

Payment Counsel

PSD2 and Instant Payments: Catapulting B2B Payments into Real-Time



About Nadja van der Veer: Nadja van der Veer is a payments lawyer with over 10 years of experience in the international Payments industry and a legal expert in rules and regulations involving PSD, AML and CDD and Card Schemes. Having worked for a PSP and an acquirer, she has a broad perspective on all legal and business aspects of (Card and Alternative) Payment processing in the global ecommerce industry.

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The last few years have been transformative for the payments industry. While financial services businesses are no strangers to regulation, the increasing complexity of legislative change and the accelerating pace of technology development are bringing about a new era in the ecosystem's evolution – albeit one which is currently difficult to fully envision.

One thing is certain though – the next logical step in the advancement of the payments landscape is to look for further ways to speed up the movement of money between parties in the chain while decreasing costs, by taking advantage of the incoming infrastructure and market opportunities.

The open payments culture

With just a few months to go before the final PSD2 (RTS) deadline hits, not even the legislators really know what shape the payments world will take following the full implementation of the Directive. While many payments businesses remain focused on compliance, the infrastructure and solutions being put into place to address PSD2 also present a variety of new opportunities.

A key aim of the Directive was to open up competition in the payments industry and encourage greater innovation, mostly through the key tenet of 'Access to Accounts' or XS2A. While much of the focus was aimed at improving choice for consumers, it is safe to say that the effects will be felt much more broadly. The APIs, which are core to PSD2 compliance, can be (and should be) a chance to find that innovative edge – a means to build the next generation of payments services for all customer types.

For existing payments businesses and aspiring market entrants, PSD2 presents an opportunity to expand their access to data to create a more compelling customer proposition. Of course, the more customer data you have, the more you can offer a closely tailored functionality, which translates to better customer acquisition and retention rates. In the B2B payments world, many traditional offline or manual payments processes are still being used, causing delays to trade, high resource costs, and a greater degree of risk.

The introduction of more high-performing, open APIs, supported by an enhanced range of payments services, could help to offer businesses real-time visibility of funds and financial performance, plus the ability to produce up to minute analysis and reports. This could be invaluable to many businesses, helping to power better informed choices and strategic decisions.

Instant payments: the popular all-rounder

Instant payments have been growing in popularity over the last few years. Although originally driven by consumers and regulators, both payments companies (including banks) and their business customers also now recognise the benefits that instant payments can deliver.

Two key issues trouble businesses when it comes to sending and receiving payments: the speed and the reliability of their transactions. Fintech players have made their mark in the B2B payments space by offering a way to connect buyers and sellers, offering them a secure and guaranteed way of getting paid and receiving goods. →

In these cases, fintechs have acted as intermediaries, moving traditionally offline transactions to online. While some of these offerings may retain, or even grow in popularity where payments infrastructure is lacking, instant payments now offer businesses a much more assured and direct means of sending and receiving money.

Undoubtedly, instant payments will positively impact the way businesses operate – and the possibilities are extensive. I recall having seen a video from Alipay on what the future may hold during a conference several years ago. It showed how a business could sign a contract and receive big sum payments while being on a video conference call with their customer. Back then, it all looked very futuristic, but with instant payments gaining rapid ground, we are just several steps closer to this sort of scenario becoming a reality. Faster cash access will effectively improve working capital and will also impact the way companies manage their cash flow, financials, budgets and suppliers. Credit risk in the supply chain will also be greatly reduced.

A catalytic combination

There is one key thing that PSD2 and instant payments have in common, and it can amplify when used in combination: immediacy. The ability to view, monitor, access, and transact across a business' full range of accounts in real-time has a value that should not be underestimated.

Full-service APIs and platforms are now starting to emerge (although somewhat independently of the PSD2 requirements) so as to deliver immediacy not only across the board and around the original payment, but also with instant reconciliation and refunds.

This can help to deliver better cash flow and to achieve the potential for a real-time end-to-end payments journey – something that has not been possible before.

Ultimately, the combination of PSD2 and instant payments will drive the opportunity for payments companies (both new and incumbent) to extend their value proposition and create new business models centered on real-time controls. Payments businesses who choose to take advantage of the open API and instant payments infrastructure will be those who lead the drive to make immediacy the 'new norm' for both consumer and business payments.

The question will be who fronts that race and how. The move to real-time payments is extremely complex, whereas many banking operations and technologies lack agility and are far from ready. This in itself presents an opportunity for fintechs and other instant payment-ready players to offer their solutions as a service to others - an already emerging trend. Of course, the regulatory impact on the faster movement of money and information is still to be seen and those businesses investing in real-time monitoring and alerts will potentially place themselves ahead of the game. The regulators will catch up with these parties eventually as well. Ultimately, there is still a long road ahead – but real-time payments for businesses is now definitely on the horizon.

About Payment Counsel: Payment Counsel provides a breadth of services to companies spanning the payments value chain, including: drafting industry standard merchant agreements, analysing risk and global compliance with payment laws and regulations, negotiating payment partnership and vendor relationships, and reviewing and negotiating agreements. PaymentCounsel will help impact your speed and competitiveness, accelerate revenue, and manage your global risk, while providing a cost-effective solution.

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