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# Faster Payments one year on

At the end of this month it will be one year since UK Faster Payments went live, but what has the project really achieved? James Ling reports.

After an initial delay of six months, the UK Faster Payments service launched on 27th May last year. The first year has been filled with challenges, but with all the clearing banks now live on the system it is starting to show signs of living up to its potential.

The origins of the scheme were as a UK government initiative to get rid of 'float', the three day period where a payment sits neither within the payer's or payee's account. The initial scope for the requirements of the service was to reduce the clearing time for internet and telephone-initiated payments. According to Robert Tripp, managing director of RT IT Consulting and co-founder of the fastpayments.co.uk website, 'the banks didn't have to put in a complicated payments system to solve this problem, they could have changed their internal accounting rules and done various things about it'. He describes the near real-time 24x7 payments system as 'an over-engineered solution to the float problem', but can see there was a bigger idea behind it than just eliminating float. 'They thought it would be a good thing to do because it would make the economy competitive, be more in tune with the modern world, and also it might give them a payments system to compete for payments work in Europe and beyond.'

The project was originally scheduled to go live in November 2007 but, following a review from Logica in Q3 2007, a delay was recommended. According to Sean Devaney, director, central payments programmes for Logica, the reason that this delay was recommended was 'to protect the customers and to ensure that what was done actually gave the desired results. With payments, it's critical that what goes across the service goes across successfully.'

Even with this six month delay, it was still a rapid project. 'From devising the concept to delivering the service has been done in record time by the industry,' says Vocalink chief commercial officer, Martin Wilson. 'This is a mobilisation of a dozen banks, a dozen back offices, a dozen IT teams, central co-ordination through Apacs and the development of a brand new infrastructure, and we are live and running. The take-up is very healthy indeed.'

That is not saying it was not a difficult project. Mike Banyard, senior payment industry commercialisation manager at HSBC, equates it as a 130 man-year project. 'The speeding up of the actual transactions to make them flow real-time 24x7, the actual messaging, was relatively simple, other than installing a vendor-supplied gateway and integrating that into our back office,'

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he explains. 'The bigger challenges were around the processes that happened before and after the transaction, such as credit decisioning and fraud analysis. A lot of the effort went in to redesigning processes, that had been working for 20 or 30 years, to fit a real-time environment.'

The member banks actually started using the system a few weeks before it officially went live, explains Banyard. 'We had a couple of hundred live customer payments for a penny between the banks just to make sure everything was working.'

Following the launch, at HSBC the migration onto the system was fairly simple. It operated for six days processing payments up to £20 through Faster Payments (that accounts for 20 per cent of bill payments). It then upped the limit to £100 for 48 hours, (covering 50 per cent of all bill payments), before going to £10,000. 'That was just to make sure we could balance the load across the various nodes we were using,' explains Banyard. However, this was not the case at all of the member banks. 'Our approach was mirrored by a couple of other banks, but some banks are still going through that ramp-up by value,' he says. 'The disappointment has been, what was envisaged as a ramp-up over a couple of months is going to be twelve months plus by the time all of the founder members are up to speed.'

Devaney describes this slow roll-out as a 'cautious and prudent approach' and defends the way some of the banks have gone about it. 'Member banks have an obligation to continue to provide a level of service that their customers would expect.' Andy Roe, general manager of payment transaction software at Fidelity National Information Services, disagrees. 'You can understand them being cautious to begin with, but when it's worked and has done stunningly well, with some of the banks putting large volumes through, it's a bit of a surprise the others haven't followed suit.'

The 13 clearing banks that subscribed to Faster Payments as member banks represent 95 per cent of the payments in the UK. However, it's not quite that straightforward to get all payments to go through the system, explains Tripp. If you take a bank like Barclays or HSBC, quite a few of the payments that go to them then go on to an agency bank. Agency banks effectively outsource their payment processing to one of the main clearing banks. 'A lot of these smaller banks can't handle Faster Payments, so they've effectively had their sort code and account numbers switched off at the clearing banks,' says Tripp. 'The government's ambition of getting 95 per cent plus of all payments running over Faster Payments is not getting hit because a large number of these agency banks aren't enabled.'

This lack of ubiquity is widely recognised as one of the issues that Faster Payments has had to overcome in its first year of operation. Because the banks have been at different stages, there has been confusion for consumers over which payments will go faster and which will not. 'What you've got is a mishmash of some payments going faster and some not,' says Tripp. 'From anecdotal evidence, this is causing quite a few small companies and individuals frustration because they don't know when money is going to get debited and when it's going to get sent.'


Robert Tripp, RT IT Consulting

Wilson agrees, believing the next challenge from an industry level is to make sure payments can be transferred from all accounts to all destinations. 'Over the next twelve months I would expect to see the industry addressing that. For as long as it's not ubiquitous, it remains a challenge to get that mass take-up.'

This situation has created a stage where customers don't know when their payments will be credited. 'If everybody was on the old scheme then they knew it's going to take three days. If everybody was on the new scheme they know they would get debited today and the money would get received today,' says Tripp. 'What we've got is a halfway house where if the payment is going to a Faster Payments partner it will get debited today and received today.'

However, there is light at the end of the tunnel. Earlier this year Abbey became the last of the member banks to go live on the system, and in the last few months phase two of the project, which enables direct corporate access and correspondent banks to come onto the system, has launched without a hitch.

Indeed, one consistent factor for the project has been that the technology backbone has been very good. For Roe, while Faster Payments may not have been a stellar performer from the business perspective, he describes the technical side as having 'performed stirlingly'.

The figures that have come out of the project are impressive. 'Within the very first few days we were exceeding volume projections,' says Wilson. 'Within the first three months we'd made ten million payments, and on 2nd March we made five million payments on one day.' Up to the end of February, 125 million payments had been made using Faster Payments, and Wilson believes the growth will continue strongly.

Banyard feels the project overall has been a success. 'All things considered I think it's been pretty good. To bring all those banks together, and really within three years of project initiation to be handling hundreds of thousands of transactions a day, is incredible really.'

For Tripp too, the positive side of Faster Payments has certainly been the technology. 'Faster Payments has fundamentally been a technological success. It's up, it's running industrial scale volumes, it's proven technology, and the switch in the middle is proven.'

The potential fraud that Faster Payments could expose banks to has been of great importance in this project. 'Whilst the service itself has not introduced any new avenues for fraud, what it has perhaps done is make existing frauds more attractive,' says Devaney. 'Because your ability to move funds on is increased compared to a three day service, the perception is there is not time to check the payments that have gone through, nor for customers to notice the money has left their account.'

The fraud precautions that the banks have taken were proven to be necessary. Banyard reports that, 'in the early days after we went live we did see a sharp increase in the number of attempts'. However, the value of these attempts was low and the strategy to tackle them appears to have been successful.

HSBC met the fraud challenge by adapting its existing system. However, this was not the case for all banks. Co-operative Financial Services, for example, invested in a new system from Norkom to help it with real-time fraud management (IBS, April 2009). This has been credited with creating some of the delays. According to Tripp, 'with a couple of banks it has slowed down their implementation over the last year. Lloyds and RBS both had issues around that area.'

For Roe, the issue of fraud should not have been as large as it would appear to have been. 'The risk of fraud using this system is not something I think they should have been overly concerned about. The understanding of where the end points are should be such that there shouldn't be that issue about fraud.'

How Faster Payments kicks on from here will be critical. The next challenge is to get the agency banks live on the system to create ubiquity, and encourage corporates to use the system directly.

It is this corporate access that Steven Ratcliffe, senior solutions manager at The Logic Group, feels is of particular importance. 'I think the really interesting thing will be when they start giving direct corporate access that's not through the banking platform. Once they open that up, they get into the dynamics of whether it's going to move what are currently Chaps payments onto the Faster Payments system.' And according to Wilson, corporates are starting to take note. 'There's an awful lot of interest from corporates to leverage the power of Faster Payments. They see the benefits that enable them to manage their liquidity and supply chain much easier. It takes costs out of their processes as well.'


HSBC, UK

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Mike Banyard, HSBC

The kick start that is needed for the agency banks to go live on the system could come from the Payment Services Directive (PSD). 'In the PSD there are a number of obligations on the amount of time it takes to process a payment,' explains Devaney. 'Credit card companies and intermediary banks need to think about whether or not they need to directly connect to the service from a receipt point of view.'

The future for the system also sees things like standing orders and internationally initiated payments coming online. The international payment is something that was due to be live from day one, but Banyard thinks it's a good example of the collaboration between banks that has been fundamental to the success of this project. 'It was something that was in the specifications to go live on day one, but some of the banks hadn't realised until quite late in the project that they hadn't considered the AML and sanction checking requirements for cross-border payments,' he explains. 'We were ready but said we would wait for the other banks to be ready. Similarly, in other areas where we needed support, other banks have bent over backwards to help us.'

According to Banyard, there has been a huge amount of information-sharing between the banks, 'obviously in the non-competitive space, around the ramp-up approach. If a bank is about to switch on a whole raft of activity, every other bank would like to know they are going to do that, so they can make sure there are no issues, and cope with the volumes coming in. That's all been facilitated through Apacs.'

One year on, it would seem to have been a steady start for Faster Payments. The technology is proven, the banks have worked well together, and there is now direct access for corporates and agency banks. Perhaps the biggest feather in the cap though is that other countries are actively looking at the project and trying to bring in similar systems. Wilson reports 'conversations in the northern part of Europe, Central Europe, and much further afield'. Banyard too has had enquiries from within the wider HSBC group. 'We've had enquiries from half a dozen other territories where the bank is based asking about Faster Payments. Places like India are looking to skip a technology generation and move straight to Faster Payments.'

The real challenge is to ensure that the new payments infrastructure that has been built is not wasted. After all the investment and hard work that has gone into making the system a success, banks now need to maximise the value they can get out of the system. Areas such as person-to-person mobile Faster Payments, and retailer direct payments are being explored to get extra value out of the system, but more needs to be done.

Faster Payments has by and large been a good news story. From a technology point of view it is leading the way as the next generation of payments infrastructure. From a business point of view, the report card still reads 'could do better'. But the potential is there and the project is turning heads all across the world. With more developments planned, year two of Faster Payments is sure to be interesting.

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