BEYOND RECEIVE

Making the Most of Instant Payments

Steve Ledford
Steve recently retired from The Clearing House as a Senior Vice President, where his expertise and 41-year legacy in the payment industry were instrumental in the launch the RTP® network. Steve’s strategic participation in the steering committee of the Faster Payments Task Force and the Faster Payments Council has demonstrated Steve’s ability to cut through the complexity of instant payments implementation and adoption. Steve has also held senior management positions at Novantas, a financial services consulting firm, McKinsey’s global payments practice, and Global Concepts, a consulting and research firm. He is a graduate of Wofford College with a BA in Economics.
Implementing instant payments has become a necessity for financial institutions in the US. Your customers expect it. If you haven’t implemented RTP yet, your customers are missing out on immediate payments sent to them for payroll, gig economy jobs, account transfers, invoice payments, gaming payouts and other applications. Banks and credit unions are always surprised by how many payments customers receive their first day on the network. The imminent launch of FedNow will accelerate this activity. The time to wait and see is over. Receiving payments is great, but it’s only the first step. Your customers want to send instant payments too.

A recent survey by Citizens Bank found that, on average, companies would send 52% of payables through real-time payments if given the choice. A recent Federal Reserve survey reports that more than 71% of consumers want to send faster payments to businesses and 61% for account-to-account transfers.

"The demand to send real-time payments is real. It is increasingly becoming an expectation."
Send applications also provide the best opportunity to earn a return on investment in instant payments.

- Banks typically charge business customers fees to send payments - an opportunity to monetize instant payments as a premium service.

- Real-time payments can also boost competitiveness and customer retention. Early adopters have found that the ability to move money instantly is very popular with both consumers and businesses.

- There may be an opportunity to charge retail customers for expedited payouts, something many fintechs do for wallet downloads.

- Instant confirmation of payment reduces uncertainty, which should reduce the number of customer inquiries.

- The fully automated nature of real-time payments also reduces operating costs, which could increase margins on labor-intensive back-office operations.
Sending Instant Payments is Complicated

The case for implementing instant payment send for financial institutions is compelling. It is, however, a bit more complicated than RTP or FedNow receipt. Managing settlement liquidity for receipt of payments is relatively simple. Money comes in, balances go up, and periodically you draw down excess funds. Sending, on the other hand, reduces balances. If you send more than you receive, even over a short period, you could deplete funds which requires you to top-up balances. Receipt settlement is mostly passive, while send settlement liquidity must be managed actively - even on weekends. The good news is that financial institutions can outsource settlement to a correspondent, bankers bank or corporate credit union if they don’t have the means for 24/7 liquidity management.

Business and technical implications are also different. RTP or FedNow receipt is a single implementation. It requires integration with multiple systems, including DDA, transaction posting, general ledger, online banking, reporting, and Fed or TCH networks. But once implemented, all customer accounts can receive instant payments.

“Send Payment” is not a single application.

Consumers pay bills, transfer money between accounts, send money to friends and family, and make purchases online or in stores. Businesses have payrolls, supplier payments, expense reimbursements, loan payments, tax payments, bulk disbursements, and many industry-specific variations.
Large corporate customers have different payment needs than small businesses. Furthermore, financial institutions make a lot of payments, such as loan disbursements, deposit payouts, trust disbursements and their own bills. Financial institutions have multiple in-house and outsourced platforms for customers to initiate payments.

These may be provided by a variety of vendors. In many cases, there are separate platforms to support consumers, small business and large corporate segments. There may be additional dedicated systems for payment origination by the bank itself, subsidiaries or for fintech lines of business.

### Products and Channels for Instant Payment Send

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Planning for Instant Payment Send

It is usually not practical to implement instant payment send across all products, channels and customer segments at the same time. On the other hand, treating each implementation as a separate, independent project without coordination can lead to inconsistent customer experience and inefficient utilization of resources. Instead, financial institutions should develop a comprehensive, multi-stage plan. This approach makes it possible to schedule resources efficiently, take advantage of cross-product synergies, and importantly, provide a transparent roadmap for business lines and customers. The comprehensive plan for instant payment send should address a number of factors when prioritizing the implementation schedule.

Factors to Consider when Planning for Instant Payment Send
### Customer Demand
Which applications do customer want most in the short term? In some cases, a major client had asked for a specific capability that can be met with instant payments. It may be a capability that other banks have found has great customer appeal. It could be feedback from branch and call center staff. Don't expect the customer to ask for RTP or FedNow by name. For example, small business customers might ask why they can't confirm that a supplier received an invoice payment on time. It could be consumers complaining that it takes days to transfer funds between accounts at different banks. Instant payments can address many of the common pain points that frustrate customers.

### Growth Opportunities
Instant payments are expanding the market for payment services. This creates new opportunities for financial institutions beyond their existing customer base.

### Cross-platform Dependencies
What are the core elements that are required to support multiple instant payment products? Online and mobile banking interfaces must be enhanced to give consumers and businesses a way to initiate payments. If several instant payment product enhancements such as commercial single payments and corporate integrated disbursements depend on the same online banking channel to deliver the service, this creates a cross-dependency. The commercial online channel needs to be upgraded before these products can go to market. Anti-fraud monitoring, AML compliance and account-status verification are other systems that typically support multiple products.
### Competitive Positioning
Look at what your competitors are doing. Is there an opportunity to gain competitive advantage with instant payments? Are there areas where you are vulnerable? Is there a market segment on which you are focusing your overall business strategy?

### Vendor Dependencies
Are the vendors that provide your product and channel platforms ready for instant payments? Have they made the necessary upgrades to processes and user experience to support payment initiation, confirmation, real-time posting, etc.? If not, have they provided a roadmap? Can you influence their upgrade timeline?

### Resource Dependency
It takes a lot of people to implement a new product capability such as instant payment send. Even if development is done by the platform vendor, the financial institution needs to have program managers, project managers, acceptance testers and others to bring the system online. Onboarding customers for send capabilities is a significant effort. There needs to be oversight by business managers, compliance experts, risk managers, legal counsel, operations management and IT. Updated operating procedures, product literature, customer service guides, customer notifications and marketing materials need to be written. Each of the instant payment send projects will draw on the same pool of resources as every other project in the enterprise. This requires a plan that prioritizes, schedules and coordinates the work of all these resources efficiently.
One benefit of looking at all instant payment send projects as part of a comprehensive plan is that you can spot potential synergies. Elements such as fraud prevention, regulatory compliance, liquidity monitoring, customer identification/verification don't need to be developed separately for each product platform. These could be handled by dedicated multi-product utilities, which not only saves development and operating cost - it also ensures consistency across products. Even if a utility isn't the right answer, there are synergies that come from a comprehensive approach. Creating a consistent user experience across products and channels makes customers happy and avoids duplication of design efforts. Consolidating onboarding processes, forms and disclosures is another area of synergy that is both frugal and customer friendly. Marketing can become a single campaign with multiple phases, instead of a series of one-offs. This way, key benefits of instant payments such as the speed, certainty, 24/7 access and the delivery of integrated, highly relevant data can be incorporated into a comprehensive cross-product narrative.

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Keeping these factors in mind, you can put together a plan. First, identify all of the main tasks required to fully implement instant payments across the bank. This includes implementation on each product or channel platform, as well as supporting infrastructure such as payment processing, anti-fraud systems, identity verification, DDA balance management and settlement liquidity management.

The next step is to prioritize product and channel implementation according to business objectives, including expected customer demand, competitive positioning and overall business strategy.

In a perfect world, this would set your implementation timeline. Of course, this is not a perfect world.

Your vendor, resource and cross-platform dependencies will require you to rearrange the timeline. If a high-priority product implementation depends on a vendor that is lagging in its instant payment deployment, it will have to be deferred until the vendor is ready (or you find a new vendor). Supporting infrastructure such as anti-fraud capabilities needs to be in place before customer deployment.
Products that are delivered through online or mobile channels may need to wait for the channels to be upgraded. Functions such as acceptance testing or customer onboarding have limited capacity. All of these constraints and dependencies will affect the implementation timeline.

Next, look for opportunities to create cross-project synergies. Is there a way to avoid duplicate effort, either by consolidating the work or creating cross-platform utilities. This is where you can use the capabilities of a payment hub to incorporate the required functionality or connect multiple products to a third-party system. Not only will this reduce the effort and cost of the overall program, it may also help you minimize project constraints and accelerate your timeline.

Finally, take a fresh look at your projects to identify quick wins. These are customer-facing implementations that can be brought to market faster because they are already supported by your vendors, are less complex, and don’t have as many cross-platform or infrastructure dependencies. These may not match your highest priority business objectives, but there is a lot of value in creating early momentum. It will show your customers that you are progressive, especially if you can combine it with a roadmap of future instant payment enhancements. It will show immediate progress to senior management to help maintain support for the multi-phase program. It will also give the bank valuable experience with real-time payment send at a manageable scale.

"Not only will this [payment hub] reduce the effort and cost of the overall program, it may also help you minimize project constraints and accelerate your timeline."
An API-based
Instant Payment Send Program

One way to streamline the multi-platform integration inherent in an instant payment send program is to use APIs. Good APIs can accelerate your instant payment send program, reduce the cost of implementation and simplify ongoing support, in addition to being an important channel for customers.

Most of the attention on APIs has focused on their role delivering bank payment services to fintechs and large corporate clients. This is an important application in its own right. By far, most of the RTP volume to date has been originated via APIs. Customers accessing payment services via API can integrate directly with their systems to achieve greater efficiencies, taking full advantage of the speed, certainty and rich data of real-time transactions. Finzly takes this a step further with a single API that supports multiple payments networks, simplifying integration.

“Good APIs can accelerate your instant payment send program, reduce the cost of implementation and simplify ongoing support, in addition to being an important channel for customers.”
Good APIs, however, can play a bigger role in deploying instant payment send capabilities. The process of linking existing product platforms and channels to instant payments can be streamlined by using the same APIs that support customers. This applies to both in-house platforms and those provided by third-party vendors. The user interface and other elements required for instant payments may still need to be enhanced for each product to meet unique requirements, but the core process of transaction processing can be offloaded to the API.

Because the commercial customer API is a fully functional vehicle for delivering payment services, it will already be tied to many of the supporting systems such as fraud detection, AML monitoring, liquidity management and others. These services may require additional enhancement to meet the requirements of retail banking, but the core functionality is already in place.

In addition to streamlining development and integration, the use of robust, stable APIs can reduce the complexity and effort of other tasks such as acceptance testing and onboarding. By providing a single point of integration, the API makes downstream processes associated with payments more predictable, which should simplify test scenarios. The consistency of the payment origination process across products and channels imposed by the use of a common API should also simplify multi-product onboarding and customer training.

After deployment, an API-centric approach to payments should reduce the ongoing cost of operations, customer support and maintenance. There will, of course, continue to be product and channel specific procedures and customer interface variations. But if the core payment initiation process uses the same API, the range of things that can go wrong is reduced, making it easier to train operations and customer support staff. Also, by routing integration with payments processing through a stable API, ongoing systems maintenance can be simplified.

“The API, via the hub, helps create cross-platform synergies.”
Sending instant payments from different channels without a true payment hub

Sending instant payments using a single API from a true payment hub
Instant Payment Send is a Big Deal, But it Doesn’t Have to be Scary

Your customers really want to send real-time payments — increasingly they expect it. Enabling instant payment sending across your financial institution is a significant initiative. It’s a multi-phase process that requires comprehensive planning and good technology to support the program.

By effectively using the powerful APIs that are now available, the project can be made much less daunting, and you can achieve tangible results much faster. Your customers will thank you.

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Finzly provides the financial infrastructure for banks, fintechs, and businesses to offer and access financial services in an open ecosystem that is connected, real-time, and embedded in everyone’s lifestyle. Finzly offers an operating system for banks that is modern, cloud-based, real-time, and API-enabled. The digital core readily integrates to a bank’s existing core, saving the bank time and money replacing the core and allowing it to focus on innovation. With an array of readymade solutions including an award-winning multi-rail payment hub (ACH, wires, RTP, FedNow, and SWIFT), foreign exchange, multi-asset deposit core, account opening, KYC, risk, compliance, and a suite of customer experience components, banks can offer cutting-edge solutions to the connected economy.

Finzly’s open APIs for payments provide banks with the confidence and capability to compete effectively. They enable seamless integration of instant payments into banks’ products and offerings. Finzly also empowers banks to offer their customers a rail-agnostic payment experience across digital banking and other channels, allowing for instant activation of sending capabilities. This centralized payment processing hub represents the optimal solution for banks. The centralized payment processing hub offered by Finzly presents the ideal solution for banks looking to make the most of instant payments.

Join leading banks using Finzly. Learn more at www.finzly.com

2815 Coliseum Centre Dr., Ste. 240, Charlotte, NC 28217 | 917-705-2183 | connect@finzly.com