability to innovate to differentiate on service and offering.

Therefore, new platforms are built to support 24/7 movement of funds, but the business case is boosted by the addition of so called 'value-added' offerings, largely based on information (data) based services.

There is a shift to immediate payments, competitively priced or free, but this should not necessarily lead to a deterioration in revenue.

## The business case consideration

The business case for development of an immediate payment solution for banks based on traditional return on investment (ROI) thinking and revenue projection is not robust and would not be sanctioned.

The business case is therefore a mixture of art and science. It requires recognition of the need to develop an immediate payments infrastructure to meet the demands of customer expectations and competitive offerings from new and established providers and to satisfy regulatory requirements.

In essence there is no business case, so a long-term strategic view is required and this adds weight when evaluating the investment needed.

As the financial industry adopts immediate payment schemes globally regardless of the domestic variations providers of payment services cannot afford to be excluded.

The challenge is not the cost of investment to join a scheme but how you convert it to a tangible, financial payback by offering ease of access to compete on service and product in the digital community.

Innovative solutions, with a real focus on core markets (P2P, B2P) and increasingly services to corporates and multi-nationals are fundamental requirements when looking at the revenue to be derived from immediate payments.

As the monetary transfer of value becomes increasingly commoditised, banks must look to offer contextualised services to individuals, businesses and corporates through digital access.

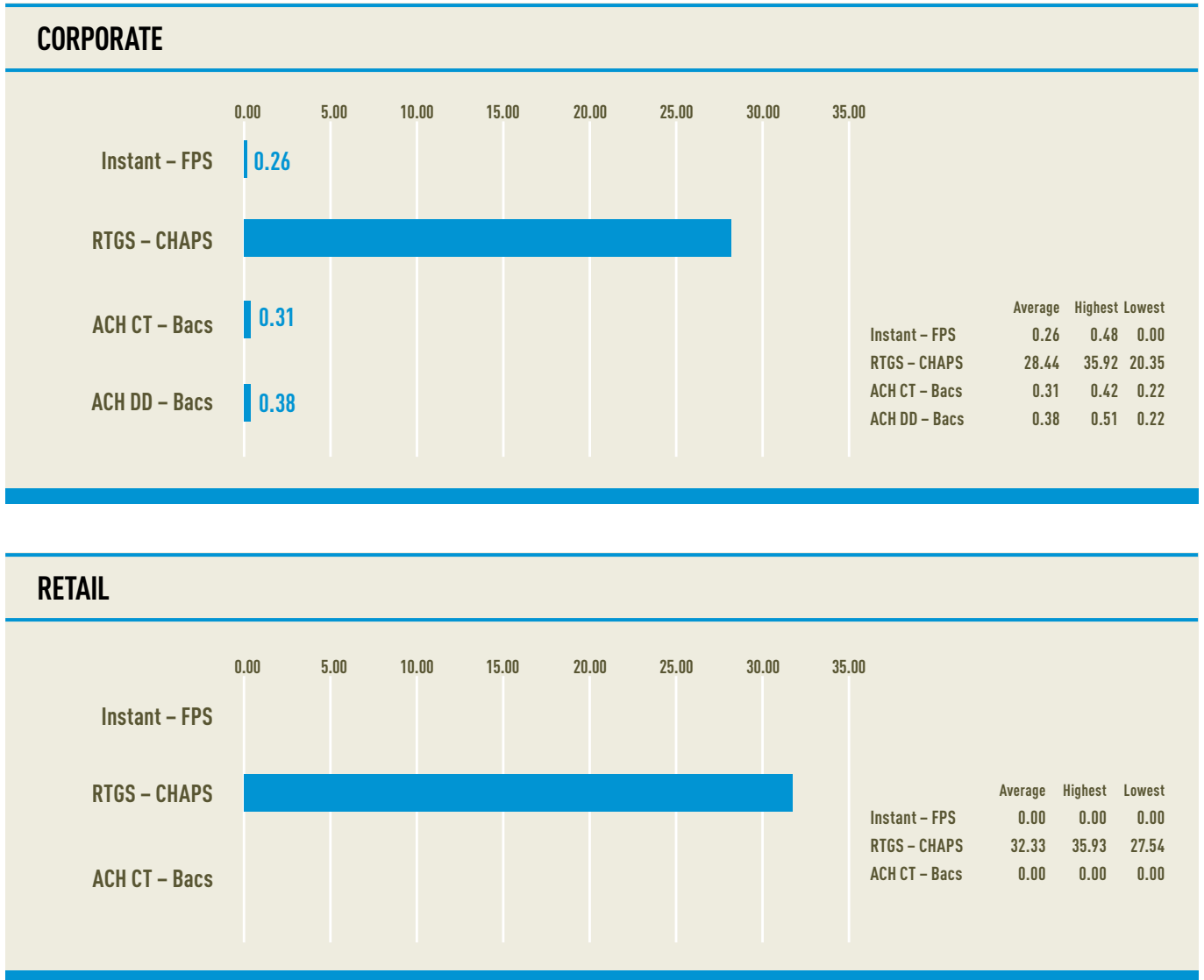
The result is the need for banks to do more of what many struggle with today: examining their business models and re-thinking the types of organisation they strategically wish to be, and then building the business plan to get there.

Digital technologies, regulatory drivers, customer expectations and new competition all conspire to make this a positive opportunity and a time for banks to embrace the opportunities of immediate payment services and solutions.



# IMMEDIATE PAYMENT SCHEMES – PRICING DATA AND ANALYSIS (ALL PRICES IN EUR)

UK



All prices in EUR (@ 1.00 GBP = 1.20 EUR)

Average standard prices are shown. Discounts may be applied.

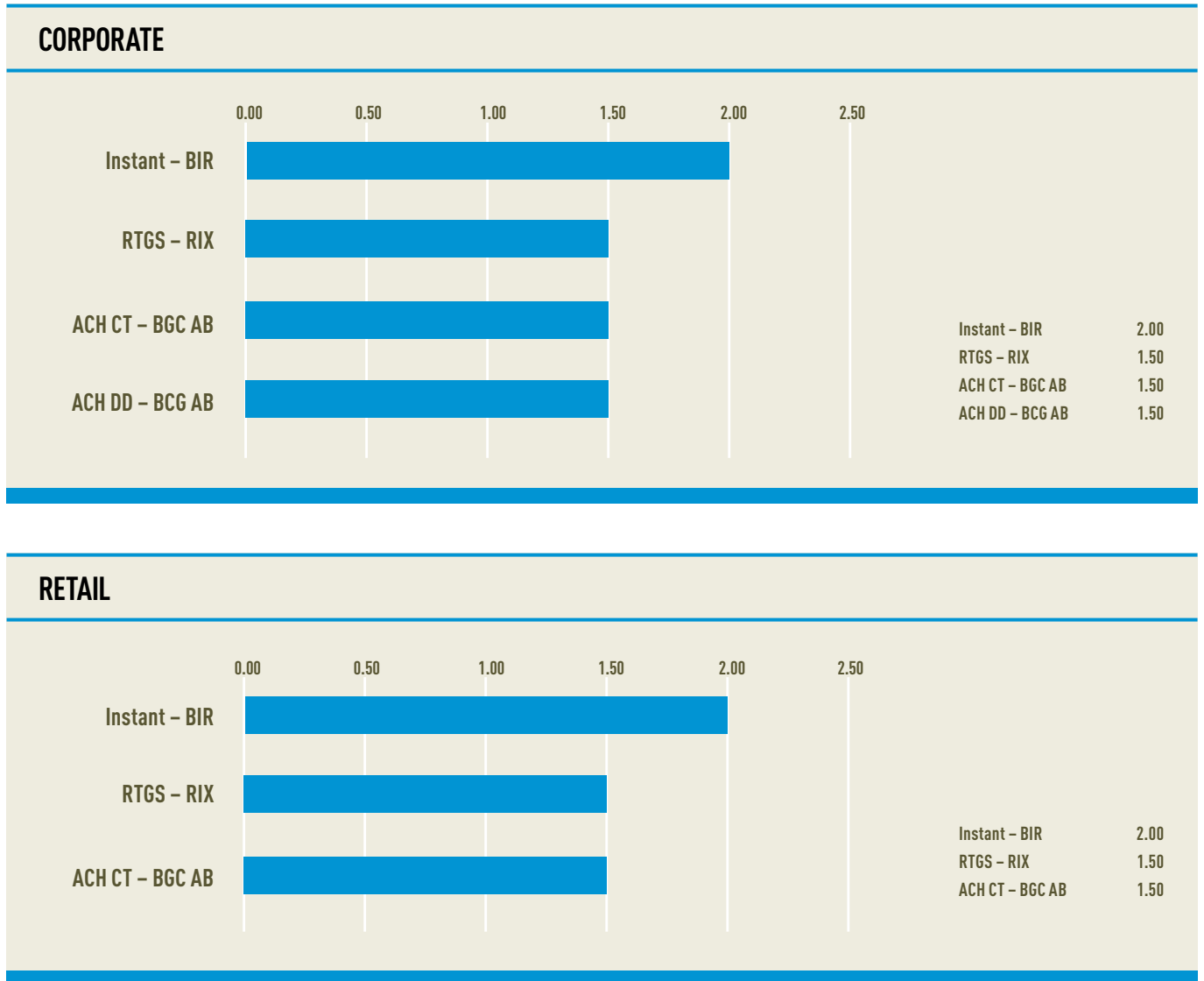
## Narrative:

- \* The instant payments service (Faster Payments) was introduced in 2008
- \* Faster Payments has a maximum value of c.EUR300,000 (GBP250,000), but bank-specific limits (including per initiation type) apply
- \* Instant payments are free for Retail customers
- \* RTGS payments are hugely more expensive than instant payments
- \* Much customer-specific pricing is used: 100% in Agency Banking market but also frequently in Corporate market

## Take-aways:

- \* The UK is working on a New Access Model for instant payments to make it easier for new entrants to provide payment services through a number of Technical Aggregators
- \* Discussions are also underway on migrating the Faster Payments service onto ISO20022.

## Sweden



All prices in EUR. Standard prices are shown. Discounts may be applied.

### Narrative:

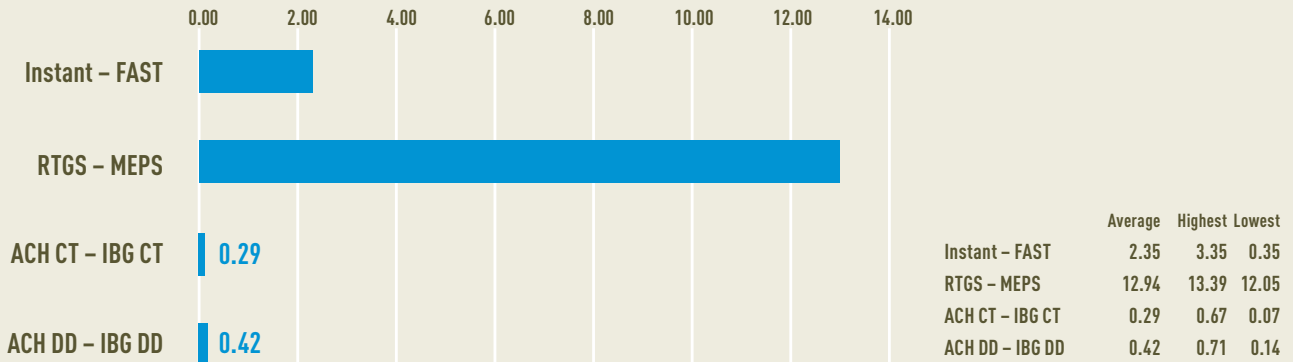
- \*The Payments in Real Time service (BIR) was introduced in November 2012
- \*BIR does not have a maximum value
- \*Instant payments are more expensive than RTGS payments
- \*Similar tariffs apply across all customer segments

### Takeaways:

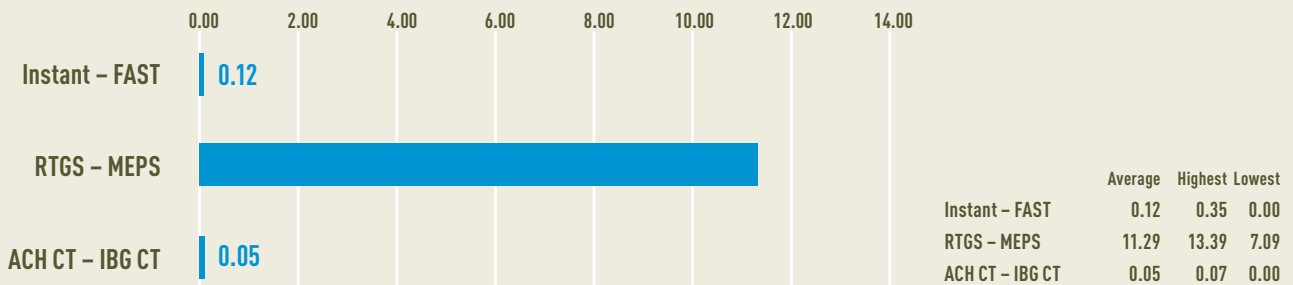
- \*The development of the instant payments service was driven by the Central Bank's cashless society strategy
- \*In the future, instant payments will provide the platform on which new payment offerings (eg e-commerce and m-commerce) will be built

## Singapore

### CORPORATE



### RETAIL



All prices in EUR (@ 1.00 SGD = 0.67 EUR)

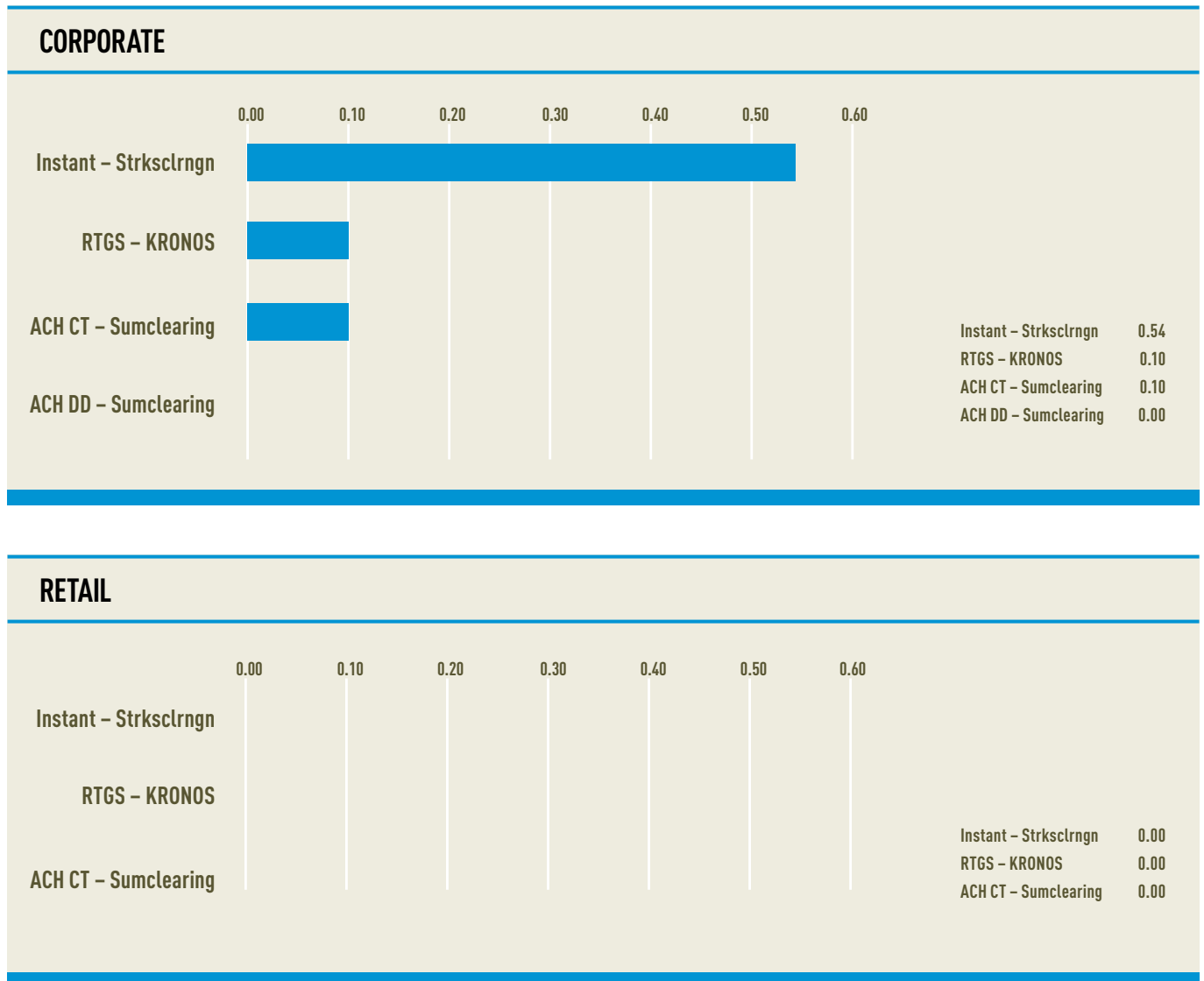
#### Narrative:

- \*The instant payments service (FAST) was introduced in March 2014
- \*FAST has a maximum value of c.EUR33,500 (SGD50,000)
- \*Some suppliers charge retail customers for instant payments, others do not
- \*RTGS payments are more expensive than instant payments

#### Takeaways:

- \*The instant payments service is currently offered by 19 banks which have taken the commercial decision to join the service
- \*The service can be accessed via tablet, smartphone or PC

## Denmark



All prices in EUR (@ 1.00 EUR = 7.44 DKK)

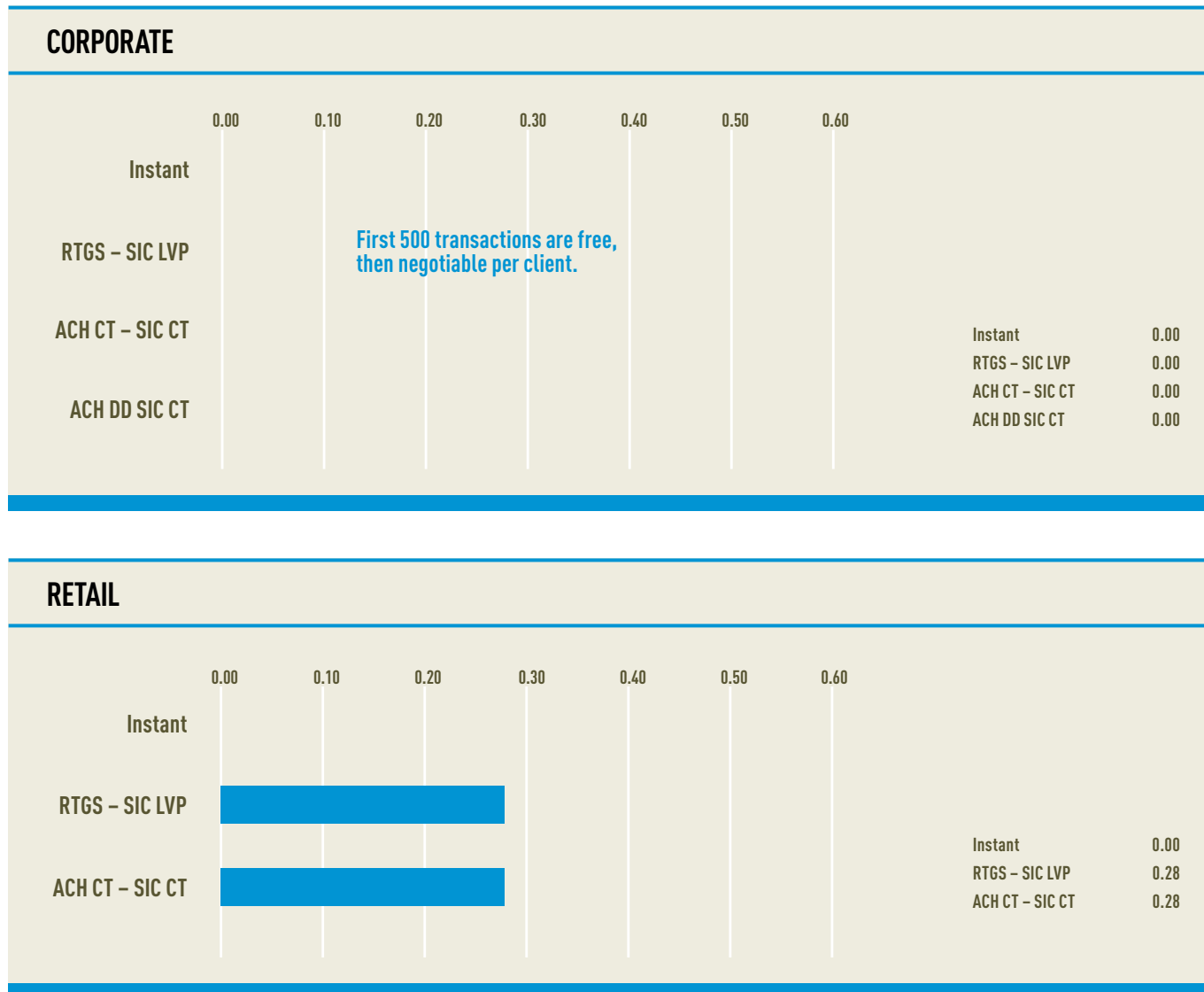
### Narrative:

- \*The instant payments service (Straksclearingen) was introduced in November 2014
- \*Straksclearingen has a maximum payment size of c.EUR62,400 (DKK500,000)
- \*All payment types for retail customers are free
- \*For corporates, instant payments are more expensive than RTGS payments

### Takeaways:

- \*The Danish instant payments service is a key part of the country's payments infrastructure modernisation programme promoted by the Central Bank
- \*Instant payments will provide the platform for both new mobile payment solutions and broader digitalisation initiatives

## Switzerland



All prices in EUR (@ 1.00 CHF = 0.92 EUR)

### Narrative:

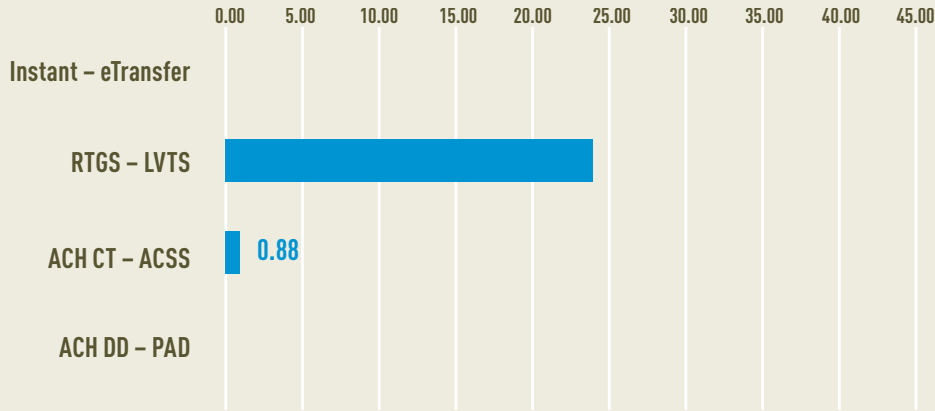
- \*The RTGS system (SIC LVP) processes both wholesale and retail payments
- \*Hence, more than 50% of all SIC LVP payments are below c.EUR460 (CHF500)
- \*Instant payments are free for retail customers
- \*Retail RTGS payments are priced the same as ACH CTs
- \*The tariff for Corporate payments is negotiable (one supplier offers the first 500 payments free of charge, then EURO.28 (CHF0.30) for each additional payment)

### Takeaways:

- \*By using the RTGS system, the Swiss instant payments service benefits from both economies of scale and payments liquidity pooling
- \*The service is provided by the bank-owned Six Group which intends to meet customer needs into the future through digitalisation

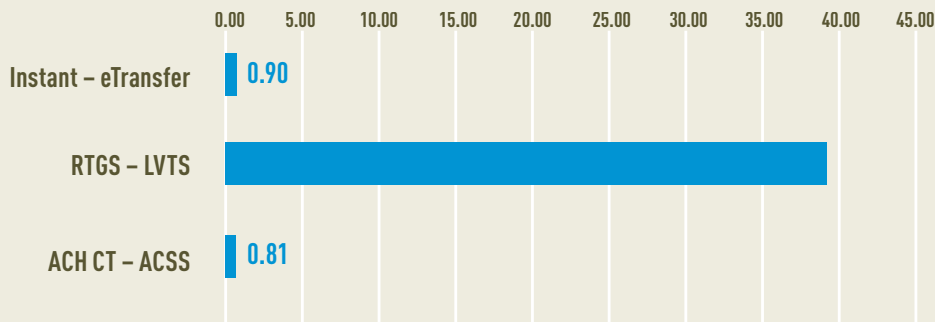
# Canada

## CORPORATE



	Average	Highest	Lowest
Instant - eTransfer	N/A	N/A	N/A
RTGS - LVTS	24.02	27.46	20.59
ACH CT - ACSS	0.88	0.93	0.86
ACH DD - PAD	0.00	0.00	0.00

## RETAIL



	Average	Highest	Lowest
Instant - eTransfer	0.90	1.03	0.69
RTGS - LVTS	39.03	54.89	25.73
ACH CT - ACSS	0.81	1.03	0.69

All prices in EUR (@ 1.46 CAD = 1.00 EUR)

### Narrative:

\*Although not an orthodox instant payments service, Interac e-Transfer provides a near real-time service with funds reaching the beneficiary within 30 minutes

\*e-Transfer has a maximum amount of EUR2,340 (CAD3,500)

\*e-Transfer is not available to corporates

### Takeaways:

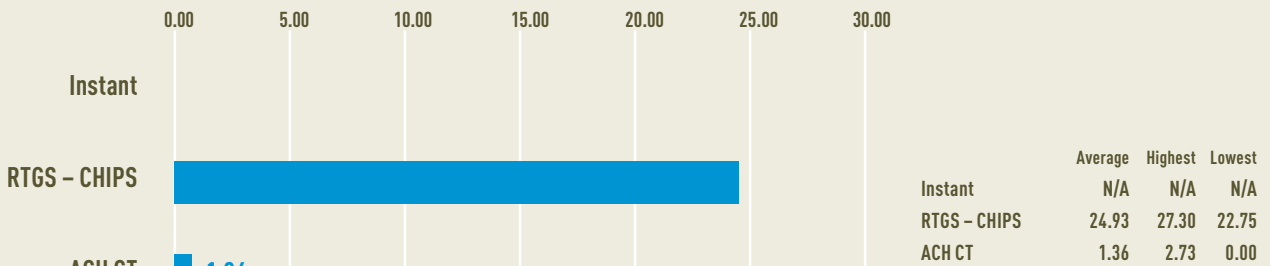
\*The Canadian Payments Association is currently in discussions regarding the development of an instant payment service.

# USA

## CORPORATE



## RETAIL



All prices in EUR (@ 1.00 USD = 0.91 EUR)

### Narrative:

- \* The Federal Reserve System's Faster Payments Task Force will engage a diverse array of stakeholders in advancing the work outlined in Strategies for Improving the U.S. Payment System (PDF), published in January 2015.
- \* The objective is to identify and assess alternative approaches for implementing safe, ubiquitous, faster payments capabilities in the US.
- \* During 2016 proposals for an instant payments solution were sought from various private sector entities. The results will be published in early 2017.
- \* However, discussions continue on the role of the Federal Reserve System in the operation of the new service.

# CONCLUSION AND RECOMMENDATIONS

The banking industry must adapt to the changing needs and expectations of an increasingly 24/7 connected world. Banks are challenged by the needs of meeting regulatory requirements and the dual effect of competition offering greater consumer choice.

This changes banks' traditional thinking and approach to product and relationship management. They offer an aggregation of siloed products, the price points of which are driven by consideration of their operating costs, view of profit margins, assessment of risk and competitive alternatives.

As immediate payments schemes push revenues down and customers expect greater transparency, a product based approach to pricing becomes increasingly out-dated. However, challenging it may be to the way in which most banks continue to be structured and operated, they need to transition to a more customer-centric approach if they are to remain competitive in the fast changing payments landscape.

However, failure to respond in this way simply plays into the hands of the growing competition, firms focused on stealing payments revenue (traditionally the preserve of banks) unencumbered by legacy overheads and encouraged by regulators opening up markets.

The opportunity for banks to compete and drive new sources of revenue comes from their ability to offer innovative services and products, many based on opening up the huge collection of data they hold about how their customers behave.

Banks also need to price their offerings based on a deeper understanding of customer needs, proposing products and services reflective of customer requirements during a lifecycle of value based on their history, aspirations and growth.



# 06 ABOUT

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