

FASTER▶ payments▶

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News & Trends

New York City's MTA to bring contactless payments solution to select subway stations – p. 10

MARCH 2020

THE CLEARING HOUSE'S STRATEGIES
To Drive RTP Uptake



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What's Inside

Small to mid-sized businesses (SMBs) are hungry for faster payment services that will improve their business operations, whether improvement looks like quicker supplier payments or loading prepaid cards in real time. Some financial institutions (FIs) are addressing this growing demand by partnering with FinTechs to expand and fine-tune such value-added services.

Offering instant payments to smaller firms is strategic for FIs and their FinTech partners, especially as 73 percent of SMBs worldwide now use mobile banking, according to recent [research](#). Seventy-two percent of SMBs reported using their bank-issued debit cards at least twice per week and 59 percent used ATMs as often. The SMB market represents one-fifth of total global banking revenue, generating approximately \$850 billion annually – a number that is expected to grow in Africa, Asia, Europe and the United States. The U.S. small business segment represented approximately \$90 billion to \$100 billion in revenue across lending and deposits in 2017, by comparison. FIs that

neglect this market will miss out on expansion opportunities and funds.

Quick and secure business payments require complex infrastructure upgrades, but FIs and providers are taking the necessary steps to make instant payments a reality. Stockholm-based Swedbank is [collaborating](#) with European fiber optic technology provider SIA and payments platform TietoEVRY, for example, enabling instant payments through EBA CLEARING's RT1 real-time payment system. FinTech Finastra is likewise making upgrades through a partnership with solution provider ClickSWITCH, which will [deliver](#) its technology to improve the experiences of the former's core banking clients.

Digital payment transactions are expected to [exceed](#) \$1 trillion in value by 2025, but that projection also forecasts a growing demand for improved connectivity. Providers and network operators have already recognized this need and are unveiling solutions to meet it.

AROUND THE FASTER PAYMENTS WORLD

Instant payments adoption has gained momentum, and international payments demand is increasing along with it. The Central Bank of Brazil is [planning](#) to launch a system this fall to satisfy this need. Users of the system, PIX, will be able to quickly send and receive funds by scanning QR codes with their cell phones or entering mobile phone numbers, email addresses or taxpayer identification numbers. Licensed FIs will be required to offer their customers PIX functionalities for initiating and receiving instant payments, with the platform streamlining processes.

Cross-border payments have provided challenges for years, and some providers are finally experiencing success from their related initiatives. Payment services firm SWIFT recently [announced](#) that transactions on SWIFT gpi reached \$77 trillion in value in 2019, up from \$40 trillion in 2018. The firm designed the offering to make cross-border payments easier, and it enables both domestic and international real-time fund transfers.

Some similar services are also enjoying rapid adoption, including one bringing contactless payments to public transportation. New York City's Metro Transit Authority (MTA) has [announced](#) it will integrate One Metro New York (OMNY) digital payments systems into subway stations in the Bronx. The government of New South Wales, Australia is likewise planning to [create](#) and trial a digital transit card later this year. Both solutions aim to ease ticket-buying hassles.

For more about these stories and other faster payments headlines, read the Tracker's News and Trends section (p. 10).

DESIGNING REAL-TIME PAYMENT RAILS FOR UBIQUITY

Real-time payments could provide conveniences and novel payment experience opportunities. Merchants using them can plan to receive money promptly, consumers can use them to quickly settle bills they may have forgotten and corporate treasurers can leverage the technology to rapidly act on sudden investment opportunities. Such benefits are only possible if faster payments rails are widely adopted, however. Senders will not bother using technologies that many recipients cannot accept.

Just because a real-time payment rail exists does not mean it will see strong uptake, and payments providers must carefully design their systems to work with developers and FIs of all sizes. Banking association and payments company [The Clearing House](#) (TCH) considered such issues in planning its 2017 launch of Real-Time Payments (RTP), and for this month's Feature Story (p. 6), Steve Ledford, senior vice president of product strategy and development at TCH, explained how payment companies can encourage systems' widespread adoption.

5 FIVE FAST FACTS

1M

Minimum number of same-day transactions made each day on the ACH network in Q4 2019

\$6T

Projected value of global contactless transactions by 2024

25%

Approximate share of peoples' or businesses' insolvency caused by late payments

75%

Approximate portion of working Americans who struggle to pay bills that would opt for instant payments

\$4.7T

Projected value of global digital payments for goods and services by the end of 2020



THE CLEARING HOUSE'S
STRATEGIES

To Drive RTP Uptake

Feature Story

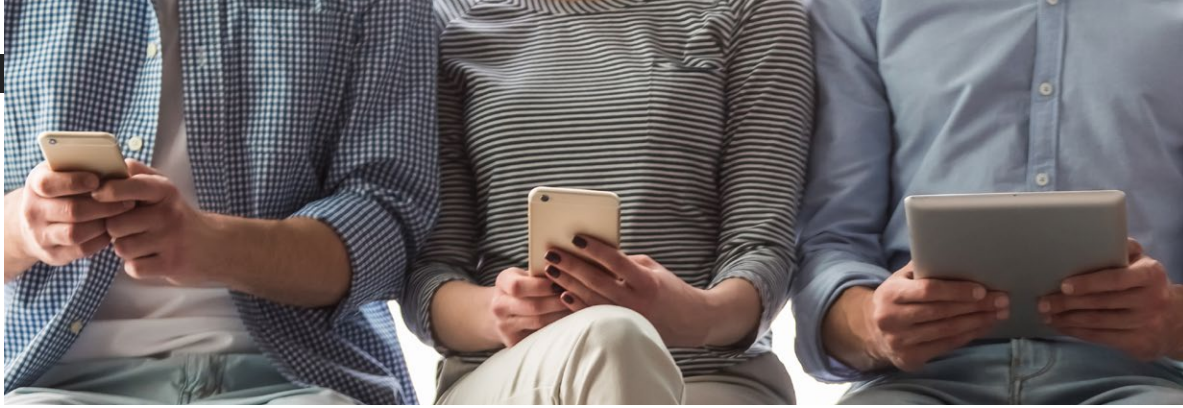
Even the most convenient, feature-filled payment rails will fall flat if nobody can be convinced to try them. Such systems can offer everything from swifter settlement times to easy payment status tracking, but such benefits require widespread adoption. Consumers and businesses do not want to use new payment networks unless they believe others are already using them, creating a chicken-and-egg problem: Payers have to know that payees will accept certain payment methods before making purchases, and payees do not want to invest until they know payment instruments are in demand.

Consumers and businesses alike tend to cling to established payment methods until frictions or alternative methods' appeals become significant enough to inspire change. Payment scheme providers must consider how to encourage adoption, especially if operating in countries lacking a government mandate for FIs to sign on. Banking association and payments company [The Clearing House](#) has been confronting

such concerns as it advances its RTP offering in the U.S., according to Steve Ledford, TCH's senior vice president of product strategy and development. Ledford recently spoke to PYMNTS to explain how companies can design faster payment schemes that stand out from existing systems yet are easily adopted.

FACILITATING UPTAKE

Businesses and consumers need persuasion to use certain systems over others, but providers can only make such appeals after customers can access the rails. Building adoption momentum thus starts with customers' FIs. Companies must offer several different ways for FIs to connect to their systems. Larger banks may have teams of technical specialists and sizable budgets to make resource-intensive direct connections into faster payment schemes, but that approach will not work for all FIs, Ledford warned.



“The U.S. has 11,000 FIs of various sizes – many more than in any other jurisdiction in which [real-time payments rails were launched],” he said. “There was not going to be one method to access the system. In a lot of other countries, a few of the larger FIs access the network and other FIs access through them. That [arrangement] was never going to fly in the U.S.”

TCH paid particular attention to community banks’ and credit unions’ abilities to connect with faster payment schemes. These smaller players are less likely to have the necessary resources to make direct connections, and recent developments have given TCH incentive to prove RTP’s functionality for smaller FIs.

The federal government [deliberated](#) in 2018 and 2019 over developing its own real-time payment system, FedNow, to compete with RTP. It decided that it would launch such a system by 2024, [stating](#) that a government-created system would better support smaller FIs than TCH’s RTP, especially given that the latter [describes](#) itself as being owned by “the largest commercial banks.”

Ledford noted that many small to mid-sized FIs prefer to gain access to faster payments rails via gateway providers that have already gone through the integration process so as to spare them from handling that work themselves. Another popular connection method relies on core banking system software providers, which integrate with payment rails and extend access to all FIs using their software. Both approaches

grant FIs access while other parties manage the technological undertakings.

Real-time payment rails can gain ubiquity once third-party developers start leveraging them for new apps and other services. Payments providers can encourage such growth by ensuring their rails are easy to work with, such as by implementing ISO 20022 for payments messaging – a standard that developers often use for other web and mobile application projects, according to Ledford.

PROVING VALUE

Making connections is only half the battle – the other portion involves enticing developers and FIs to use these new rails. Motivation is especially important in the U.S., where FIs already have access to speedy – albeit not instant – rails. Such a situation creates a need for added features, Ledford said.

“[A successful new rail] couldn’t just be something that’s a little faster than same-day ACH,” he explained.

Offering new capabilities is one way for a payment rail to stand out. Ledford noted that such services could allow companies to send payment request notifications, for example. Real-time payments systems should not debit accounts, as the immediacy of such transactions gives no time for corrections, meaning funds could be taken from the wrong users in the wrong amounts. Payment request messages

blend credit payments' security with digital controls by enabling payees to determine exactly when they want to prompt customers to send funds. Payers who receive the requests can then decide to comply and issue the funds in real time or decline the transaction.

Payment system providers should also design their systems to support numerous use cases, he said, adding that the networks should be made into platforms that FinTechs and other parties can leverage for a variety of payments purposes. Such actions ensure that the offerings remain relevant to emerging needs and unanticipated uses. The growing demand for real-time employee expense reimbursement and instant payroll has surprised TCH, for example, but RTP's flexibility means it can be leveraged for such purposes without any adjustments to the network.

The instant payments ecosystem is quickly evolving, with new uses and entirely new rails continuing to emerge. Such payment systems must earn strong and populous user bases before they can fully transform commerce, but achieving that level of uptake rests on smooth adoption processes and compelling use cases for FIs. Providers would be wise to follow these principles when envisioning how to drive the future of commerce and finance forward.



Under The HOOD

How does FedNow's forthcoming launch influence RTP and TCH's plans for the future?

"We are going to keep doing the same things we were doing. [For one,] we are expanding the network. The number of banks and credit unions in our pipeline to implement the RTP network actually went up five-fold since the Aug. 5 announcement of FedNow. We think that what is happening in many cases is that ... financial institutions ... were saying 'I want to see what the Fed's going to do,' [and now] they've seen what the Fed is going to do ... [The Fed solution] looks kind of like RTP but will not be here for a while. So these FIs want to go ahead and move forward. ... We've seen big uptake that continues to grow at a very rapid pace. ... The fact that FedNow is taking some uncertainty out of the market has actually freed up folks to make decisions.

We are also working on use of the network ... with third-party software providers [that are] enabling end users [and] financial institutions [to use] the product. We are ... talking directly to corporations [about] the kinds of things they are thinking about. Our intent is that when the Fed comes into the market – whenever that may be – that we will have established a thriving network with a lot of folks using it, and they won't see a reason to change."

STEVE LEDFORD

senior vice president of product strategy and development at [The Clearing House](#)

News & Trends ▲

Improving business payments infrastructure

BERKELEY LAUNCHES DIRECTSEND FOR REAL-TIME FUNDS TRANSFERS

Global payment solutions provider Berkeley Payments is working to make real-time business a reality with the [introduction](#) of DirectSend, a platform that enables frictionless, real-time fund transfers in Canada, according to a [press release](#). The company has plans for a U.S. launch this spring. DirectSend can be customized or integrated into firms' existing systems to supply real-time B2B supplier payments, business disbursements and peer-to-peer (P2P) transfers, and the service can transfer payments of any amount in less than three seconds. The platform also offers debt repayment and collections solutions and enables consumers to instantly load prepaid cards directly from their bank accounts.

Berkeley Payments has made other moves to improve its ability to offer frictionless, real-time payments, [acquiring](#) Toronto-based startup Pungle last fall. The latter enabled "fast, integrated and easy-to-use" payments, according to a press release, giving the former access to a "robust feature set, broader

capabilities and global reach." Berkeley is also the first company in Canada to provide 3D Secure 2.0 for money transfers.

TRANSPARENT SYSTEMS RAISES \$14M TO ENHANCE ITS REAL-TIME B2B SETTLEMENT SOLUTIONS

Demand for real-time settlement has risen for years, prompting the payments industry to explore new building infrastructure methods to keep up with that interest. Solutions like Same Day ACH were [created](#) on top of existing payment rails to more quickly move ACH payments, for example, while other providers' solutions bypass such rails. TCH and the U.S. Federal Reserve have been building networks from scratch, supporting their respective RTP and upcoming FedNow solutions, while FinTechs are looking to leverage technologies like blockchain to achieve the same goal.

New payment rail developer Transparent Systems is tapping "cryptographically secured" distributed blockchain networks to improve payment speeds. It recently [announced](#) a \$14 million funding round — on top of \$8 million in seed funding from Vulcan Capital in 2018 — led by Pantera Capital with participation from Future\Perfect Ventures, Square and others. It plans to use the funds to "accelerate

product development [and] engineering and begin overseas expansion,” according to a company [press release](#). Transparent Systems completed a beta test in February and intends to offer its network for commercial use, evaluation and testing later this year.

FINASTRA TAKES CORE BANKING TO THE CLOUD

Some organizations are working to improve payments rails’ infrastructures, while others are streamlining their operations with more efficient core platforms. Financial software provider Finastra has [announced](#) that its Fusion Phoenix core banking platform is now available via public cloud, with Commerce National Bank & Trust and Commencement Bank the first clients to use the service. Cloud-based solutions provide more flexibility than legacy core offerings, Finastra said, noting they also offer access to data mining and the ability to scale services and remain competitive. The company’s senior vice president and general manager of U.S. retail and lending, Vincent Pugliese, said the move marks “an important milestone” that will grant customers access to its core through technology giant Microsoft’s Azure cloud solution. This helps Finastra accelerate its

offering into the market, innovate faster and transform at scale, he added.

The cloud-based core banking product release was not Finastra’s only recent company news, as FI-focused direct deposit and recurring payment account switching solutions firm ClickSWITCH has [announced](#) plans to implement its technology into the former’s offerings. ClickSWITCH said that it will provide its technology to Finastra clients that use Fusion Phoenix and Fusion UltraData, enabling customers to fund new accounts, increase profitability and quickly switch direct deposits and recurring payments.

International instant payments growth

SWEDBANK PARTNERS WITH SIA, TietoEVRY TO ENABLE REAL-TIME PAYMENTS

Instant payment evolutions are impacting companies and FIs around the world, and some other firms are now collaborating improve the technology’s accessibility. Stockholm-based Swedbank estimates its customers have so far completed some



30 million instant payments, making enhanced access a bank-wide priority. The FI recently [announced](#) it selected real-time payments platform provider TietoEVERY and fiber optic technology infrastructure company SIA to enable instant payments through EBA CLEARING's RT1 real-time payment system. Swedbank is leveraging SIA's 186,000 kilometers of fiber optic infrastructure and TietoEVERY's integration support to provide instant payments.

BRAZIL SOON TO LAUNCH QR-ENABLED INSTANT PAYMENT SYSTEM

The Central Bank of Brazil plans to release an instant payment product of its own, [announcing](#) it will launch a system, PIX, later this fall. The solution will enable users to quickly send and receive funds by scanning QR codes or inputting cell phone numbers, email addresses or taxpayer identification numbers. Central bank-licensed FIs with more than 500,000 active

accounts will be required to offer their customers PIX functionalities, according to a news release. PIX was created in response to cryptocurrencies' booming growth, Roberto Campos Neto, the central bank's president, said, adding that the FI felt it needed to be able to utilize encrypted assets like bitcoin.

International payment news

SWIFT GPI CROSS-BORDER TRANSACTIONS HIT \$77T

Firms compete heavily in the faster payments world, but some providers are pulling ahead of the crowd. Payments service firm SWIFT recently [announced](#) that transactions on its SWIFT gpi platform reached more than \$77 trillion in value in 2019 – an increase from the \$40 trillion reported in 2018. The product



was designed to make cross-border payments easier, enabling both domestic and international real-time fund transfers. SWIFT gpi has seen steady growth in the cross-border payment space as well, with the firm noting that 65 percent of all its 2019 payments were made via gpi.

SWIFT will likely need to fend off competitors working to take their own pieces of the real-time payments market, despite gpi's popularity. The company is already making moves to retain its foothold in this area, however. It announced in September 2019 that gpi could be integrated with domestic real-time payment solutions, for example, drastically broadening the product's reach.

CASHFREE RELEASES INSTANT SETTLEMENTS FEATURE IN INDIA

India's population of online and mobile shoppers and businesses continues to grow, making it another competitive market for payments industry providers. Local business payment platform Cashfree recently [launched](#) Instant Settlements, a solution that finalizes digital business transactions faster. The product helps both parties involved in a transaction manage their cash flows and outstanding payments and allows recipients to access their money within 15 minutes of filing the payment, the company said. Instant Settlements is available for approved customers that use Cashfree's payments gateway.

Instant Settlements' introduction follows a period of high growth for the firm, which processes 1 million transactions per day, according to 2019 company statements. It also "pioneered 'Instant Refunds' in India and introduced 'Same-day Settlements' for businesses" that year, according to a press release.

Mobile and POS

FISERV RELEASES SECURE PIN TECHNOLOGY FOR POS HARDWARE

Self-employed individuals such as jewelers or artists are often on the move, setting up tents or booths at fairs and events to sell their goods. Many thus rely on payment solutions that accept payments everywhere. FinTech Fiserv has [created](#) technology to do just that, allowing users to safely – and quickly – accept payments on handheld hardware by enabling secure PIN entries on consumer-grade smartphones and tablets or typical handheld business point-of-sale (POS) systems. The offering does not require shop owners to attach separate card readers that may be too cumbersome or pricy. This will ease the purchasing process for sellers as well as buyers, adding a secure-but-quick payment option through which smaller merchants can grow their businesses.

Fiserv announced it had completed the first PIN transaction on a mobile device in early February 2019, partnering with card network Visa and smartphone creator Samsung for the transaction. The company is currently piloting the solution in Poland.

SQUARE PARTNERS WITH XERO FOR INVOICE PAYMENTS

Payments processor Square and solution provider Xero are among the entities looking to support businesses that may be more reliant on mobile payments. The pair have [partnered](#) on an instant invoicing payments solution for merchants in Australia. Square's small business clients in the country can use Xero's technology to email invoices to customers or vendors, allowing recipients to instantly pay their bills. Xero records the transactions, which are reflected in

merchants' bank accounts for easy accounting, according to a news release.

Businesses can also rely on Xero's recording to view more insights, as the platform allows them to break invoices down to individual transaction levels. POS sales, surcharges and other payments are also recorded, allowing merchants a more comprehensive look at their invoices and spending patterns.

Faster transportation payments

NEW SOUTH WALES' CONTACTLESS TRAIN PAYMENTS SURGE TO 30M TRIPS

Faster payments have become popular for the transportation industry as well – at least in New South Wales, Australia, where the government has had a digital payments program in place for public transportation since 2017. The program has since accepted 30 million trips' payments via debit and credit cards or digital devices like smartphones or smartwatches, the government recently [announced](#). The offering uses near-field communication (NFC) to facilitate these transactions and also supports more traditional payments.

The system provides convenience to riders, government representatives noted in a recent interview, especially as mobile wallets become more popular. New South Wales plans to roll out a digital version of its fare card, the Opal card, for riders later this year. The NFC technology enables approximately 1.5 million trip payments each week.

OMNY PAYMENTS SYSTEM TO SPREAD TO BRONX TRANSIT

The U.S. is also seeing faster payment integrations, as New York City's transportation systems move to support contactless payments in 2020. The MTA will be [integrating](#) the OMNY digital payments system to subway stations in the Bronx borough, according to an OMNY announcement from February. It is unclear when this system will become fully available for these stations, but it will be available for use along the 2/5 and 6 lines.

The MTA plans to have OMNY technologies replace physical MetroCards by 2023. The solution allows users to tap and pay for in-city subway trips using a smartphone app and currently accepts payments from Apple Pay, Fitbit Pay, Google Pay, Samsung Pay and most other major mobile wallets, eliminating cumbersome and time-consuming cash or card purchases for daily, weekly or monthly tickets. The MTA has also announced plans to launch a connected OMNY Card for local riders at an undisclosed time next year.



About

ABOUT THE TRACKER

The Faster Payments Tracker is your go-to monthly resource for staying up to date on faster payments news. The Tracker highlights the contributions of different stakeholders, including institutions and technologies coming together to make this happen.

QUESTIONS? COMMENTS? BRILLIANT IDEAS?

We hope you like the Tracker, and we welcome your feedback. Drop us a line at feedback@pymnts.com.

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