Payments Innovation Alliance – Think Tank Session on Payment System Modernization

Payments Innovation Alliance members gathered on October 23rd, 2014 to engage in a think tank discussion on payment system modernization efforts around the globe. The group reviewed data provided by Leo Lipis on current modernization/planning efforts, implementation projects and trends from around the globe, including the US, Europe, Canada, Africa, Asia and the Middle East. Shared research also identified use cases commonly associated with these efforts. Person to Person, Mobile, Business to Consumer, Business to Business, Consumer to Business, and International or Cross-border payments were all referenced as high level potential payment system use cases and think tank participants identified serving the “un” or “under” banked and considering future cases as two additional references.

Alliance Member payment experts participated in a two hour discussion, and recognized that efforts by the Alliance to assist the global payments industry in the continued progress of these initiatives would require a much deeper dive in many of the subject areas to provide better insight and thoughtful dialogue. The October think tank exercise goals were to engage at higher level and foster member discussion and sharing on initial thoughts and concepts around payment system modernization and to identify the best areas for the Payment Innovation Alliance to focus its resources.

Attendees utilized the identified use cases for reference and held discussions on three key areas of payment systems modernization. These specific areas are:

1. Payment Speed
2. Interoperability
3. Security

A clarification of what is meant by each of these components was addressed at the outset within each small group. Payment speed i.e. faster payments, what types of interoperability are most important for a payments system and the ways it can be achieved, and what are the leading ideas for protecting end users, securing data, and keeping a modernized payments system secure

Payment Speed

Participant break out groups clearly identified several distinct elements on what was commonly identified as 24/7 real time payments system.

1. Real Time Messaging - Whether its consumer payments such as P2P or Bill Pay leveraging real-time messaging in forms such as SMS or business to business payments providing full remittance the information provided by sender to receiver including notice of payment delivered, information about the payment, and transparency of the payment status is a primary requirement. Speed is identified as “within seconds” for these messages that may provide simple notifications to more complex acknowledgements, AP/AR, exceptions, returns, or confirmations. In many of the business cases cited the speed of payments information is even more critical to end users than funds availability.

2. Funds Availability – The required amount of time for which a receiver needs to wait to gain access to funds sent varied somewhat on the use case and type of payment. The need for real
time funds availability was identified in use cases such as P2P and was defined the same as real time messaging occurring “within seconds” However, for other uses cases such as B2B or consumer bill payment funds availability was determined to be within the same day of notification. It was also clearly evident that the funds availability should take into account a system that is available 24/7.

3. Funds Settlement – The settlement of funds between financial institutions was deemed to be a necessary element to support funds availability. Bank to Bank settlements occurring multiple and an optional time during each day was identified as a best a possible practice to support payment modernization efforts.

Interoperability

Participants identified user needs and concepts for payments system interoperability domestically with other payments schemes and internationally for cross border payments. The working groups acknowledged that specific conditions or limits may need to be established to provide access to co-existing payments systems.

Domestic – A goal identified for payment system operability is the ability to pay anyone/anywhere while providing visibility and supporting the delivery of payment information. Payment schemes and closed looped networks fail to offer true ubiquity for users by requiring the use of proprietary on boarding processes plus scheme rules and formats. There were several concepts to support co-existence between payment types or standards including the use of an “unique identifiers” for users for any type of account, the use of XML to create “wrappers” to carry payments information and development of standards and rules that can link processes and technologies.

International – The Alliance group participants agreed that interoperability for cross-border payments should be contemplated by all geographies as part of any domestic rules set. The results of modernization efforts may provide faster payment and remittance messaging and funds availability but that may not always be the case for payments traveling from one country to another and therefore visibility and transparency are key requirement for interoperable cross-border payment systems. The use of ISO20022 format standards was considered to be a best practice by think tank participants.

Security

Participants identified two areas of security for consideration; protecting ends users and the security of data and the payments network.

End User Protection – There is continued discussion on whether all or some payment messaging or information needs to be secure however there is a consensus that consumers should not need to share sensitive financial information to send or receive payments. The amount of financial information traveling between end points should be minimized. The most common concept among work groups to address this need was the use of directory services and “aliases” by end users. There must also be a focus on user authentication with minimal and possible international standards. End users also seek
protection in payment systems such as finality of payment and irrevocability, it still to be determined how payments and information moving faster could impact this consumer protection.

Network and Data Security – Accountability for the security of a modernized payments system will be shared by all and it is important the highest level of clarity be provided i.e. terms such as “commercially reasonable” create ambiguity for users. The break out group participants called for a more collaborative space to address security and the use of minimum and possibly international standards.

The Payments Innovation Alliance leadership group will review several next step options for this Alliance initiative.