No Looking Back

Digital Payments and Real-time Transactions for All

Real-time technologies are not intended as stand-alone tools, they require an ecosystem of complementary processes and systems to really reap their benefits. TMI seeks best practice guidance from Bank of America experts, Aziz Parvez, Head of Corporate Treasury Sales, Asia Pacific, Global Transaction Services, Sunil Bhatia, Head of Payments and Bank Transformation, Asia Pacific, Global Transaction Services, and Param Thind, Head of Digital Channels and Transformation, Asia Pacific, Global Transaction Services.

By **Tom Alford**, Deputy Editor, TMI

Think real-time treasury and it should evoke visions of a set of wide-reaching technologies and processes combining to deliver far more than the sum of its parts. However, sometimes discussions focus on one particular aspect, usually payments, missing the way in which real-time tools come alive as part of an ecosystem capable of adding value to the whole business.

From an APAC treasury perspective, real-time delivers improved working capital and cash flow management, explains Parvez. Corporates working with multiple SME distributors in an analogue world often have to manage cheque payments, with settlements taking up the three days. The delay in booking the cash can enforce avoidable counterparty limits on SME spend.

"The more there is a delay in payment, the longer there is a build-up of that limit which means restricting the volume of sales," he explains. "But with real-time payments, faster receipt and booking of cash means those counterparty limits can be released earlier, and the sale of goods can be churned faster."

For businesses engaged directly with consumers, such as insurance companies, a real-time architecture improves the collections and reconciliations processes too, notes Bhatia. "Even if a real-time payment has minimal information flowing with it, the mechanism still helps identify the payment, but when it has full reference data, reconciliation can be almost immediate."

It's clear for Thind that, over and above the working capital and cash flow efficiencies, depending on the context and use case of real-time, these mechanisms become part of the overall business process. "Being able to process payments 24/7/365 can reveal a broadening range of new business opportunities, especially around e-commerce," he says. "Being directly able to debit a customer's bank account using a real-time clearing mechanism can provide a superior alternative to credit cards creating greater operational and cost efficiencies. Even being able to generate QR codes to take immediate payment is opening up new opportunities such as home cash on delivery and enhancing the overall consumer experience."

Supporting infrastructure

Of course, the roll-out of real-time transactions depends on the implementation of a supporting infrastructure. Bhatia notes a widening domestic adoption of the necessary platforms across APAC countries. "This extends to the whole of Southeast Asia. Singapore, Malaysia, Indonesia, Thailand, India, China, Hong Kong, and Australia – all now have developed and adopted real-time payment systems and infrastructures."

The progress is such that many have surged ahead of some Western markets, such as the US, Bhatia continues. Many of these markets created a mandatory foundation, launched by their central banks, because they want to drive the digital economy, moving away from physical cash and cheques, he explains. "This is giving strong momentum to regional uptake, with enormous payments volumes being processed in countries such as India and China."

The appetite to go digital in Southeast Asia is already seeing the region developing beyond domestic real-time transactions. Singapore is collaborating separately on real-time cross-border mechanisms with Malaysia, Thailand, and India. By connecting networks and creating interoperability, it significantly increases reachability and appeal for users.

Cross-border pilots are underway, but there is still far to go, notes Parvez. "Adopting messaging standards such as ISO 20022 is enabling interoperability and easier connectivity. But there are aspects that the regulators are still working on, especially around the free flow of currencies where restrictions are currently in place."

The move towards cross-border real-time payments also demands a conversation around FX processing, adds Bhatia. "Most financial institutions still want to do their own FX. In the pilots we saw just a few banks controlling it and offering that service.

It is possible that a commercial decision on FX will prevail, but a central bank could take the responsibility, in which case it would control FX, notes Parvez. "One thing is certain, after the pilot, adoption will be much higher if an open market for FX is created. These aspects are evolving, as more countries come into the cross-border flow discussion."

Indeed, as more countries consider

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cross-border real-time payments, Parvez adds that participants will have to consider how best to support real-time payments while completing their sanctions-screening obligations. However, he does not foresee any real issues here.

To ensure the high-level directives, such as those around sanctions screening and anti-money laundering, are met, regulators will be providing relevant guidelines. But in terms of network usage and control, that still rests with the banks, explains Parvez. "It's no different from what we see now with SWIFT transfers. Where there are cross-border flows, the domestic regulators give the guidelines, but ultimately it is the banks across the entire chain that have to ensure those guidelines are followed."

With every stakeholder aware of the requirements to build the infrastructure to move forward, regional associations of banks, plus the central banks, are already engaged in formal conversations as they plan the next steps, notes Bhatia. "Pilots help create the right environment for all to see how the mechanisms work in practice. They should reveal any additional challenges but also alert participants to the best way to scale up the solution."

It's encouraging that the entire ASEAN Plus Three economic community (13 countries in total) has been working towards the creation of a unified real-

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time payments market, similar to SEPA but without the single currency, says Bhatia. With the strategy to bring these markets and financial infrastructures closer together, the aim is connected independence. "The pursuit of a framework and a guiding philosophy is why we're seeing a lot of traction for real-time in the Southeast Asian market. The willingness and encouragement from the respective governments is making it happen, and that's making it easier to do business across the region."

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Treasury reality

For a real-time environment to become an everyday reality for treasurers operating in APAC, "expect evolution because it's not going to happen overnight", cautions Thind. "There are certain use cases where it makes sense, and others where it does not. Regular scheduled payments such as payroll typically do not need to be executed in real time, especially where additional costs may be incurred by using real-time [systems]."

It's true also that if the payee does not need a real-time payment, or is in no position to manage its receipt, then there is no reason to do so. What's more, with most trade conducted on 30-, 60- or 90-day terms, paying as late as possible is just sound business practice.

One drawback for treasurers is that real-time systems typically have value ceilings below their usable threshold. While these are being reviewed on a country-by-country basis, Bhatia explains that in some markets in Asia, there are no limits from a clearing-house perspective but in reality, banks impose limits to mitigate their own liquidity risk. Additionally, where clearing processes are based on net end-of-day settlement, while intraday settlement for clients is guaranteed, this is not so for banks' treasuries. Banks using this model may be less willing to increase their limits.

For corporates too, real-time payments carry a liquidity risk. "Because funds are transferred immediately, they may need to consider pre-funding these payments, or asking the bank to fund using an overdraft limit," suggests Parvez. This, of course, adds cost.

From a technology perspective, Thind comments that real-time systems are introducing many new tools. These require thorough investigation. But with most banks now publishing APIs, at least connectivity between counterparties in the payments chain is being resolved at pace.

In a domestic real-time system, a payment travels from the payer's bank to the clearing system, onwards to the beneficiary bank, and finally the beneficiary account. However, Thind warns, "there's no point using real-time [processes] if the first leg, from the payer to its bank, is not also in real time". APIs provide a real-time connection between the client (payer) system and their bank, but he says upgrading internal systems to this level is essential to derive the full benefit of real-time technology.

Corporate payment mechanisms do not function in isolation. Even traditional models require a supporting system capable of confirming and applying each payment to an Enterprise Resource Planning (ERP) or Treasury Management Systems (TMS). In a real-time environment, Thind points out that unless each component keeps pace, then the idea of real-time falls down. "It means taking a holistic view, then developing the entire end-to-end infrastructure and ecosystem to match the payments system."

Concerns aside, APAC is moving closer to the 'always on' state. India, for example, has already implemented 24/7/365 Real Time Gross Settlement (RTGS) so that funding of settlements is never halted. As this practice evolves and expands, and stakeholders become more comfortable using the real-time ecosystem than their archaic physical cash and cheques, so limits will rise. This effect has been seen in the UK, where the limit has now reached £1m from a low start, with consumer adoption being followed by business acceptance, the latter influenced in part by the fact that a real-time payments system presents a useful additional option in certain circumstances.

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Partner power

The need to fully understand how the domestic and international real-time market is developing, from a regulatory, technological, and commercial perspective, places pressure on the corporate treasurer to make the right decisions on an ongoing basis, notes Parvez. Having a banking partner that can work with its clients to bring about the most appropriate response has distinct advantages, driven by real-world experience and knowledge.

"We explain to clients the market trends and nuances of real-time ecosystems, but the decision on how to proceed has to be theirs," says Parvez. By weighing up the challenges and opportunities, and analysing the most fruitful outcomes of adoption versus other models, it will be possible to move into the real-time space. The decision to digitalise may have already been pushed up the agenda by fallout from the pandemic. The adoption of remote and automated operations, and e-commerce solutions in particular, have accelerated rapidly. For Bank of America, the aim is to continue supporting clients in the receipt and management of these payments flows.

The move by various APAC governments during the pandemic to allow the use of electronic payments for tax and other statutory payments – traditionally paper-based activities – effectively sanctioned other automated and digitised processes. Indeed, the realisation of these advantages has seen a far greater opening up to digitalisation in the wider landscape, says Bhatia.

With Bank of America's focus on promoting client API uptake, through its CashPro® API channel, it is enabling the connections essential to drive real-time payment optimisation, says Thind. The channel now even offers a developer portal where clients can view and work with the bank's published API specifications as they build interfaces with their own systems.

As part of its strategy to help create the supporting infrastructure for real-time payments, Thind says BofA also provides the Intelligent Receivables® tool to clients. This helps them reconcile incoming payments, using AI to analyse real-time receipt and application of funds, enabling rapid deployment. "We're ensuring clients need undertake only minimal development; it's about us doing all the hard work so they can connect systems to achieve all of the benefits."

Cutting-edge concepts

With the real-time vision already evolving in a number of APAC markets, and the pandemic having forced the hand of many stakeholders, Parvez explains that clients, from SMEs to large corporates, have been expressing ever more interest. "I'm fully expecting more countries to start adopting real-time systems soon," he predicts. "Then I think we could see these systems supporting digital currencies, such as the proposed mCBDCs [multiple central bank digital currencies], for both domestic and cross-border flows." With pilot projects already under discussion, he believes this is closer to a reality than many may think.

Clearly, APAC is developing a healthy appetite for real-time transactions in the B2C and B2B space, comments Bhatia. This is enabling cutting-edge concepts such as alias-based payments to emerge as contenders in the payment-to-account space.

The alias-based model (also known as the proxy model) is typically mobile-based. It uses a unique identifier – an email or mobile number – that is registered with a payment processor and associated directly with the owner's bank account. This isolates the banking details from the payment but still allows the bank to undertake all the usual payment screening processes.

Payments can be sent to a bank account linked to the alias without the payer needing to know the payee's account number. Because the payment instruction is linked to the alias rather than the International Bank Account Number (IBAN) the alias owner can, in theory, easily change payment accounts. On the corporate side, it also means that if a customer or supplier using an alias switches payment account, the corporate has no need for any account maintenance in its ERP, TMS or other systems of record.

Examples of this already exist. Singapore's FAST-based PayNow can use an individual's mobile number or national identity card number as an alias, or use the Unique Entity Number (UEN) for corporates so the payer needs to hold no bank account details. A similar system is being used in India's Unified Payments Interface (UPI), Hong Kong's Fast Payment System, Indonesia's BI-Fast mechanism and other country real-time payment schemes as well.

No looking back

According to the Deloitte 2020 report, 'The Next Wave Emerging digital life in South and Southeast Asia,' Asia had four countries in the global top 10 for e-commerce retail volume: China (1st), Japan (4th), South Korea (5th) and India (8th), and four of the top 10 e-commerce growth rates: the Philippines (25%), Malaysia (23%), India (21%) and South Korea (19.5%).

The demonstrable compulsion for digital consumption in Asia is not lost on Thind. The move towards digital began its journey on the consumer and retail side, "but the consumerisation of wholesale payments is coming", he believes. "Treasurers are consumers too. They can see what's happening in their private lives, and now they are expecting the same experience professionally. Real-time is going to be the standard everyone is demanding."

Indeed, Thind concludes, as the space becomes ultracompetitive, with more entrants and new technologies vying for attention, so costs will fall and real-time becomes the norm. And with regulatory initiatives across APAC making good progress, he feels that even real-time cross-border – the current major pain point – will be resolved. "There's no looking back now. Real-time [as a process] is expanding rapidly, and will continue to do so." ■

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