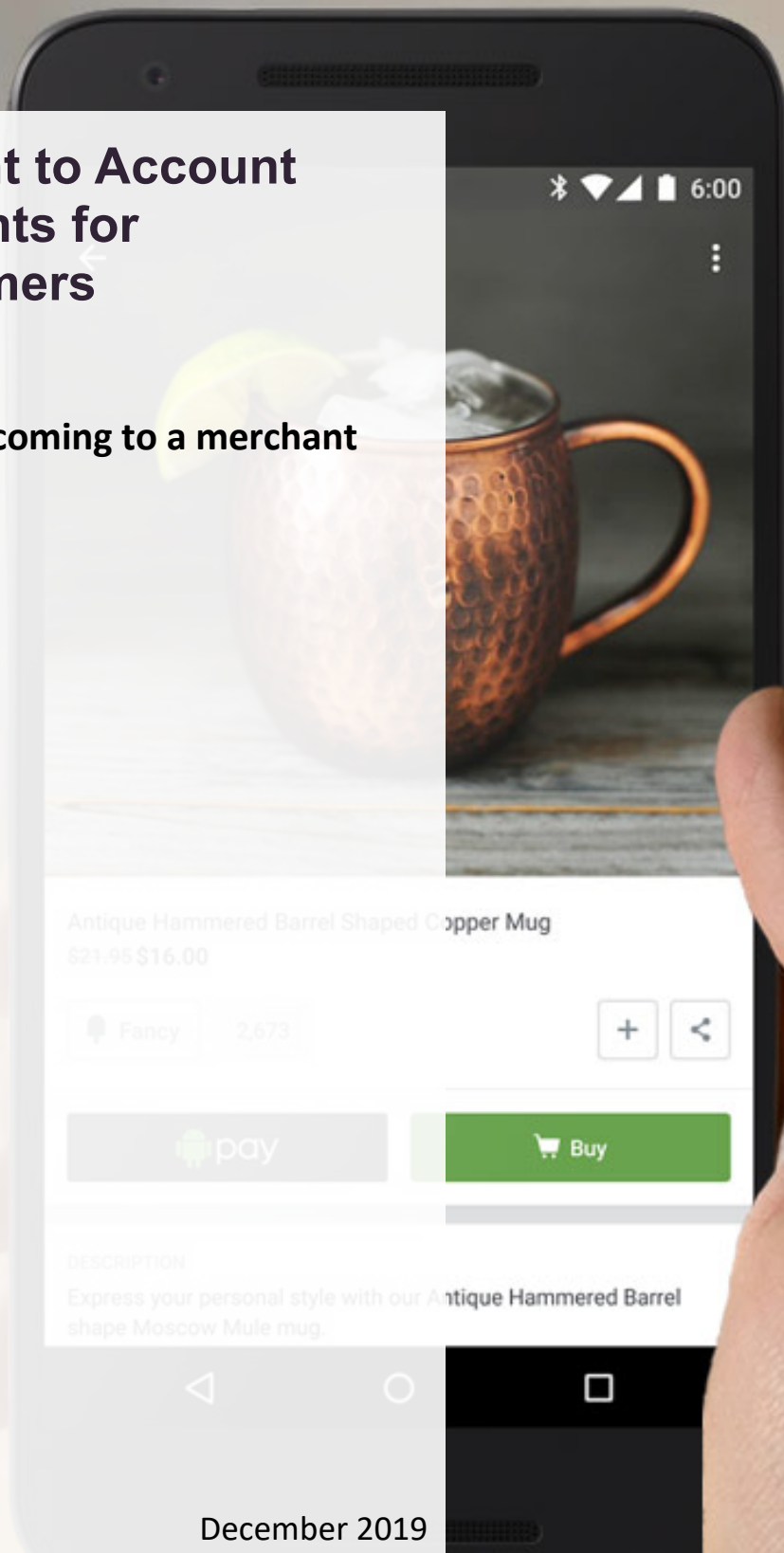


# Account to Account Payments for Consumers

Real-time coming to a merchant  
near you?



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The  
Initiatives  
Group



## Account to Account Payments

### - Not new

For many years, transfers between domestic bank accounts via Direct Entry, ACH or the equivalent have been the cheapest form of electronic payment, at a significantly lower price point for example than card-based payments.

### - Just slow

These systems operated on a batch system and the batches were exchanged and settled infrequently – often once a day overnight, sometimes at several times during the working day, and seldom (if ever) on weekends and public holidays. Even if there are intra-day settlements on these payments, there is no guarantee that the recipient's bank will post the funds to their account in real time or even on the same day. Hence these payments have been suitable for non-urgent payments, such as utility bills, school fees, programmed loan repayments, etc, but not for consumers buying something at the local store.

### - Yet still becoming more popular

Nonetheless, the low price point of these payments has seen more businesses adopting them as a way to get paid by consumers. With the growth of consumers using online and mobile banking, now somewhat ubiquitous in, for example, Australia, more and more small businesses have been adding their BSB and Account Number to their invoices (and often surcharging card payments to promote the use of the account-to-account bank transfer).

But this really only works for smaller businesses, due to the need to manually reconcile payments received into their bank account with the receivables sitting in their accounting systems (although some semi-automatic work-arounds have been developed), and the information coming along with the payment is limited, usually relying on the consumer having entered the correct invoice number. *Plus, the payment is still not immediate.*

Please note: all work carried out subject to Sydney City Marine Trading Terms & Conditions	<b>Subtotal:</b>	<b>\$5,112.34</b>
Payment Options: EFT or Credit Card	<b>GST:</b>	<b>\$511.27</b>
<b>Electronic Funds Transfer:</b>	<b>Total:</b>	<b>\$5,623.61</b>
Bank: Commonwealth Bank	<b>Amount Applied:</b>	<b>\$0.00</b>
BSB: [REDACTED]	<b>Balance due:</b>	<b>\$5,623.61</b>
Account No: [REDACTED]	<b>Credit Card:</b>	<b>Amex / Mastercard / Visa</b> Please Circle
SWIFT: CTBAAU2S	Exp Date: __/__/__	Name on Card: _____
Please send remittance to: accounts@sydneycitymarine.com.au	CVC: ___	Signature: _____
PO Box 306, [REDACTED]		
<b>Amex - attracts 3% surcharge</b>		
<b>Visa/Mastercard - attracts 1.5% surcharge</b>		

Similarly, branded payment systems relying on direct entry, such as BPAY in Australia and Ideal in the Netherlands, continue to grow – very rapidly in the case of Ideal where the introduction of P2P payment functionality is credited as one of the major reasons that the number of Ideal transactions grew by 38% last year.

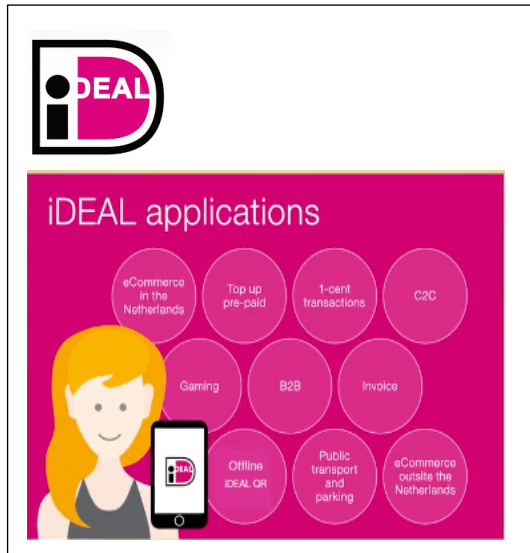
### BPAY – Australia

Introduced over 20 years ago, BPAY continues to grow every year as a way for consumers (and businesses) to pay bills to merchants, billers and government agencies. BPAY is highly popular and well used, however this was not always the case – it took over 5 years from launch for BPAY to really gain critical mass. Whilst it is now accepted by over 45,000 merchants/billers, BPAY required significant

effort to gain distribution, in its case this was billers choosing to accept and promote BPAY as a way to pay (and for consumers to adopt internet banking). It is free to consumers, whilst merchants pay a fee in return for a confirmed, guaranteed payment that is easily reconciled within their accounting system. Being a flat rate fee per transaction makes BPAY cost effective versus other payment methods, such as credit cards, for larger value transactions.

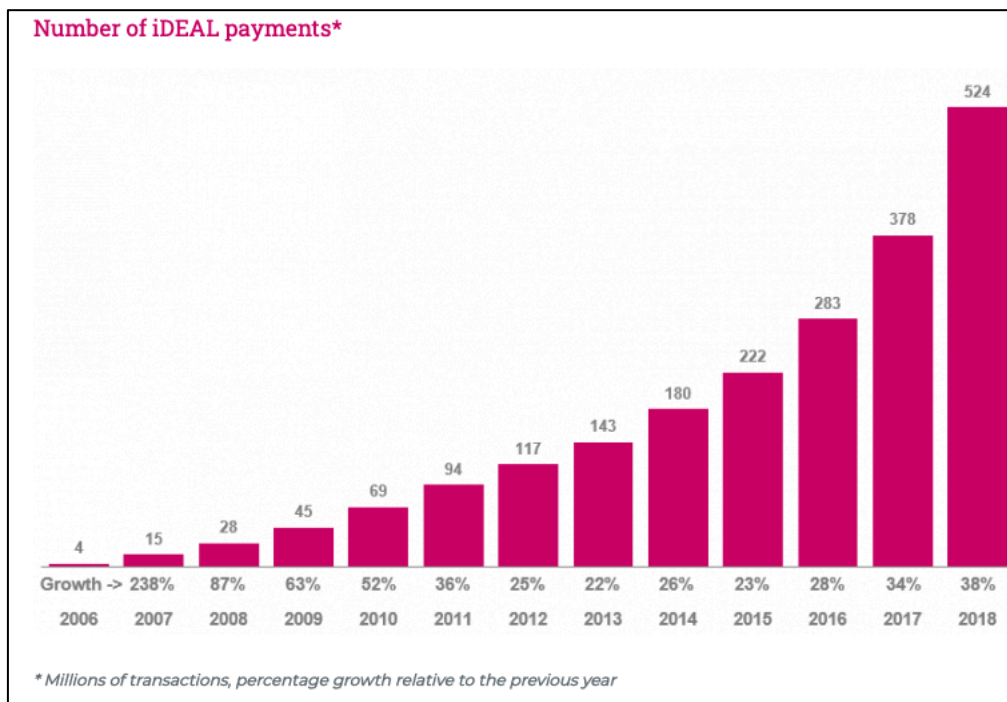
### *iDeal – The Netherlands*

Launched in 2005, iDeal has grown from 4 million transactions in its first year to 655 million transactions in 2019 (Netherlands population 17 million). With payments completed within the



consumer’s banking mobile app or online, it now is reported to account for 22% of P2P transactions (enabled via QR code) and 59% of ecommerce transactions. Merchants can take payments via iDeal within their online shopping cart and in-store – QR codes can be presented on a computer screen, tablet or shop display, printed on a paper invoice, on an email sent instore to the customer (a request for payment message), a restaurant bill or on a shop counter or window (<https://www.ideal.nl/en/consumers/ideal-payment-request/>).

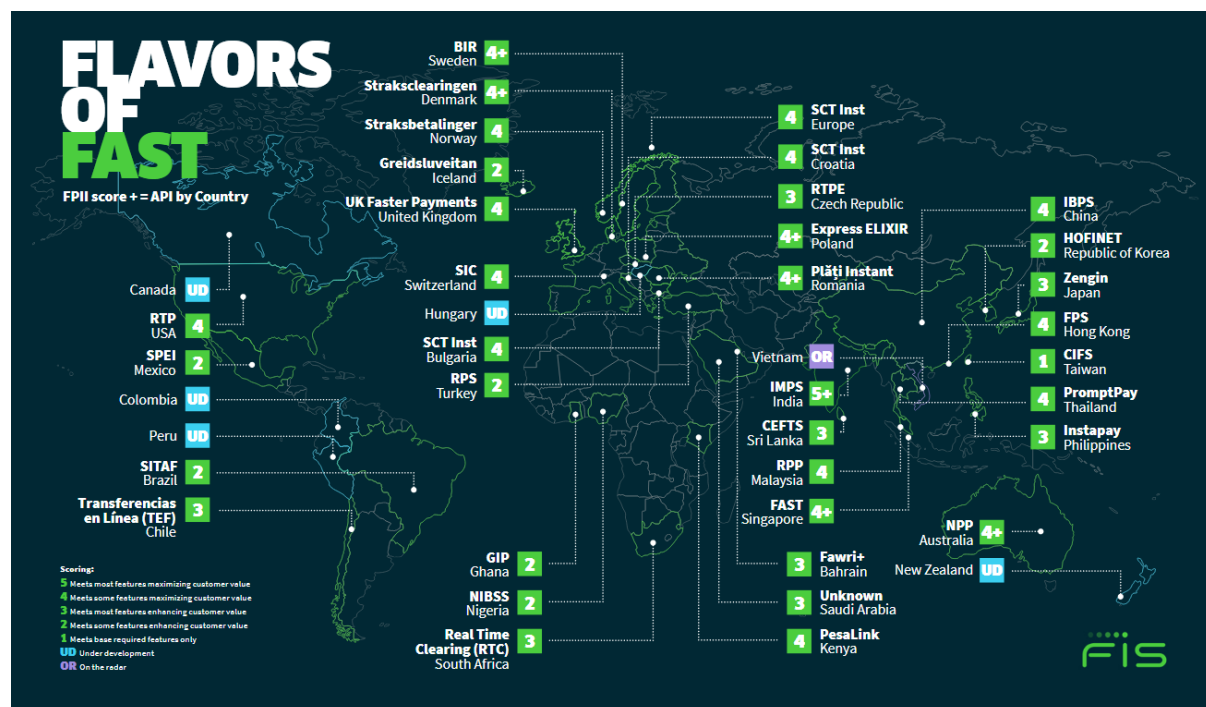
When the consumer uses Ideal, funds are debited from their bank account in real-time, and so to is the message to the merchant confirming that the (irrefutable) payment is on its way. iDeal is free for consumers. Merchants can choose to pay a fee per transaction or via a monthly subscription.



## Enter the era of real-time payments

Although some countries, such as Japan, have had real-time payments for many years, the deployment of real-time payment systems across multiple geographies is a relatively new phenomenon: Australia's own New Payments Platform (NPP) only going live in February 2018, the European Central Bank (ECB) launching its Target Instant Payments Settlement (TIPS) in November 2018 (facilitating instant cross-border payments in the EU), and Malaysia's RPP in January 2019. Others have been around longer, such as the UK's Faster Payments since May 2008 and Singapore's FAST system launched in March 2014.

More real-time payment systems are being planned. In Northern Europe, the P27 Nordic Payments Platform (owned by a consortium of large Nordic banks) have announced the development of the first multi-currency real-time payments system across the Nordic region. In the United States, the Federal Reserve Board announced that the Federal Reserve Banks will develop the FedNow Service, a new national real-time gross settlement system (RTGS) to support faster retail payments 24 hours a day, 7 days a week, which is expected to be available in 2023 or 2024. The Clearing House, another US platform for ACH payments, plans to have rolled out its domestic real time payments platform by 2020.



Understandably most discussions to date about real-time payments have been dominated by the core functionality — speed, availability and the rails on which money is moved, together with the challenges associated with their implementation. However, conversations are now shifting towards value-added products and services that an enhanced infrastructure will allow financial institutions (and others) to bring to market.

**Real-time payments ROI:**  
**What will customers pay for? Which customers, and why?**

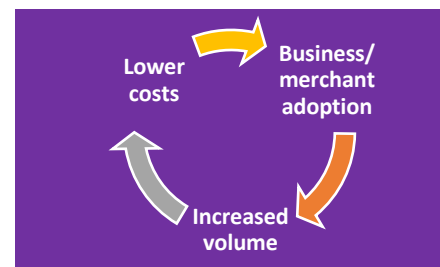
This is in the hope that these new consumer and commercial payments functionalities can create additional revenue streams, and help banks and third-party providers realise a return on their investment in the real-time payments infrastructure. As noted in a recent FIS survey for its “Flavours of Fast” whitepaper, it was found that in projects across the world, two key questions remain: “What is the business case?” and “What are customers willing to pay for?”

Initially, developments were focused on consumer payments, especially P2P; however, the business case remains elusive, as consumers are reluctant to pay to make a payment. This has shifted the focus to businesses and merchants, where we are now seeing a proliferation of solutions to enable seamless and contextual payments — including the advent of “request to pay” functionality, with the associated document (*which could be an invoice, a travel itinerary, or perhaps a shipment manifest*) attached.

## **Widespread adoption needed to drive down cost**

Given the size of the investment and recency of launch into market, many of the real-time payment systems are currently suffering from a relatively high cost per payment (particularly versus the cost of Direct Entry/ACH payments), with significant costs being spread over a limited volume of transactions (in comparison to the high volumes handled by other traditional payment methods).

Although consumer adoption takes time, given the need to break old payment habits and develop new ones, the adoption by businesses and merchants is likely to be more influenced by economics. Here we have a “virtuous circle” - the widespread adoption by businesses should drive up the volume across the system which, in turn, would drive down the cost per transaction, leading to more businesses using it (and so on).



The adoption of real-time payments by consumers in a number of markets suggests that only through open access and Application Programming Interfaces (APIs) will real-time payments become widely adopted. A notable example of the importance of this is the rollout of India’s Universal Payments Interface (UPI), which provides real-time access by allowing direct payments integration with external business applications, for both “push and pull” payments across a wide range of channels.

However, the true test of these solutions will be twofold: Will they become the preferred method of payment for consumers and merchants over traditional card-based payments? And can they compete on a cost-basis with alternative payment schemes that seek to disintermediate the banks?

## **A quick glossary**

In case there is some confusion on terminology, we offer the following:

*Real time payments platform* – infrastructure that allows the movement of money from bank account to bank account in seconds, operating 24/7/365. Often outsourced by the banking industry and/or Central Banks; Vocalink and Swift are examples of organisations that provide such platforms.

*Push payments* – payments initiated by consumers or businesses (the payer), where they instruct their financial institution to transfer money to a payee’s account.

*Pull payments* – payments initiated by the payee to draw money out of the payer’s account, like a Direct Debit; see also “mandated payments services” below.

*Request to pay* – the payee initiates a message through the real-time payments platform that sends a request for payment, usually to the payer’s mobile phone. The payer then authorises payment from their mobile or via their online/app banking service.



*Request to pay, with document* – A request to pay message that has a document attached or referenced (e.g. by a web link) – examples of documents might be an invoice or a travel itinerary.

*Mandated payments services* – In Australia, this would be the New Payments Platform’s planned Consent Management System that would hold the payer’s authorisation or consent for a payee to make “pull” payments from their bank account; this could include request to pay, direct debit and “on-behalf-of” payments (such as payroll).

*Mastercard Send, Visa Direct* – card to card fund transfer platforms that are provided by the international payment Schemes; more about them later.

*Overlay service* – functional, value adding services that run “on top of” a real-time payments platform. In Australia, Osko, Assembly Payments and Azupay are examples. In Sweden, Swish is an example, and in the UK, Paym is an overlay service.

## ***A sample of what real-time payments look like in the (mostly) western world***

### ***Paym (Pingit, Pay a Contact) & Pay by Bank – The UK***



In the UK, Faster Payments is operated by Vocalink (a Mastercard company). Paym, which runs on Faster Payments, is also known as “Pay A Contact” and “Pingit” (getting confused?). It is used for P2P real-time payments and, with 4.5 million people registered, is integrated into all banking apps, using the phone numbers in your contact list as payment IDs. Business customers can receive Paym payments, but not send them. More recently, Vocalink has launched a pilot of “Pay by Bank App” with Barclays Pingit, which enables payments from your bank account to a selected group of ecommerce merchants. When customers make a purchase, the payment fields are pre-populated using a Request to Pay functionality. *Q2 of 2019 saw 594 million payments processed by Faster Payments, a 19% increase on the amount processed for Q2 2018<sup>1</sup>.*

### ***Swish – Sweden***

The real time payments app of the “poster child” of cashless societies, Sweden, Swish started as a P2P payment service in 2012. Today, with 6.7 million users<sup>2</sup> (Sweden only has a population of 10 million), Swish is a mobile wallet app owned by a consortium of banks that is separate to the consumer’s mobile banking app<sup>3</sup>. Since launch, it has moved into both online and in-store merchant payments, enabled using QR codes.

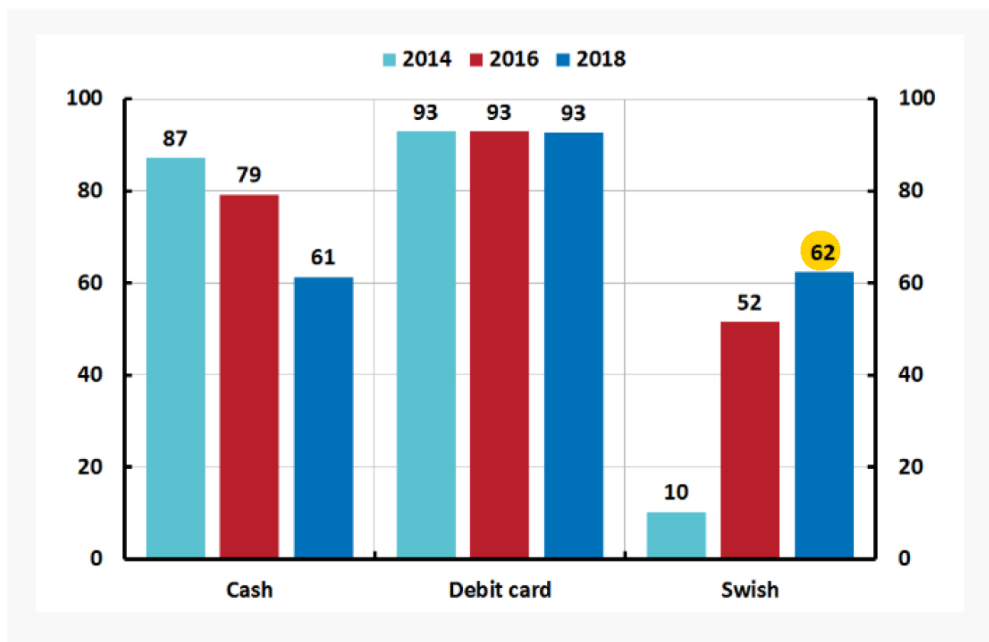


<sup>1</sup> [www.fasterpayments.org.uk](http://www.fasterpayments.org.uk)

<sup>2</sup> [https://www2.deloitte.com/content/dam/Deloitte/dk/Documents/financial-services/Downloads/Chasing\\_Cashless-The\\_rise\\_of\\_Mobile\\_Wallets\\_in\\_the\\_Nordics.pdf](https://www2.deloitte.com/content/dam/Deloitte/dk/Documents/financial-services/Downloads/Chasing_Cashless-The_rise_of_Mobile_Wallets_in_the_Nordics.pdf)

<sup>3</sup> You download the standalone Swish app on to your mobile phone and then link it to your bank account, and can then use it to make payments without the need of entering your separate banking app.

Which means of payment have you used in the past month?



Source: Riksbanken 2018, *The payment behavior of the Swedish population*

### Paynow on FAST – Singapore



FAST (fast and secure transactions) is Singapore’s real-time payments platform. FAST was launched in 2014 for bank-to-bank account transfers. In 2017, PAYNOW was launched for P2P payments, whereby consumers can send and receive funds using their mobile phone number or Singapore ID number; it has more recently been extended to B2B payments. QR codes are now operational for FAST, such that retail payments can be made across multiple wallet apps using the PAYNOW functionality within banking apps, as well as GoPay, NetsPay, Alipay and WeChat Pay. In November 2019, OCBC Bank announced that it was introducing account-to-account transfers using integration of PAYNOW with Google Pay – effectively allowing users to use their bank account, rather than credit and debit cards, in Google Pay transactions, bringing real-time payments to point of sale. *By September 2019 more than 65% of Singaporeans aged between 20 and 75 had registered for PayNow – a 75% increase in the past 12 months<sup>4</sup>.*

### Osko, and others – Australia

Osko, provided by BPAY, was the first overlay service on Australia’s NPP. It could be argued that by doing this BPAY, in many instances, might be competing with itself. Launched in 2018, in conjunction with PayID (allowing



<sup>4</sup> The Straits Times, Singapore, September 2019

a mobile phone number, email address or ABN as identifiers for the payee's bank account), Osko enables real time account to account transfers, but currently only as "push" payments.



The planned Osko request to pay service will effectively enable "pull" payments, where a payee can request payment from a payer's account. This is likely to increase interest and use for B2C and B2B payments, where the biller or merchant would more likely be prepared to pay a service fee for the transaction. NPP platform functionality to support this service is expected to be available in 2021, however delivery to the market via the banks might not be before late 2021 or 2022.

A number of newer overlay services are now available, such as Azupay and the real time payments product from Assembly Payments.

Azupay, launched in 2019, is providing Australian billers a real-time bill payment service allowing for billers to take advantage of the New Payments Platform today, rather than waiting for new Osko/NPP functionality to be delivered. In an Azupay transaction a one-time-use PayID is assigned to the payment generated by the biller/merchant. Customers then use this PayID within their banking mobile app or internet banking to identify and then approve the real-time payment.



Assembly Payments claims to have been the first non-bank payments platform to pioneer instant money transfers over the NPP in Australia, and allows a business to send and receive electronic payments which could include single B2B payments as well as multiple account payments, such as payroll.



### ***DuitNow – Malaysia***



DuitNow was launched in January 2019 for P2P payments and runs on Malaysia's real-time payments platform, known as RPP. The app is similar in concept to Osko – it uses and requires the support of an account holder's existing internet banking platform/app to send money to another account using a mobile phone numbers, identity card or passport numbers, and business registration numbers.

DuitNow is planned to extend beyond the current P2P sending of funds with new features like QR codes, Request to Pay, eMandates and Real Time Debit. However, like most new payment methods (including Osko), DuitNow has experienced slow uptake since its initial launch in 2019 – it takes time and distribution. The adoption of the DuitNow QR code standard by GrabPay in November 2019 is the type of partnership that may lead to eventual rapid growth<sup>5</sup>.

### ***Not on (new) real-time payments platforms***

Given the sophisticated payments infrastructure that already exists around the world, does the real-time electronic movement of money actually require a new dedicated real-time payments platform? Not necessarily...



Australia's beemit focusses on P2P payments and combines existing card platforms to deliver a real-time payment experience. Both payer and payee need to have enrolled in the beemit app, and linked it to a Visa or Mastercard debit card. Authorisation of a payment is then enabled via the Visa or Mastercard debit card platforms, and

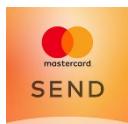
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<sup>5</sup> wwthestar.com.my, November 2019



the real-time transfer of funds is completed via the eftpos<sup>6</sup> hub; the use of the eftpos system ensures immediate posting of the funds into the payee's account. Beemit includes QR code functionality, which, whilst used as an identifier for the user, could conceivably be used for POS and ecommerce payments (if Australians could ever be convinced to use QR codes in payments).

Mastercard Send and Visa Direct can also be used to deliver real-time "card to card" payments across their networks. Where the cards being used are debit cards (linked to transaction accounts), these effectively become account-to-account real-time payments. Mastercard Send and Visa Direct started as P2P payment services, but have now been extended to B2C and G2C transactions – again, segments where businesses are more likely to pay for a payment service that better meets their needs. As of July 2018, more than US\$5 billion in instant payouts have been made by Uber to its drivers<sup>7</sup> using these systems. Further, it appears that the services may soon become Scheme agnostic, permitting card to card payments between and across other card Schemes.



## ***Developing themes and issues***

### ***QR codes***

QR code scanning and recognition technology is, in most cases, being used to deliver POS payment functionality for real-time account-to-account payments; thereby overcoming, amongst other things, the Apple quarantine of NFC access on the iPhone. QR codes also offer the ability to carry richer data within the transaction, which might be loyalty and special offers (such as discounts and cashback). However, for Australia will this be enough to wean consumers off tap-and-go NFC payments, which account for well 95+% of card payments at physical POS?

### ***Cross border real time account to account payments***

As cross border payments have been typically slow and expensive, consumers and businesses would be expected to welcome a better cross border transfer experience. Subject to the costs involved, this could offer a good revenue opportunity for real-time payment systems, even if they need to undercut the price of traditional methods. Indeed, real-time payment platforms that can support the domestic legs of a cross border payment are -

- entering into agreements (e.g. Malaysia RPP with MayBank2U, for transfers between Malaysia and Cambodia);
- testing cross border transactions (e.g. Australia NPP to Singapore FAST); and
- are well on the way to launch (e.g. P27 will enable real-time cross border payments between the Nordic countries from the beginning of 2021).

### ***In-banking app vs independent app***

There are examples of both successful standalone app products (Swish) and successful in-bank app products (iDeal) already in the real-time payments market. In Australia, beemit is standalone, whereas Osko relies on the bank's app and internet banking website for access. We would argue that success

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<sup>6</sup> eftpos is Australia's domestic debit card scheme.

<sup>7</sup> <https://www.mastercard.us/content/dam/mccom/enus/documents/mastercard-send-debit-lift.pdf>

will be more about ubiquity and utility, rather than standalone versus in-bank; however, the marketing campaign to gain ubiquity may be easier (and more economic) to execute on a standalone app.

## **Fraud**

Real-time payments occur, well, in real time. When the payment is completed (in seconds), the money is gone. The general position is that real-time payment platforms are inherently no more risky, in terms of security, than existing systems, because:

- they are being delivered in environments that are optimised in fraud mitigation for direct entry “pay anyone” transactions;
- many transactions are enabled on mobile phones where biometrics (and other mobile fraud detection techniques) are available; and
- where bank login is required (e.g. for in-bank app use), the login protocols, 3D Secure, and other fraud mitigation services provide protection.

Regardless, providers and users need to remain vigilant as (a) fraudsters will be testing the platforms for weaknesses, and (b) as with any process the weak link is normally human error!

## **Conclusion**

Whilst account-to-account real-time payments are typically launched at first for P2P consumer payments, it is immediately apparent that there is no business case for delivering these services when the user will not pay (or pay very little) to make a payment. Often utility and usage is more buzz than reality.

However, given the real-time nature and immediacy of everything else in the modern consumer’s life today, it is guaranteed that account-to-account real-time payments in many scenarios will be the payment of our future. Governments will support it, as it should increase efficiency in the payments system, and, as such, deliver benefits to the economy.

Future investment and innovation will focus on payments where businesses and governments participate (B2C, B2B, G2C, G2B), and where the willingness to pay for specific functionalities is much higher than amongst consumers. Expansion into these new areas should deliver much larger volumes of transactions. As volumes increase, the price point per transaction should decline, to a point where real-time payments become cost competitive to the major card schemes at point of sale.

So, similar to the launch of Buy Now Pay Later services in Australia, it is likely that online and ecommerce merchants are likely to be the first places where account-to-account real-time payments will be “coming to a merchant near you”. A later move to in-store and physical POS is likely as the transaction costs decline.

# The Initiatives Group



The Initiatives Group - we help participants across the payments sector to generate more value from their markets and customers.

The consulting team at The Initiatives Group has advised participants in the payments market since the 1990's - including issuers, acquirers, third-party processors, technology providers and associations. We help solve many of the financial industry's most significant issues, such as payments strategies, customer profitability and retention, credit and fraud risk, leveraging new technologies, and assessing new market and product opportunities.

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