Breaking New Ground

Harnessing Payments Innovation in APAC

The pace of payments technology development across APAC is breathtaking. Treasury must understand the scale and significance of these changes to fully harness their benefits. In the company of Bank of America's Venkat ES, Head of Treasury Products, Asia Pacific, Global Transaction Services, and Serina Hourican, Head of Commercial Sales, Asia Pacific, Global Transaction Services, TMI maps out this rapidly evolving landscape.

By **Tom Alford**,

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APAC is a complex region in that it is home to a wide range of distinct regulatory frameworks that shape the evolution of its payments and settlements mechanisms. Despite the complexity, it is also perhaps the fastest-evolving market when it comes to payments innovation. For treasurers who understand the balance between both, exciting opportunities for progress await.

Payments landscape diversity within APAC is hardly surprising given that it is a vast territory encompassing the sub-continent, north Asia, Southeast Asia, and Australasia. Delivery ranges from purely functional structures and processes where cash, cheque and paper-based clearing and settlement prevail, to the most advanced electronic landscapes in the world. However, Venkat notes that where adoption of the new is yet to take hold, there is increasing evidence that digitalisation is gaining ground rapidly.

By presenting every digital option, from consumer payments via QR codes on mobile devices, to real-time corporate treasury and wholesale settlements, to central bank digital currencies (CBDCs) and crypto, APAC is heralding new opportunities for all stakeholders to finally abandon hard cash. As innovative options such as buy-now-pay-later come into play, so adoption rates are accelerating. Quoting Accenture payments trends research indicating that almost 50% of regional B2C merchants want electronic payments, Venkat describes the uptick in demand as a "regional revolution of payments".

The proliferation of smartphone adoption right across APAC set the scene for this, in a consumer context, some years ago. In north Asia, China is home to close on 1.2bn active devices. In South Asia, India has seen around 1bn connected devices pressed into action. In terms of wider payments solution progress, Australasia has already made rapid progress, and in Southeast Asia, the cluster of countries that includes Indonesia, Thailand, Malaysia,

the Philippines, and the economic hub of Singapore, digital adoption has huge momentum, says Venkat.

"Today, we are at an inflexion point," he states. "The traditional economies and payments mechanisms are being replaced by some of the most advanced technologies. That means only one way to go: digital payments will drive the market even further forward."

With divergence a defining characteristic of APAC payments for some time, it may suggest there is a lot of catching up to do in some countries. However, Hourican is quick to overturn any pre-judgment as to what this may mean. Indeed, she notes that certain APAC countries have leveraged their lack of legacy systems, processes, and technologies to effectively "leapfrog" some of the previously more advanced territories.

By cutting out the intermediate stages of development, Hourican says it has been possible to shift straight from cash and paper processing to the roll-out of the latest agile mobile and real-time solutions. She adds that while the pandemic has accelerated the digital programme in many other regions, some APAC countries had already been on this journey for some time, making their leapfrog action all the more noteworthy.

Consumer first

As tools such as APIs, UPIs (India's inter-bank Unified Payments Interface), Request to Pay (RtP), and the aforementioned QR code payments, drive uptake of real-time payments in APAC, the real focus of payments activity seems to be the consumer space.

Hourican notes that first steps in a new world are often taken by retail and consumer participants. But, she adds, often the progress made here seeps into the business and commercial banking sector. Treasurers can now use mobile banking access to check and make payments, for example. However, she says the consumer-first mantra is in part guided by domestic regulations and laws that seek to ensure consumer-derived systems are "fit-for-purpose" in the considerably more complex corporate context before allowing them to be rolled out, especially, she adds, around notions of security.

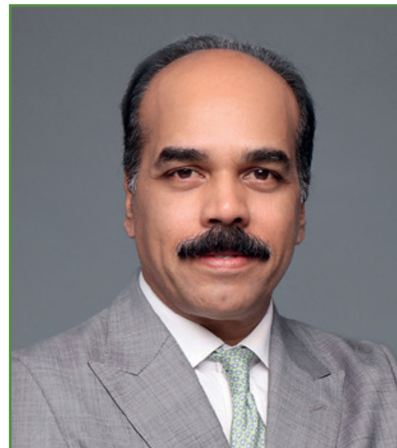
But the emergence of new technologies in the business world has a strong demographic element too, continues Hourican. "When retail systems that have been designed for ease-of-use and instant delivery have been accepted as the norm for consumers, it's only logical that those consumers will start to expect the same levels of convenience in their professional lives," she says. "It follows that as APAC currently has a deeply digital native populace, its business community should be ahead of the queue when it comes to transposing payments innovations into their commercial and B2B environments."

It's observable too that consumer behaviour and opinion is a strong driver (perhaps the strongest) when it comes to changing the views and approach of the business world. As such, the evolution of the payments landscape in APAC into a more advanced yet user-friendly version of itself has an inevitability about it.

However, in the corporate treasury space, there are three prerequisites for efficient operation, says Venkat. He believes that the delivery of these is also beginning to have considerable influence over the uptake of payments innovations in the region.

First, information has to be deliverable in real time. New real-time payments systems and their supporting infrastructures are clearly enabling a real-time view of payments and liquidity positions. Second, a regulatory framework aimed at fostering digital disruption – including new infrastructures and channels – has to be in place to support corporate activities. APAC regulators are indeed developing the necessary infrastructures, the latest being the push in some jurisdictions, such as China, for CBDCs.

And third, proposed treasury solutions must meet real-world needs. Historically, treasurers have depended on the connectivity between their own core systems and those of their banks to manage payments. An ever more creative community of fintechs – many now partnering with banks and core system vendors – is offering plug-and-play API-based solutions, ensuring the B2B payments solutions palette is expanding considerably, based on treasury input.



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Pick of the new

Not every payments solution created will be adopted; it is a hard market to break into. But certain underlying technologies have proven to be more useful than others in facilitating payments progress. Top of the list is APIs, notes Venkat. "We're already seeing open banking is a reality in EMEA, with the API mechanism being leveraged to develop many new use cases," he says.

Believing that APIs are proving "transformational", compared with host-to-host or standard online portal connectivity, Venkat sees the technology as the most significant driving force for real-time adoption. “Connectivity and transaction processing is simpler, and even if a solution is not immediately available in-house or from the bank, there is likely to be a plug-and-play fintech offering.”

Hourican concurs, noting that while there was a nervousness about API adoption and integration a few years ago, she says this has receded. “There’s now a realisation that the technology establishes an easy-to-set-up, two-way flow, rather than the traditional IT-intensive one-way data pull of host-to-host. This has seen APIs grow massively, with clients understanding that they can now obtain information in near real time, helping them make rapid and informed decisions.” Coupled with real-time payments, she says the data flow creates a powerful response to treasury needs, from cash flow forecasting to investment decisions.

Another technology that is having an effect on real-time activity in APAC, albeit to a lesser degree than APIs, is blockchain. It’s used as an underlying security measure in certain transactions, but it’s not having the level of success that its preceding hype had suggested, notes Venkat. It has played an important role in helping to digitise trade documentation, as the technical basis of the smart contract, but in cross-border payments, the work of Ripple is a possible exception, its impact has been limited, he comments. The reason for this is the rapid emergence of SWIFT gpi as the favoured solution for tracking and tracing cross-border payments.

Instant APAC

The idea that instant payments is a positive development is highlighted by how well Singapore has received and developed the concept, says Hourican. The possibility of sending and receiving Singapore dollar funds from one bank to another using a mobile number through PayNow, or paying via a QR code, shows clear thinking by the city-state’s banking authorities. But she says while these authorities, banks and fintechs are collaborating intelligently to develop instant payments for retail and corporate users at a domestic level in some APAC countries, cross-border deployment requires further detailed consideration across the region.

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“Stakeholders in each jurisdiction have their own thoughts and objectives as to how they want instant payments to work,” she comments. “But that then creates a lack of uniformity across those countries, and we’re now finding that cross-border interoperability is not yet practicable.” From an Asian perspective, she believes the expectation was that ASEAN [Association of Southeast Asian Nations] member states would lead the push for interoperability, but she feels this is yet to be pursued.

Although real-time cross-border payments remain “the final frontier”, Venkat notes progress, albeit bilateral. Singapore’s FAST (Fast And Secure Transfers) has linked with India’s UPI, and there are plans for FAST to connect to Thailand’s PromptPay. Malaysia’s DuitNow is also set to connect with Singapore’s PayNow, with a launch in Q4 2022. Plans to link APAC payments further afield, notably with the US-based privately owned Zelle platform, are also mooted.

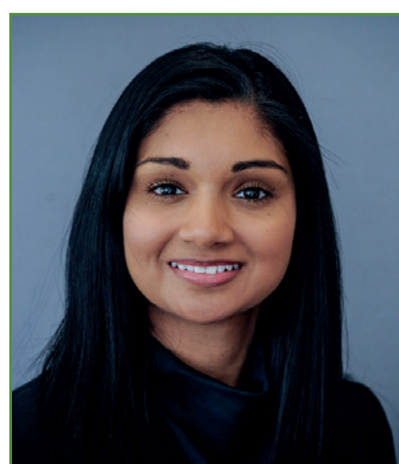
Why instant?

Discussions around instant payments often assume that its adoption is a given. But implementation in the corporate space still requires a robust reason, otherwise it has the appearance of a technology looking for problem. For this to happen, the idea has to keep evolving until it hits the corporate sweet spot, says Venkat.

Instant payments have always started with low-value transactions, with most representing C2B payments. As the use case develops, so companion technologies have emerged. One such product is the digital wallet, such as those offered by WeChat or Alipay in China. “These are now becoming a standard payment option for many merchants, and they are even being used cross-border,” says Venkat. “It places the digital wallet in a similar space to Visa and Mastercard, but the wallet also enables users to transact on their mobile devices and instantly see the transaction value in their home currency.”

Venkat notes that India’s UPI is now not only a real-time payments mechanism but also a tool facilitating settlement across digital wallets such as Paytm, the country’s largest provider, and a flood of new providers from telcos and other non-banks that access the country’s real-time rails.

These systems, alongside global mechanisms such as Apple Pay, add multiple options for consumers, says Venkat. “The next stage is to take it up a level, to provide that optionality in the B2B space.” Currently, he sees most treasuries using real-time mechanisms for instant payments but believes that “it is only a matter of time before digital wallets are designed for the B2B space”.



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There is also the gathering momentum of CBDCs' development to consider. Venkat believes that their deployment first in the wholesale environment will facilitate a new means of making large-value settlements and transfers between banks and large financial institutions. Corporate level adoption will follow, he says.

To assist this order of progression, Venkat anticipates the push for multi-CBDCs (or m-CBDCs) to gain momentum too. This would see jointly operated central bank payments systems forming a single multicurrency platform, comprising several CBDCs. This would effectively offer corporates and other users an instant global payments system with central-bank level trust with commercial bank support. Should this happen, he sees it establishing a parallel to SWIFT as a global payments mechanism (although of course SWIFT is a messaging system and not a payments system per se).

Advantage treasury

The treasury benefits of instant transactions are well documented: the cash is credited to the bank account almost without delay, which means cash flow is more visible and working capital management is optimised. "The immediacy and transparency of the mechanism means treasury teams can make better-informed decisions," comments Hourican. Of course, the corporate's customers can also benefit in cash flow terms if they know their payments will be processed immediately, not least in terms of potentially freeing up credit lines for additional purchases.

While enhanced payments visibility has indisputable benefits for treasury, taking this journey via instant payments requires the business to be fully committed to its execution, says Hourican. "It means ensuring you have consensus from all of the different internal stakeholder functions, including IT," she notes. The stakeholder list extends to ensuring clients of the business are ready and willing to pay via this mechanism too, she continues. "With some businesses still wedded to payments by cheque, it will mean finding appropriate incentives for them to switch to a digital route."

For Venkat, the real benefit of real-time payments is on the receivables side, with the main advantage for large corporates found in their supply chains. He cites a number of real-world examples, including one involving the supply chain pyramid of a major global beverage company.

At the bottom end of the scale – among the many thousands of so-called 'mom and pop' shops – is a credit risk that can only be managed by the customer settling its outstanding invoices before the next stock consignment can be dispatched. This constrains the level of sales that these smaller businesses can make, especially where the processing of their payments falls foul of weekends or holidays.

Shift that scenario to instant payments, and Venkat says those smaller businesses can make payments 24/7/365 to ensure they receive delivery of their goods when they need it. "And for the corporate, this model means sharper credit risk management and stronger sales, which in turn drives profitability and improves liquidity." With appropriate modification, such as the application of robust cybersecurity processes – a matter to which the corporate banks will be attuned – he argues that this model can be extrapolated across entire sectors and industries.

Taking a slightly different angle, Hourican notes how over the past decade or so, treasuries have built strong reputations as service providers within their organisations. "Having access to enhanced cash flow data, aided by real-time payment processing, is helping other parts of the business see just how important the treasury function is," she says. For example, where M&A funding is often sourced by treasury from a syndicated loan or debt issuance, cash flow forecasting optimisation means excess cash can be used as an additional funding source.

With treasury being called upon earlier in the process to advise upon funding options, it's a clear demonstration that real-time payments systems and the host of new applications that support it, are helping cement the reputation of treasury as the driving force of progress.

For more information, please visit Bank of America Global Transaction Services

CHECKLIST: PREPARE TO LEVERAGE THE NEW PAYMENTS ENVIRONMENT

- Bring all internal stakeholders on board as early as possible to begin discussing expectations and impact
- Ensure existing systems are ready to receive and process out-of-hours payments
- Ensure visibility of liquidity is sufficient to ensure cash availability for real-time payments
- Discuss and plan mitigation of increased risk of cyber threats and fraud
- Discuss core system connectivity with new real-time solutions from fintechs and banks
- Map internal systems and processes across all impacted functions to ensure readiness to leverage real-time data
- Consider how to incentivise clients to use the new real-time payment facility
- Ensure the appropriate payment channels are offered to all customers