

Faster Payments

Tracker™

Choosing The Direct Connection

For Faster Payments Access



It doesn't make sense to be a bank and be in the world of payments, and then use somebody else to do payments, or to not be in real time.



Julian Sawyer, chief operating officer of Starling Bank



Starling Bank's COO on directly connecting to the Faster Payments Service



Aruba's central bank signs instant payments deal

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WHAT'S INSIDE

FINANCIAL SERVICES COMPETITION IS HEATING UP, WITH NEW INSTANT PAYMENT SCHEMES PREPARING TO MAKE THEIR DEBUTS AROUND THE GLOBE.

Europe's TARGET Instant Payment Settlement (TIPS) system is slated to launch in November, for example, and players are prepping for the change. Financial services firm SWIFT recently [secured](#) the necessary approvals for an offering that will serve as clients' one-stop access to TIPS. It will do the same for payment infrastructure solutions firm EBA CLEARING's RT1 Single Euro Payments Area (SEPA) instant credit transfer service.

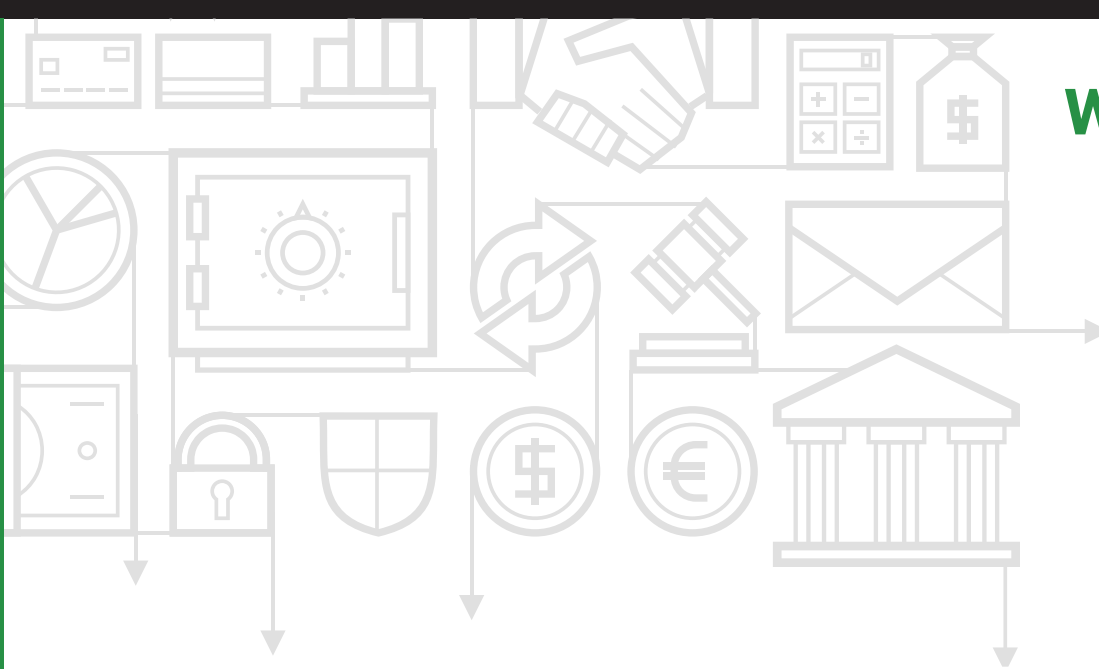
Change is also coming to Aruba, where the country's central bank is [planning](#) to introduce real-time interbank payment processing. It recently signed a deal with European payments and transactional services company equensWorldline SE to provide the infrastructure for the solution, which is scheduled to launch in January 2019. The Instant Payments Clearing and Settlements Mechanism (IP CSM) [system](#) will be ISO 20022 messaging standard-compliant and based on the European Payments Council's SEPA Instant Credit Transfer (SCT Inst).

As real-time payment schemes continue to roll out, financial institutions (FIs) are faced with the question of whether to link directly to those systems or rely on partners for access.



Around the faster payments world

Financial players are looking to new initiatives to ramp up the tempo of sales and remittances. Payment services company Square's focus appears to be on [updating](#) two of its card readers to more rapidly read EMV cards, helping merchants more quickly move consumers through checkout lines. The solution [enables](#) a new payment processing method, giving back 1.6 seconds of consumers' time that would otherwise be spent waiting.



Money transfer service MoneyGram is also eyeing payment cards, but doing so for digital remittances. It will soon enable its customers to [send](#) remittances to Mexico and the Philippines, with recipients able to instantly collect and use the funds with Visa-branded debit or prepaid cards as part of a new Visa collaboration.

Remittances are a focus in the Middle East, too, where Kuwait Financial House (KFH) aims to use payment network Ripple's blockchain solution to [speed](#) them across borders. That service is currently being tested, and will be presented to the country's central bank for approval when a final version is ready. KFH expects the solution will provide more end-to-end payments visibility, greater security and improved speed.

Taking the direct route

Not all financial players are turning to other parties for access to faster transactions, however. For some, including U.K. challenger [Starling Bank](#), having a direct connection to the region's real-time payments scheme is a necessity. In this month's Faster Payments Tracker™ feature story (p. 6), the FI's chief operating officer, Julian Sawyer, explains why the expense and effort involved in joining the Faster Payments Service (FPS) was worth it, giving Starling greater control over the offerings and products it can extend to its customers.



FIVE FAST FACTS

What's Inside

6.2%

Year-over-year increase in ACH debit and credit transactions from Q2 2017 to Q2 2018

42%

Share of respondents who say real-time payments integration in online banking will have the greatest impact on commercial payments in the next 3 to 5 years

\$60.7B

Projected global blockchain market value by 2024

100M

Total number of Zelle transactions processed in Q2 2018

21M

Total number of same-day ACH credit transactions processed in Q2 2018

Choosing The Direct Connection For Faster Payments Access

Purchasing digital music or videos can be completed almost instantly, so one might expect the money involved to move just as fast. Customers may have once been happy to wait an hour for a movie to download, but they are now accustomed to having their selections instantly stream on demand, noted Julian Sawyer, chief operating officer of [Starling Bank](#). That swiftness hasn't yet become commonplace for payments processing, though, which can still take days to settle.

"We have so much technology that enables us to do so much instantly, and then we go to our bank and say, 'Can we just pay [a recipient] in the States?'" Sawyer said. "And, it's like, 'We'll do a SWIFT message, and it'll cost \$10, and you may get it on Monday.' That's really, really poor."

U.K. organizations are looking to tackle this problem by leveraging the local Faster Payments Service (FPS). Uptake continues, with approximately

500 million payments [processed](#) on the scheme in Q2 2018, reflecting a 25 percent year-over-year increase.

Financial players seeking to offer their clients FPS access have two options: join the scheme directly, as 21 FIs have done so far, or partner with one of those participant FIs. The latter option means avoiding the costs and complexities required to join, Sawyer noted. Direct participation was a must for Starling, however, and its decision to join last year made it the 13th FI and first challenger bank to do so.

"It doesn't make sense to be a bank and be in the world of payments, and then use somebody else to do payments, or to not be in real time," he said.

Taking the direct connection

For Starling, serving business and consumer clients means catering to the growing demand for instant

services. The FI could have turned to a [sponsoring](#) FPS participant for the settlement and/or connection needed to use the scheme, but would have been dependent on a partnership with an established legacy bank, Sawyer explained. This wasn't ideal for the challenger.

"[In that scenario], you're reliant 100 percent on their technologies," he said. "You might have this wonderful new kit doing some really nice, shiny stuff on your app, then you're sitting behind a big [Royal Bank of Scotland] mainframe to do the payments."

Directly connecting to FPS gave Starling the flexibility and control it needs to be competitive.

"We said, 'Let's not be tied up to these incumbents,'" Sawyer recalled.

Impact for clients

Starling's decision to connect directly means it can act as a sponsoring participant and include the faster payments connection in its client offerings. The company has since worked to provide a set of application program interfaces (APIs) that support real-time access to faster payments, particularly for financial organization clients seeking to leverage the service for new products.

"We're sitting behind this infrastructure, [and] providing a service to these organizations," Sawyer said. "Each one can create [its] own unique propositions."

Starling has seen the impact through new partnerships with companies like Mastercard. It provides FPS access that enables Mastercard Send to issue bank-to-bank real-time payments in the U.K. and Europe, for example. Meanwhile, a prepaid card issuer

WE'RE SITTING BEHIND THIS
INFRASTRUCTURE, [AND]
PROVIDING A SERVICE TO
THESE ORGANIZATIONS.



can now support loading funds onto the card in real time, which could be useful for paying gig economy employees.

Businesses have their own set of demands, wanting not only faster fund transmissions, but also access to the better data often supported by faster payments schemes.

"If it is a straight-through process and doesn't have to touch a human, it's really, really fast and really, really cheap," Sawyer said. "Some older payment systems have a lot of errors and [require] manual reconciliation, which increases cost and time scale, and the customer experience is just not met."

FIs are increasingly working to offer customers instant payment services that provide richer data and quicker transactions. Starling seems to be betting on a DIY approach in accessing faster payment schemes. If all goes well, the challenger bank may prove that it pays to be direct.



UNDER THE HOOD



Julian Sawyer, COO of *Starling Bank*, on the importance of richer transaction data:

"When the money flows, there's some information that is going there, [too]: Who is the beneficiary, who is the sender, etc. There are still expectations that there's more information that is coming through — not just that your balance increased, but that it increased for this reason, and being able to tell people [about these changes] in real time.

One thing we do is that when your card is used at a merchant, we go on to Google Maps and find the map of the retailer. That's really important, because many times you look at your transaction statement and you go, 'I don't recognize that retailer.' But, if you have a map, you go, 'Oh yeah, that's that shop. I was walking down the street and went in there. I can't remember what it was called [or] I didn't realize it was called that.'

Giving more ... richness in terms of the data that's applied in all types of payments is, again, what we should be doing. On a transaction, why can't I take a picture of the receipt or add notes on what that purchase was? Was it a business expense? Do I categorize it in a particular way, or add notes on who was with me? In the wider payments world, it's that value-added data that's important rather than just the payment instruction."

News & Trends

ACCELERATION IN THE AMERICAS

Square promises faster processing

Point-of-sale (POS) services giant Square has [announced](#) a new update it claims will accelerate EMV transactions for U.S. merchants. The company's Register and Reader solutions for contactless and chip payments can now process chip cards in two seconds, [down](#) from 3.6 seconds, with the industry average reportedly between eight and 13 seconds.

Faster processing speeds are enabled through collaborations with payment network partners to implement M/Chip and Quick Chip technology, according to a press release. Consumers can now remove their cards from the POS device once the information has been read, without having to wait for a response from the issuer. The solution works to reduce transaction times by "prioritizing the parts of transactions that are critical to security." It is intended to give merchants the security of EMV without slowing down lines, according to Jesse Dorogusker, Square's head of hardware.

PNC Treasury Management clients get RTP

FIs are also looking for ways to reduce customers' wait times. Pittsburgh, Pennsylvania-based PNC Bank is [providing](#) its corporate Treasury Management clients with access to The Clearing House's Real-Time Payments (RTP) system, according to a recent [press release](#), enabling them to send payments to both companies and consumers. Trans-

ferred funds can be made available to recipients within seconds via RTP.

Clients originate payments with PNC's corporate online and mobile banking portal, PINACLE, or through file transmission and an API. Senders and recipients will then receive a completed transaction confirmation. PNC was an early adopter of RTP, going [live](#) with the system last December to allow clients to receive funds and remittance information in real time.

Zelle, Venmo increase P2P volume

When it comes to speeding payments to consumers, two major U.S. person-to-person (P2P) services are coming head to head. PayPal's Venmo [processed](#) more than \$14 billion during Q2 2018, marking a 50 percent quarter-over-quarter increase, but Zelle's network operator, Early Warning, is presenting competition. It processed \$28 billion during that same quarter, representing a 17 percent quarter-over-quarter increase.

Venmo is currently working to increase its market share, announcing plans to expand its offerings to include a Mastercard-branded debit card customers can use to spend their balances. Another new service, designed to provide users with instant access to their Venmo funds for a small fee, has been utilized by 17 percent of the company's customers, CEO Dan Shulman noted on a post-earnings call.

Aruba's Central Bank makes instant payments infrastructure deal

Meanwhile, the Caribbean island of Aruba is making waves with big changes of its own. Its central bank, Centrale Bank van Aruba, recently [inked](#) a deal to replace its clearing and settlement system with a new central infrastructure that supports instant payments. The FI signed a five-year contract with European payments and transactional services company equensWorldline SE for the service, which is slated for implementation by January 2019.

The Instant Payments Clearing and Settlement Mechanism (IP CSM) service will enable all in-country interbank payments initiated in the local currency, the Aruban florin, to be instantly processed on a 24/7/365 basis. The infrastructure will support credit transfer and batch processing, as well as request for payment messages.

EUROPE AND THE UK

Commerzbank selects equensWorldline for instant payment processing

equensWorldline has also [signed](#) an agreement to process German financial services company Commerzbank's SEPA instant, multi-currency and domestic payments for a period of 10 years. Under the already-initiated first phase of the deal, the former is collaborating with Worldline parent company Atos to manage the latter's legacy payment applications. Phase two will see those legacy applications replaced with new technology from equensWorldline, enabling and supporting instant payments and other capabilities.

equensWorldline is expected to process approximately 4 billion annual payment transactions for Commerzbank by the end of phase two. The German



FI has turned to the company before, with an earlier deal calling for it to handle the bank's Financial Messaging SWIFT Infrastructure.

SWIFT approved to connect to TIPS

Payments messaging service SWIFT is making new moves of its own, recently [passing](#) compliance checks and receiving approval to connect to the Eurosystem's TIPS scheme. Clients will be able to use its forthcoming SWIFTNet Instant platform to connect to TIPS after the system's Nov. 30 launch, the company said, and access other faster payments services, too.

SWIFTNet Instant's goal is to provide a single point through which clients can access various European payment systems, including EBA CLEARING's RT1. SWIFT has reportedly been working with global payments logistics services provider EFIS to enable TIPS and RT1 connectivity.

Form3 supports faster payments for myPOS

Payments are also speeding up for mobile card reader solutions provider myPOS Europe's small- and medium-sized business (SMB) clients. The U.K.-based company recently turned to real-time payment technology platform provider Form3 to give it access to the country's Faster Payments Service. According to a Form3 [press release](#), myPOS can now provide merchants with "almost" immediate send or receipt of GBP payments on a 7/24/365 basis. It also provided myPOS with its own dedicated, portable sort code and addressable account numbers.

CRYPTO COMMERCE

Coinbase offers rapid fiat-to-crypto conversion

The U.K. also sees new aims to improve digital currency trades. Coinbase, a six-year-old cryptocurrency exchange platform, recently [announced](#) that its U.K. users will have access to a quicker fiat currency-to-digital asset cryptocurrency exchange process. Users typically must convert GBP into euros before they can buy cryptocurrency, then convert cryptocurrency back into euros and then into GBP via bank transfer to cash out. What results is often a multiday process.

The new service works to bypass this, enabling GBP payments to be converted into digital assets at near-instant speeds using Coinbase Pro and Coinbase Prime. The company expects this ease of purchasing and cashing out to encourage widespread cryptocurrency use. The service is currently available to a limited set of customers, but will soon be rolled out to all U.K. Coinbase users.

EXMO, Mistertango partner

Crypto fans using European exchange EXMO may also soon gain access to speedier services through a new [partnership](#) with Lithuanian-based electronic payment services company Mistertango. The pair aims to assist users in trading and exchanging digital assets, enabling them to make instant deposits or withdrawals in euros and SEPA transfers.

EXMO users will be able use fiat currency through a Mistertango payment account to more quickly and securely fund and support crypto activities, according to a [press release](#). The latter already [works](#) with more than 100 crypto exchanges, and is hoping to increase its crypto partnerships in the near future.

Kuwait Financial House to use Ripple

Blockchain is also seeing a boost in the Middle East, with Kuwait Financial House (KFH) [slated](#) to become the first bank in Kuwait to join Ripple's global blockchain network, RippleNet. It plans to use the system to support faster cross-border payments and end-to-end transaction visibility for retail customers, claiming this will bring greater security, efficiency, transparency and lower costs compared to traditional remittance methods. KFH has not yet reported whether it will use xCurrent, which enables settlement in fiat currency, or xRapid, which uses Ripple's XRP token cryptocurrency.



KFH and Ripple can't forge ahead right away, however. The Central Bank of Kuwait will first need to give its approval before the former can launch Ripple-enabled services.

DISBURSEMENTS IN A DASH

KeyCorp taps Ingo for instant payments

Financial services company KeyCorp is hoping to key into new disbursements speed, recently [partnering](#) with financial services provider Ingo Money to help its subsidiary, KeyBank, provide business clients with faster customer disbursements. The Ingo Push solution is a turn-key push payments platform designed to make funds available in end customers' accounts in real-time, according to a KeyCorp press release. It is intended to replace disbursements made via ACH deposits or paper checks for greater speed, improved security and lower costs.

MoneyGram, Visa team up on cross-border

While KeyCorp focuses on businesses, MoneyGram and Visa are eyeing P2P. The companies recently

[announced](#) a collaborative solution to provide real-time digital disbursements for MoneyGram customers. Recipients in Mexico and the Philippines will be able to receive money instantly 24/7/365 when the service launches in October.

Funds sent via Visa Direct rails can be used instantly with a recipients' bank-issued Visa debit card or Visa-branded prepaid card. Recipients can also opt to receive the money in cash at an agent-staffed location, where they would have the option to load the funds onto a Visa-branded prepaid card or send them to a linked bank account in real time. Visa's senior vice president and head of North American push payments, Cecilia Frew, told PYMNTS' Karen Webster in a recent interview that the service is a new kind of offering for the company.

"MoneyGram is the first cross-border use case for Visa Direct," Frew said.



FEEDBACK

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