

Request to Pay and the promise of digital end-to-end payments

In a hyper-connected world, consumers and businesses expect more than just fast payments – they want seamless, low-cost, hassle-free experiences. Request to Pay, when combined with instant payments and open banking APIs, has the potential to meet these expectations by reducing friction and costs throughout the transaction lifecycle. By offering innovative value-added services, financial institutions have the opportunity to strengthen relationships and brand loyalty.

A New Option for Real-Time Payments

Request to Pay schemes have emerged worldwide as a way of triggering digital payments from bank accounts. Unlike traditional direct debits, Request to Pay transactions are real-time, suitable for ad hoc payments and can be received and sent through multiple channels.

The Request to Pay process is simple, flexible and information rich. A provider of goods or services (payee) sends a digital request for payment to a payer's device. An invoice or other transaction details can accompany the request. When the request is received – most likely through an electronic interface such as a mobile app – the payee can approve and initiate payment.

The payer can also reject the payment, provide alternate instructions or indicate when a payment will be made in the future. This information, as well as transaction details, follows the payment – enhancing communication, establishing trust and enabling easy reconciliation once funds are received by the payee.

While some implementations of Request to Pay are tied to a specific payment rail such as instant payments, this is not a requirement. The payer can be given the option to choose a method of payment and inform the payee of their choice.

Better Together: Instant Payments, Open Banking and Request to Pay

On its own, Request to Pay is a convenient way to pay and get paid, but the combination of Request to Pay, instant payments and open banking have transformational potential. Together, these three will change the way businesses and consumers transact and interact, laying the foundation for a digital payments ecosystem that fosters innovation and inclusion while reducing friction and cost.

Nearly all of the payment schemes supporting Request to Pay around the world are tied to or overlaid on instant payments, including the RTP[®] network from The Clearing House (TCH) in the U.S.; the Immediate Payments Service in India and the R2P from EBA Clearing in Europe. In late 2020, the European Payment Council (EPC) will also launch SEPA Request To Pay (SRTP), which is not tied directly to instant payments.

Open banking practices enable consumers to grant permission to third parties to access their account data and initiate payments on their behalf. Through open banking APIs, consumers can receive a request for payment and initiate the payment. The API can be used to generate a response to let the payee know that the payment is on its way.

A Boon for Merchants

With Request to Pay, merchants can control the payment element of the transaction – they receive funds directly at the point of handover and can offer a range of innovative solutions to attract and retain customers.

For example, offering loyalty points could encourage use of Request to Pay and keep customers coming back. Credit-enabled Request to Pay could enable flexible installment plans to be set up at the point of sale.

Benefits for Businesses

Reconciling payments under traditional payment schemes is complicated and costly. A payment amount may not match the amount due; payments may come from more than one source; there may be no reference tying the payment to the purchase or invoice; and payments may arrive at any time or be returned for insufficient funds.

In contrast, all the information needed to reconcile the transaction is contained within a Request to Pay – including the invoice or purchase order number, payer account information and the payment method selected. Larger businesses and payment aggregators can use this information to automate reconciliations.

Through agreements with banks to pay approved merchants or vendors, the problem of dealing with returned payments is greatly reduced. Instead of simply getting a notice of insufficient funds, payees can receive a notice that payment will be made on a specific date the bank knows the payer will have the funds.

In these ways, Request to Pay will streamline collections and improve cash flow for businesses – especially when combined with open banking and instant payments.

Enhanced Consumer Experiences

Because the payment request is embedded in the payment initiation device (a digital wallet, API or a smart meter), Request to Pay saves time and effort for consumers. Rather than receiving an invoice by mail or email and having to initiate a payment separately in a different app, bills and invoices can be received, paid, tracked and stored in one place.

For recurring payments, consumers can set up agreements similar to a direct debit/pre-authorized debit agreement, instructing their bank to automatically make a payment on their behalf when it receives a payment request from a trusted party.

Request to Pay also improves communications between consumers and businesses. Whether executing an online or in-store transaction, full details about the items included in a purchase, along with details about taxes, guarantees and delivery, can be included with the request.

Benefits and Opportunities for Financial Institutions

Request to Pay offers a number of operational benefits to financial institutions. As a real-time, direct-to-bank payment option, it has the potential to further reduce check and cash use while replacing non-bank cards and person-to-person payments.

With the right technology, financial institutions can use the rich data that accompanies a Request to Pay to mitigate fraud, make credit decisions and understand the cash flow and liquidity needs of customers.

And because consumers authenticate with their bank and approve each payment, Request to Pay transactions are likely to reduce chargebacks and costly exceptions handling.

The ultimate success of Request to Pay, however, may depend on value-added services that combine Request to Pay with instant payments and open banking APIs to create more flexible, convenient and secure payments.

For example, the value of a digital wallet grows when it is directly connected to a bank account for instant, low-cost payments. Savvy financial institutions will brand their Request to Pay service, feature their brand in digital wallets and display it at the point of sale to increase usage.

Through integration with their mobile apps, financial institutions can optimize the Request to Pay experience. Integration with fingerprint recognition and other advanced authentication techniques can help reduce friction and increase consumer trust.

Because consumer protections are not embedded in Request to Pay schemes, financial institutions will also find opportunities for fee-based services offering purchase protection or lines of credit accessed by selecting a “pay later” option.

Using the rich data inherent in Request to Pay transactions, innovative services can be bundled with Request to Pay offerings to enhance payment experiences and loyalty – with financial institutions establishing themselves as the trusted party to hold and manage this data.

Market Readiness

Building the infrastructure to support real-time Request to Pay schemes is critical and many financial institutions have already made significant investments to upgrade their general ledgers, payment, credit and fraud systems.

Combining Request to Pay processing alongside payments processing into a single payment services hub is the best approach to take, ensuring that the information-rich Request to Pay messages are tightly woven into the payment messages. This approach supports the breadth of overlay services that will become available, including those that oversee payment governance, payment initiation or utilizing the information that is available to improve the customer experience.

Request to Pay, together with instant payments and open banking capabilities, is revolutionizing digital payments. Financial institutions that create innovative Request to Pay offerings will not only increase efficiency and reduce fraud, they have the opportunity to build brand loyalty and gain market share.

About the Author

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