




Adoption of faster payments: SME and corporate perspectives

August 2020



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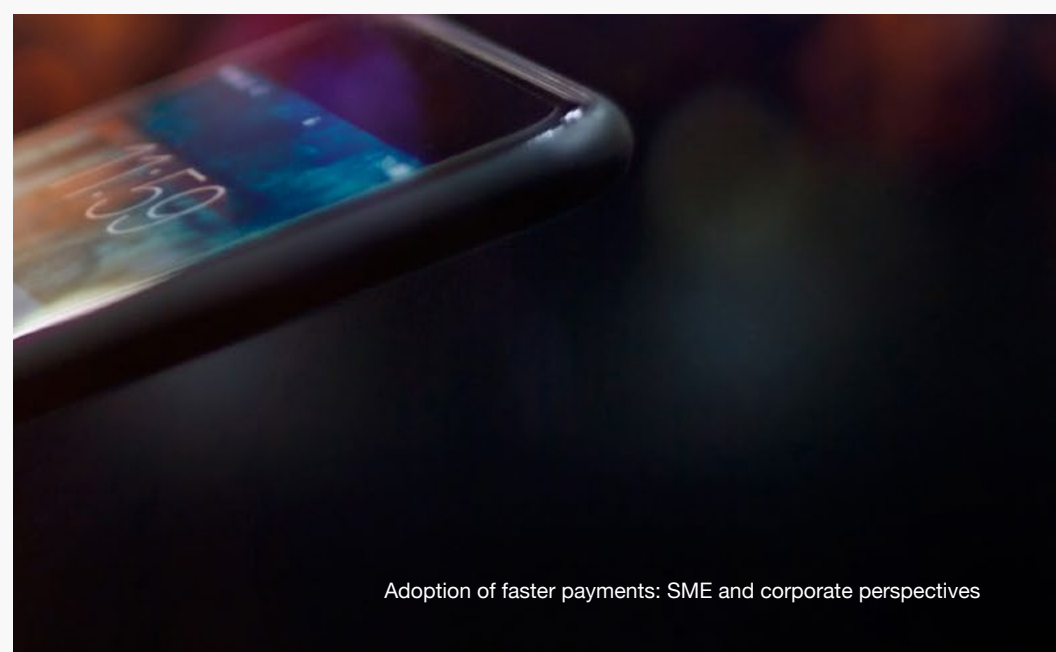
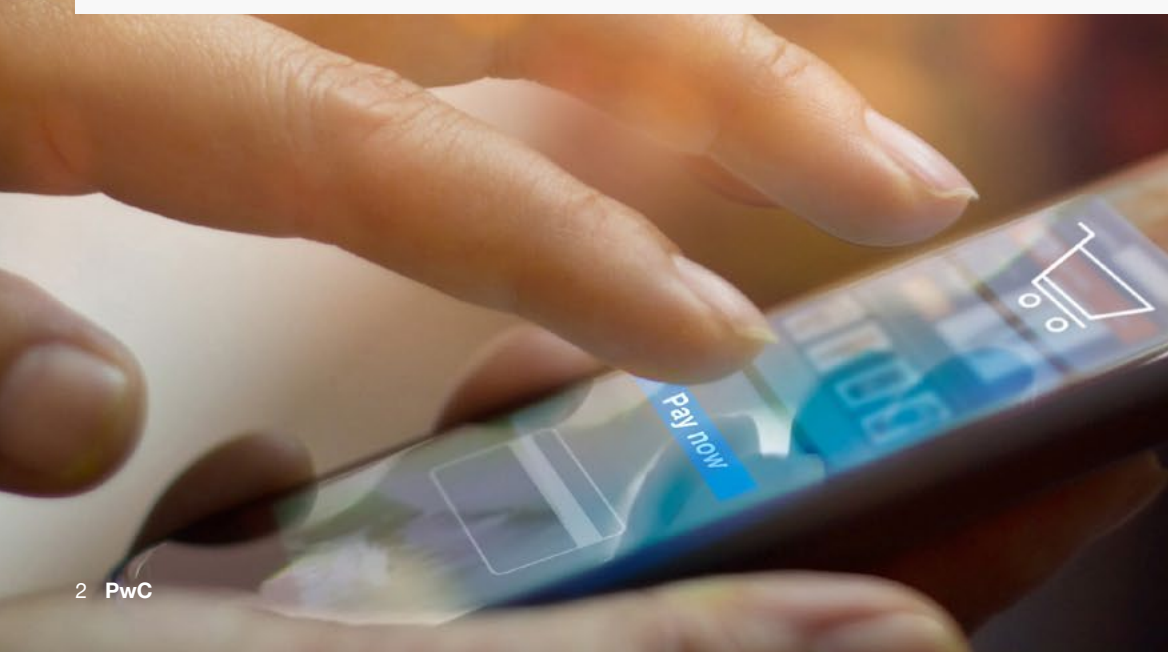
It is my pleasure to bring to you the latest edition of PwC's Payments newsletter. In this edition, we explore the adoption of real-time payments by corporates and small and medium enterprises (SMEs).

In addition to our views, we have captured various use cases relevant to corporate real-time payments and explored the way forward for the industry on how customer segments can benefit from the extension of faster payments.

I hope you will find the newsletter to be a good and insightful read.

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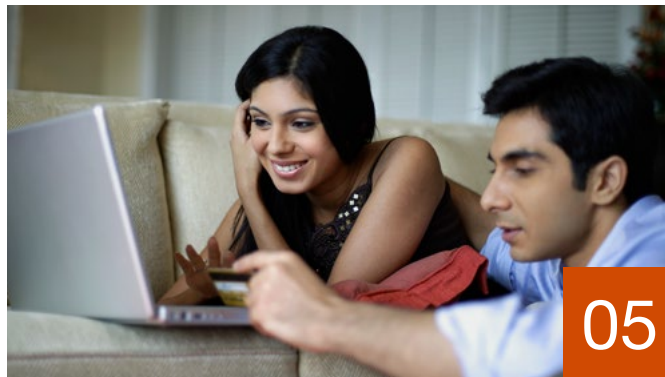
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Introduction



Real-time payments have evolved from being only speedy payments systems to providing a frictionless experience across the entire payments value chain. Instances of developing overlay services via application programming interfaces (APIs) on top of real-time rails or even developing new payment initiation techniques like QR codes have the capability to transform how payments are initiated, communicated and settled.

Faster payments are no longer restricted to retail peer-to-peer (P2P) payments. They have been significantly adopted in the peer-to-business (P2B) and business-to-business (B2B) space. In most business relationships and business models, time-consuming payments processes are no longer acceptable. For example, a firm has received a large order and needs to increase its capacity at the eleventh hour. In order to fulfil the order within a deadline of two hours, a certain amount is required to be paid. Such a requirement can only be met via a real-time payments mechanism delivering speed, instant feedback and transparency.

With approximately 46 real-time payments systems now online worldwide and 12 more in development, wholesale players are beginning to roll out the first use cases that utilise these new systems. We expect most initial B2B use cases to disproportionately benefit the small and medium-sized businesses (SMB) segment. Real-time payments systems could be utilised for instant

loan funding, invoice payments, etc. However, banks need to overcome their legacy technology challenges, including outdated payment processing engines that have prevented banks to process newer and enhanced data payloads to pass on the benefits of real-time payments to their corporate customers.

Impact of real-time payments on corporates

 Treasury	 Receivables and payables	 Cash management
 Reconciliations	 Payments processing	 Back office integrations
 Analytics	 Forecasting	 Business processes

Adoption of real-time payments by businesses worldwide

The adoption of real-time payments by corporates was slow for the initial few years post the launch of faster payment schemes. This can be attributed to several factors, including:

- A low number of participating institutions that can cater to scheme-related requirements of faster payment initiatives.
- With an initial focus on retail payments for faster payments rails, there has been low visibility for corporate payments, especially in the initial phases.
- Large discretionary investments are required to cater to new technology architecture and operational processes.

Drivers for adoption of real-time payments for corporates/SMEs



Regulatory

Increasing payment limits across instant payments schemes will result in higher usage from corporates.



Standardisation

- Real-time payments are important for large corporates with multiple business areas.
- Having multiple payments rails result in operational inefficiencies.



Clients

- Corporate users benefit from a streamlined user experience.



Innovation

- Newer use cases are built on top of real-time payments framework.



There are multiple plug and play solutions that are available in the market that facilitate the transformation of back end settlement, reconciliation and payment processes. Some of the popular organisations that provide such plug and play solutions are ACI, Euronet, Bottomline Technologies and Fidelity National Information Services (FIS).

It makes more sense for corporates to use API technology in order to gain easy access to the faster payments architecture. Factors related to reusability and easy integration of API banking ought to be considered by corporates. Apart from increasing the speed of transactions, faster payments mechanisms have the capability to drastically improve treasury processes by increasing straight through processing and freeing up much-needed liquidity for management of optimal working capital.

Apart from immediacy, the real value proposition of faster payments systems for businesses is the real-time integration of large volumes of data into their systems, thereby significantly reducing overheads and operational costs. An overview of some real-time payments initiatives for businesses in various countries is given below:

- Australia: Osko, an overlay service built on the top of New Payments Platform (NPP),¹ the real-time payments infrastructure, offers a 'payment with document' service that allows businesses to send documents while making payments in real time.
- Portugal: There exists an instant loan service in which banks use the instant credit transfer scheme Sepa Instant Credit (SCT Inst) and open API banking to check the credit worthiness of the applicant and disburse

funds in real time.² SCT Inst is a pan-European instant payments scheme that enables real-time credit transfers between European Union (EU) member countries like Spain, Germany and France. Sepa is an optional scheme that payments service providers (PSPs) of the EU member countries can opt in.

- India: There has been a significant push in the SME space from a payment initiation and collection/processing perspective as overlay services have made their presence felt. Due to the low payment limits in India, the use cases are primarily relevant for SMEs rather than corporates. The Immediate Payment Service (IMPS) was launched on 22 November 2010 and has since registered high growth. The volume of remittances through IMPS witnessed a growth of 73.6% during 2018–19.³

1 <https://nppa.com.au/>

2 <https://www.citibank.com/tts/insights/articles/article37.html>

3 https://m.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=18290

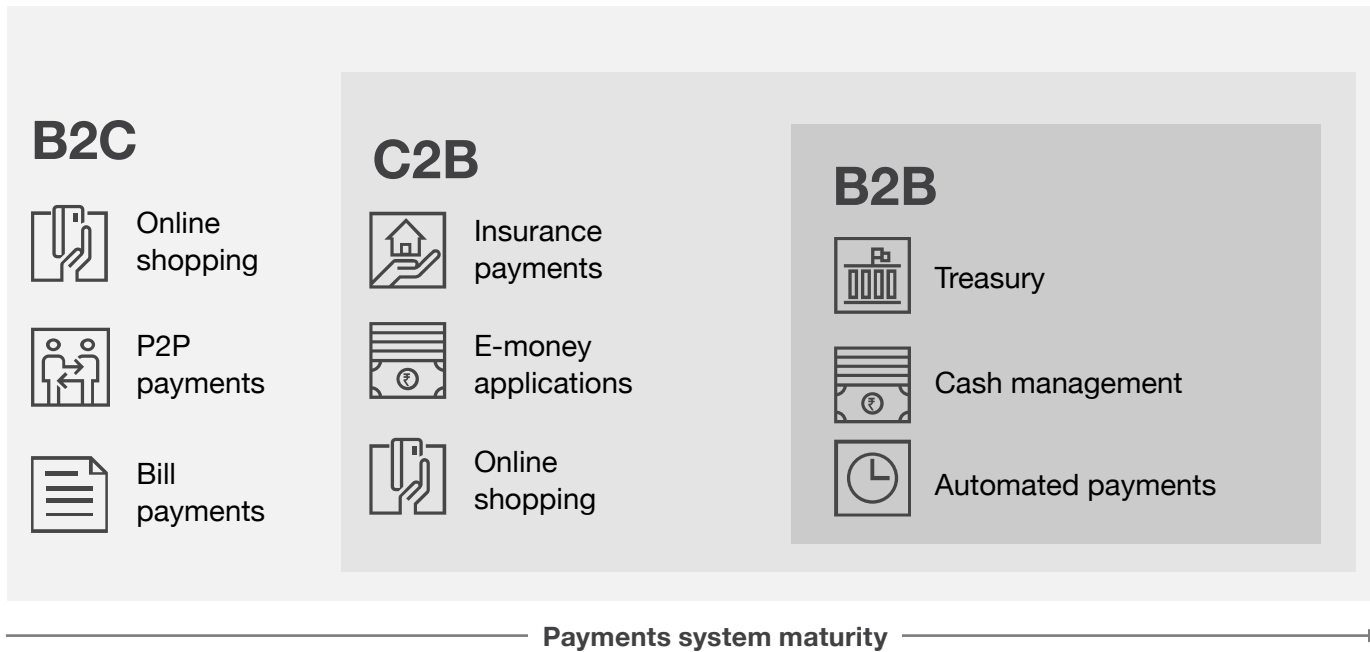


Use cases for real-time payments

Corporate payments range across multiple customer segments.⁴ Complex business scenarios are included into real-time payments systems as

and when frameworks mature. The figure below details the various faster payments use cases by customer segments.

Faster payments use cases (by segment)



Source: PwC analysis of data from industry research



⁴ https://cib.db.com/docs_new/CB_Instant_Payments_Whitepaper_DB0567_DIGITAL.pdf

1. Large corporate use cases

1.1 Real-time corporate treasury

Corporate treasury departments worldwide have been moving away from batch and daily systems to real-time treasury processes. The direction of treasury operations has transformed from focusing on operations to strategy. There is more impetus towards balance sheet management rather than managing only bank accounts. Lower payment limits on instant payments schemes were a deterrent for corporates to adopt real-time payments. Such limits were gradually increased and instant payments schemes became a valuable proposition for corporates. For example, the limit on the amount that can be transferred via Faster Payments in UK has been increased from GBP 1,000 in 2008 to GBP 250,000 in 2015.⁵

Here are some use cases of real-time payments in a corporate treasury setting:

- For day-to-day operations, funding is provided at the start of day (SOD), for which the treasury would need to forecast and release payments on the previous day. With real-time payments, treasurers can allocate funds in real time and utilise the extra day of funding for

other purposes like investing and maintaining extra reserves.

- Businesses that are heavily reliant on credit lines and require quick turnaround in terms of funding might find it difficult to operate via legacy payments methods like automated clearing house (ACH) which take around one day to settle. On the other hand, instant payments can enable businesses to quickly replenish their credit lines.

1.2 Corporate treasurers are able to tighten their supply chain

Real-time payments supporting a standard data-rich ISO 20022 message structure enable corporate treasurers to have enhanced visibility and allow them to tighten their supply chain. With the legacy proprietary payment formats that are currently in use, corporate treasurers are not able to utilise the payments data to effectively improve reconciliation processes and manage complex interlinked systems. The availability of rich remittance and invoice information, processes like reconciliations and reporting can be optimised and the treasury can manage the value chain more effectively.



⁵ <https://www.fasterpayments.org.uk/press-release/%C2%A3250000-faster-payments-open-business>

The simultaneous exchange of information on goods and payments makes it essential that all information is reconciled properly for better execution. This can be achieved with ISO 20022's capability of transmitting richer information.

- Combining ISO 20022 and new faster payments services like Request to Pay and QR codes can streamline the processes from a data perspective via ISO 20022 messages, immediacy and convenience via faster payments services.
- An ISO message carries more information in addition to basic transaction-level data related to the amount, the sender and the beneficiary. Since ISO messages are rich in data and more structured, corporates can gain more strategic insights using analytical tools and predictive modelling techniques.
- A large corporate organisation using legacy or multiple messaging formats will have considerable challenges in terms of manual payment initiation processes and reconciliations. With the usage of ISO 20022 messages, corporates can have a common understanding of payments across the organisation and use superior ISO statement messages, helping in automatic reconciliations and higher STP rates. Additionally, many

regulators around the world have ongoing ISO 20022 modernisation programmes like Fedwire in the US and Target 2 in Europe.

1.3 Application APIs to corporate payments

Real-time payment/information APIs can be leveraged by corporates to directly access an instant payments network that enables direct payment initiations from the corporate platforms and receives/incorporates feedback directly into the corporate systems. This makes it easier for treasurers to access banking platforms to initiate payments. In legacy payments alternatives, feedback is not received and incorporated in the firm's systems in real time, which makes automatic reconciliations difficult and cash flow management complex.

2. Small and medium business use cases

2.1 Cash management and reconciliation processes

- An organisation that is highly dependent on receivables and has lengthy collection cycles

can benefit from instant payments as funds can be realised and reconciled in real time, thereby positively impacting collection times and enhancing working capital requirements for SMEs.

- Let us consider a small enterprise that has significant overheads with invoice processing and reconciliation. The adoption of instant payments can enable the linking of invoices to digital transactions, leading to operational efficiencies with feedback and payment confirmations received on a single channel.
- The need to hold an excessive amount of stock will be a thing of the past for SMEs using instant payments. Instant payments will allow SMEs to order on a just-in-time basis and clear their payables in real time.

2.2 Usage of proxy payments by SMEs

When associated with a primary identifier, secondary identifiers solve the pertinent problem of sharing sensitive information like account numbers. This makes secondary identifiers important from a business security standpoint. Also, it is easier to add a telephone number to a

payment form compared to adding a bank account number. Additionally, some proxy addressing services allow proxy identifiers to be moved between accounts or even financial institutions. Some global use cases for proxy payments are discussed below:

- **PayID Australia:** In case of businesses, the PayID can be an Australian business number or an organisation ID that allows organisations to use a preferred text as a proxy. All corporate sub accounts are linked to the organisation's proxy identifier which further simplifies the corporate payments process due to multiple accounts being linked to a single organisation. The transferability of PayIDs between financial institutions is comparatively easy for organisations in case of account switches.
- **Sweden:** Bankgiro numbers are used for payments that are issued by the national payment processor, i.e. Bankgirot. During business communications, parties can quote their Bankgirot number – a self-authenticating number on invoices, advices, etc. One of the key value propositions for businesses is that one Bankgiro number can be linked to several current accounts, thus removing the hassle of communicating new aliases to customers and suppliers while switching accounts.

- **Paym UK:** From a corporate perspective, currently there are three participating banks in the UK that enable corporates to register for alias-based payments. These banks enable their corporate users to register up to 50 numbers which essentially help different personnel in multiple branches or business areas to be registered for the service.

2.3 Request to Pay

- Request to Pay is a real-time automated method of presenting/collecting dues from customers. When compared to similar mechanisms like direct debits and electronic bill payment and presentment (EBPP), Request to Pay solutions have been viewed as easier, cost-effective and faster alternatives. Some use cases for Request to Pay from an SME perspective are detailed below:
- Organisations that don't have a dedicated billing function can take advantage of faster payments solutions for automated reconciliation, faster and streamlined collections, cash flow forecasting and better transaction tracking.



- Organisations using traditional banking channels for initiating payments can utilise faster payments solutions like Request to Pay to remove operational issues of entering/communicating long transaction details, making payments less prone to errors.

Global examples



Real-time payments schemes worldwide have seen traction, especially in the P2P payments space. However, corporates and SMBs have been

looking to employ real-time payments use cases like Request to Pay to accelerate collections and simplify business processes like reconciliations.

The details of global faster payments schemes currently operational are given below.

Country	Hong Kong	Europe	Australia	United Kingdom
Name	FPS	SEPA Instant Credit	NPP	Faster Payments
Go live year	2018	2017	2018	2008
Average daily value	HKD 1.86 billion	NA	AUD 403 million	GBP 5 billion
Speed of posting	Real time	Close to 10 seconds	Near real time	Maximum 15 seconds
Speed of settlement	Pre-funded settlement accounts facilitating interbank settlement	Multiple settlement times throughout the day	Within seconds	Deferred net settlement
Messaging standard	ISO 20022	ISO 20022	ISO 20022	ISO 20022 (to be implemented with NPA in 2022)
Open API access	NA	No	Yes	No
Payment applications	Allows for P2P, P2B and B2B payments for both web and mobile applications. QR code is being utilised for pull payments.	Allows for proxy payments in some markets like Netherlands. Caters to P2P, P2B, B2B and B2P use cases for pull payments as well.	Allows for P2P, P2B and B2B payment use cases through overlay services built over NPP framework, with settlement performed bilaterally.	Allows for P2P, P2B and B2B payments use cases with Paym as the addressing service and pull payments facilitated by the Request to Pay service.
Commentary	Has a significant feature of being among the very few multi-currency real-time payments systems supporting the Honk Kong Dollar and the Chinese Yuan. Recently, API frameworks have been introduced for the real-time payments framework.	Multiple clearing and settlement mechanisms are available across Europe for facilitating interbank payment. However, newer payments use cases and standardisation in terms of service-level agreements will be things to look out for in the future.	NPP is offered to customers via large Australian banks like the ANZ. Overlay services can be built by connecting to one of the participating banks.	FPS in the UK have recently enhanced the real-time payments systems by introducing Request to Pay and proxy payments on the FPS framework. Currently, retail and high-value payments systems in the UK are moving to the ISO 20022 standard to promote interoperability. ⁶

⁶ <https://worldpaymentsreport.com/wp-content/uploads/sites/5/2018/10/World-Payments-Report-2018.pdf>



Way forward

With the unprecedented success of instant payments frameworks in various countries like India, the UK and Australia, small businesses and large corporates see a real value proposition to execute business payments via real-time payments systems. Instant payments frameworks also allow them to make a transition from legacy payments systems like ACH and wires to real-time alternatives. Apart from payment immediacy, real-time payments also help capture real-time data, making legacy and manual business processes leaner and more streamlined. As newer services get introduced to various instant payments schemes, we feel that newer business cases will evolve and businesses can take advantage of these use cases through access mechanisms like open APIs.






Going forward, real-time payments frameworks will focus on easy access as newer use cases are introduced. APIs in this case represent a viable option for easy access and integration with business platforms. This not only helps businesses to offer enhanced products and services to their customers, but also streamline their internal processes by taking advantage of real-time data flow. For making faster payments a viable alternative for corporates, the number of schemes

worldwide have increased. Many schemes are also looking to increase payments limits. Going forward, real-time payments is the first step towards achieving real-time treasury. Faster payments will help promote ‘just in time’ liquidity, which makes it unnecessary to invest surplus cash elsewhere and maintain large buffers, from an operational perspective. From a cash management standpoint, insights from real-time payments will help in pinpointing the exact time and amount of borrowings required.

A few significant challenges for customers emerge as the demand for faster payments grows. Corporates will have to adapt to the complex changes in payments-related processes concerning liquidity management and reconciliation, as well as notification. Yet, successful corporate adoption would also benefit from greater standardisation of the underlying systems and the presence of a mature payments market infrastructure.

The factors that are crucial for corporates to use faster payments and some of the financial benefits that can be realised with the use of faster payments are detailed below.

Enablers for corporates to use faster payment schemes

-  **Regulatory standards**
-  **Security**
-  **Technical considerations**
-  **Direct access**
-  **Resilience**

Source: PwC analysis of data from industry research

Financial benefits of faster payments for corporates



Better cash utilisation

With faster payments, dues can be recovered faster, positively impacting cash utilisation.



Lower operational costs

Faster payments promote straight through processing, resulting in lower operational costs and a decrease in the need for manual intervention.



Low switching costs

With interoperability at the core of faster payments schemes, corporates can decide the optimal route for payments based on factors like fees.



Optimal cash flow management

As there is a better overview on cash management activities, corporates no longer need to fund their accounts days in advance, opening avenues for them to invest their cash and generate alternative revenue streams.



Source: PwC analysis of data from industry research



Payments news
updates

A new maximum amount for the SEPA Instant Credit Transfer (STC Inst) scheme is live

The Paypers

The new maximum amount for the SEPA Instant Credit Transfer (STC Inst) scheme has come into effect on July 1, 2020. Payment end-users can now transfer to up to EUR 100,000 per SCT Inst transaction. This results from a decision which the Scheme Management Board (SMB) of the European Payments Council (EPC) took on September 12, 2019. Previously, the maximum amount per a single transaction was set at EUR 15,000

[Read more.](#)

Canada Gets Closer to Launching a Real-Time Payments Platform

Payments Journal

IT World Canada reported that Payments Canada is making progress to achieve the launch of a real-time payments platform they call Real-Time Rail (RTR). The payments modernization effort is targeting 2022 to launch, joining the already 50+ real-time networks in operation around the globe.

[Read more.](#)

HSBC Hong Kong Introduces API for Real-Time Payments

Programmable Web

HSBC Hong Kong has announced a new API that aims to support more advanced payment collection options. Using the new API developers will gain access to instant electronic Direct Debit Authorisation (eDDA) and real-time payment transfer functionality.

[Read more.](#)

PSD2 extension could allow banks to be better prepared

Verdict

The European Payment Institutions Federation is calling for a six-month extension to the PSD2 SCA deadline, which could allow banks to re-evaluate their current plans.

[Read more.](#)

PayU Introduces QR Enabled EFT Solution for Real Time Monitoring of Bank Transactions

PR Newswire

PayU, India's leading online payment solutions provider, today introduced the QR enabled EFT payment option that allows businesses and customers to track the status of high value EFT payment transactions (INR 5 lakh and above) in real time. It ensures that customers and businesses don't have to spend time and effort chasing customer care centres of banks or merchants to understand the status of their payment or refund.

[Read more.](#)



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