PAYMENT HUBS – TRANSCEndING MANY BORDERS

By V. RamKumar,
IBS Research Thought Leader
Payment hubs – transcending many borders

The concept of a payment hub is a key shift in the industry, enabling a centralised, standardised and coordinated payment model for person-to-person, business-to-business, micro, commercial and treasury payments.

V. Ramkumar
Senior Partner, Cedar Management Consulting International LLC

Perhaps the single biggest shift in the past decade is in moving payments services from being a utility-oriented cost centre to that of a state-of-the-art centre for innovation, and a profit centre for banks and financial institutions. Considering that any bank has a myriad of payments to make, across individual and institutional transactions – the emergence of payment hubs, or payment “factories” as they are now increasingly called, is but inevitable and a natural progression that’s come of its age. And the reasons for those are not hard to decipher:

- A global marketplace results in a more accurate demand for consistent services across geographies and customers with an international orientation seek homogenous payment services independent of geographies.

- There is an exponential growth in payment technology and its applications – mobile, contactless, NFC, e-wallets, blockchain and also a higher degree of regulatory requirements such as SEPA, necessitating standardisation of services across banks.

- Competition brings out the best in the best. Innovative products and intuitive service offerings in the payments domain have an instant customer appeal, and being the early bird, does help.

The historical framework of payment applications required having one’s respective mechanisms of settlements, reconciliations, exception handling and supporting services of risk and compliance validation, anti-fraud screening and wherever required, dispute resolution. The costs of all of these on an individual basis would not only be prohibitively high but also render the scope of services to be fairly limited as it was not an easy to have all of these services embedded across all service areas. When the investments are concentrated into a single payment hub, the limited resources at a bank’s disposal get better deployed and drives a higher return on the infrastructure investment.

What is important to note here, is that a payment hub is not necessarily always centralised, or is a single piece of infrastructure. The concept has evolved over the years, and without necessarily calling it a payment ‘hub’, many parts of the model have been adopted and put in use by banks across the globe in different variations.

The blocks of payments integration, as we see them today, have grown through the value chain of front, mid and back-office functions, the sequence representing customer interactions, risk management and payments processing activities respectively.

1. Front office/customer interaction & data services: Having a broader and deeper perspective of all the customer payments requires the integration of multiple data feeds coming in from the client, fed appropriately into respective systems using a straight-through-processing (STP) framework. This is the first, and most critical part of the payment infrastructure, as it not only helps reduce the cost structure through the elimination of manual intervention, but also facilitates the avoidance of duplication and the related costs. It also significantly reduces error rates.
2. Mid office / compliance and risk governance: As STP became commonplace in the banking industry, increasing volumes of real-time payments also evolved, making it very critical to have a centralized governance framework to validate data, run necessary UAE Islamic banks renewing their focus analytics – specifically related to compliance and AML / Fraud, and provide a confirmation of adherence to regulatory norms. This was also necessitated by respective geographies of the origination and destination of the payments being processed.

3. Back office / central processing hubs: Payment hubs have also been coined as Payment factories, primarily for the active back-office functions that it provides now. The ability to service through a centralised and automated payments over an integrated, interfaced infrastructure across both internal and external applications, physical and electronic channels, and also through the financial clearing networks, has allowed banks to set-up a series of flexible offerings to their customers. They drive product innovation. Quite naturally, this helps in building a differentiated fee model, driving revenues and enhancing profitability.

The key to all of this, of course, is a robust system infrastructure, that enables connectivity across both legacy systems and new age applications, based on configured business rules and flexible component-based architecture. The core proposition is to allow a faster service to the customer, even while ensuring it is cost-effective, independent of whether they constitute low-volume / high-value corporate payments, or low-value / high-volume consumer payments.

Emerging trends: 4-I principle

The advent of payment factories across geographies and the appeal that it has with international customers – both commercial and retail alike have driven both mid-size and large banks to pursue this as an area of emerging focus. However, the key differentiator between the successful ones and others is in their ability to address the 4-I’s, which summarises the essence of the emerging trends in payments:

“Provision of real-time views and instant payments is dependent on having accurate information”
A good payment hub platform is less expensive to operate and ready to adapt to new payment types. preferably using a Service Oriented Architecture (SOA). An easy to maintain transaction logic and an open architecture that lends itself to adaptability with changing needs is not only critical for the ease of maintenance, but also to assure the longevity of the payment hub platform itself. Sequencing the modules of implementation, without having to have a big-bang replacement of all applications is a smart strategy, especially when it comes to payment hub technology.

Looking forward

Payments industry revenues are expected to reach $1.4tn in the next four years, with more than 69% of that driven by emerging markets. Interestingly, the wholesale payments contribute to 25% of the payment industry revenues. More than half of the revenues being driven through transaction services in mature markets, which is also the fastest growing revenue contributor for emerging markets. It would be quite hard for any bank to ignore this portfolio.

Delays are not acceptable

For a customer, who has been dealing with multiple payment file formats, multiple bank utilities to upload and download files and statements, limited visibility to all payments and liquidity status, delays in processing of payments and resultant costs - a consolidated payment hub offering from a bank which offers STP and enterprise level control, can be more than just a fresh breath of air!

Banking can easily be dumbed-down into just a commodities game and price-wars if it was not for the excitement of innovation and service differentiation. Concepts such as payment hubs are classic examples where the best have differentiated themselves from the rest. A final word before we conclude: payment hub is more of a concept, a framework and an operating model, and not just a technology platform. Retaining that perspective is important. The perennial mantras for any concept to thrive are simply two: Fit-to-requirement, and time-to-market!