

# The quest for instant results

**Sarkis Akmakjian, Senior Director, Product Management, at Accuity, explains why banks need to stay on the ball in order to meet the demand for faster payments and not be left behind by agile fintech players.**



Sarkis Akmakjian  
Accuity

The existing infrastructure for cross-border payments did not anticipate the increased need for high-volume low value payments to be settled in a narrow time frame.

Financial institutions designed their cross-border payment operations around the need for clearing high value items. The fees charged for using these real-time gross settlement systems mean payments stop being economically

viable for lower value payments if we consider that the fee becomes a significant percentage of the value of the payment itself.

In order to move values around that are of low value, banks leverage local clearing systems where they can. These take their time to settle and money does not appear for days, or potentially for weeks. That is the challenge for the industry if it wants those payments to be settled in a very narrow time frame.

We talk a lot about real-time systems, but in fact there are stages to this goal. In many markets, it takes days or weeks for these payments to clear. In others, payments clear in one day or same day as is the future goal in the U.S. After this, the next stage is having payments clear faster than same day, payments that settle intraday, as with Faster Payments in the UK. The next step after this is to have payments settle even quicker, nearing real time. In some cases where markets do not have to address legacy infrastructure, there is the advantage of leapfrogging into achieving faster payments more quickly, something we can expect to see in markets in Africa and Asia.

With over 20 markets right now that have established faster payments systems, there is still a long way to go to have faster payments globally in 220 countries worldwide. In many cases, the framework exists for faster payments to move internationally through legacy channels. There are of course challenges concerning the interoperability of these systems: they do not communicate to one another seamlessly. There can be a technological solution around the corner to address that challenge.

## Regulatory concerns

The other challenge for lower value cross-border payments is the cost of monitoring these payments in the context of KYC and AML.

If we consider all the different processes in place to facilitate KYC and AML checks for payments, they are really suited for high-value payment systems. The expense of that is justifiable considering the

value of these payments, but when we are talking about micro payments, we do not yet have systems that have scaled to be able to handle that volume of payments in terms of doing KYC and AML checks. Checking a \$1 million wire is one thing, but how do we check a \$10 and, at the same time, remain cost effective? Can the answer be in advancements in technology?

Another gap that has been in the industry for some time is the visibility of the payment transaction itself. There are credit advice messages such as the SWIFT MT910 which confirms credit at the nostro level. However, it does not go further to indicate that the funds have arrived in the beneficiary account. Lack of visibility accounts for 12% of cross-border payment failures according to some sources.

There has also been movement with fintech players attempting to leverage newer technologies in the payments space. While technologies like blockchain have yet to be proven for this, there is still great momentum in innovation. Companies like Ripple are pushing the boundaries to the way payments will be made.

## Technological transformation

Whether the technology that fundamentally changes the way payments are made is blockchain or not, it is very likely that the way payments are being made will be transformed in less than 10 years' time. This transformation will be influenced by strides in technology advancements along with market demands for all payment types to be cleared and settled in near real-time, with tracking capabilities.

The next generation of payments will have immense benefits for consumers and even more dramatically, for corporations, considering the potential benefits for treasury in terms of managing liquidity.

What we see now in the payment industry is fair game in terms of change. Technology is making newer players look at the whole existing payment process with a fresh perspective: it is possible to go ahead and make a better network, it is possible to review how they view process and settlement without considering the current process sacred.

Certainly the fintech sector is pushing the innovation, but many banks are looking for collaboration, recognising that it is very important to have a technological arm that innovates. I think we will see closer partnerships between fintechs and banks. That is going to have to happen if banks want to stay alive in the payments space.

For further information: [www.accuity.com](http://www.accuity.com)