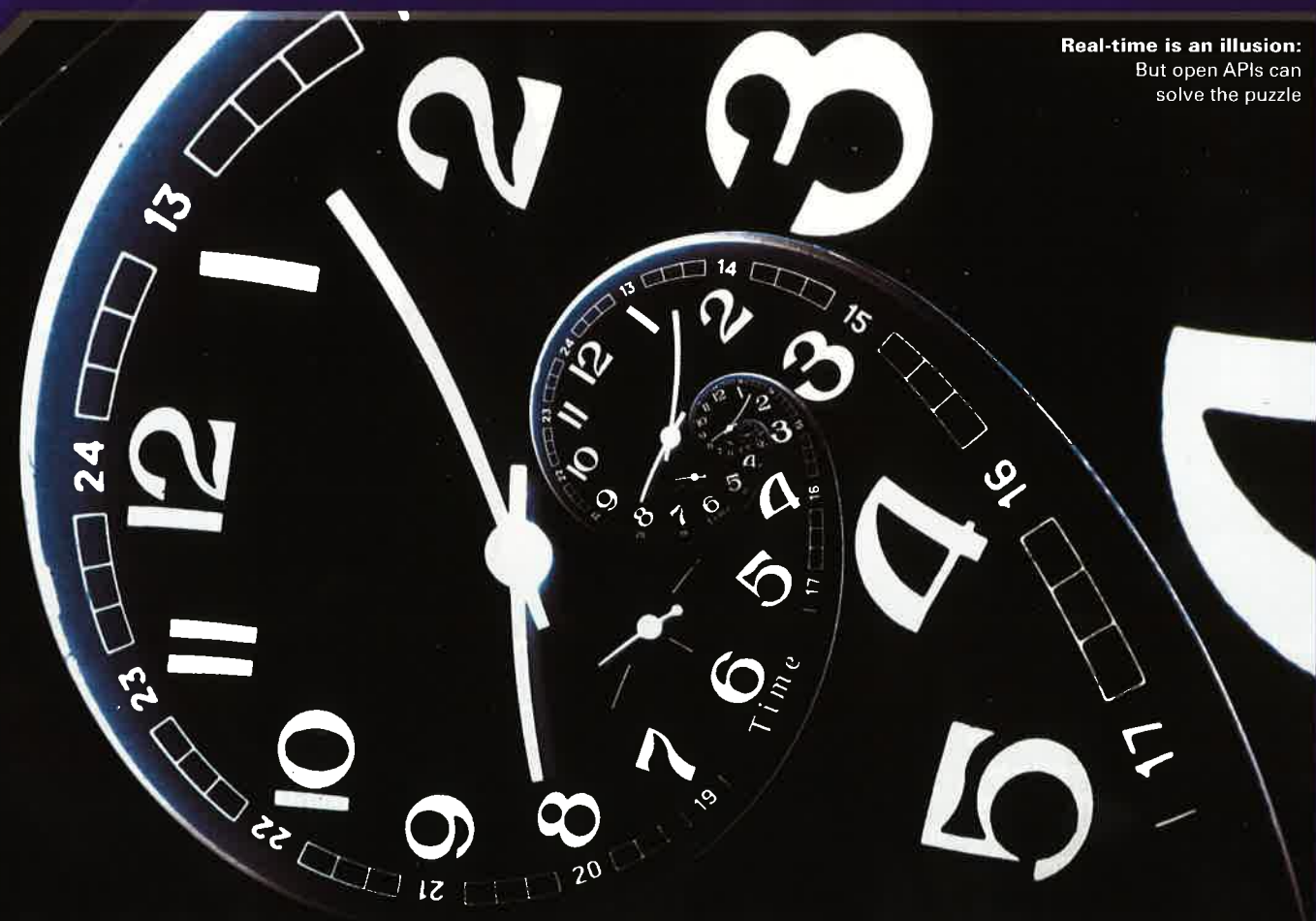


Real-time is an illusion:
But open APIs can
solve the puzzle



LET'S GET REAL

Real-time payments may appear instant to the customer, but in reality they're stuck in a time warp. **Mark Ranta**, Head of Digital Banking Solutions, and **Lu Zurawski**, Solutions Practice Lead in Consumer Payments EMEA at **ACI Worldwide**, are helping bring them up to speed



When you get in from work after another long day of driving technological innovation, developing revolutionary banking solutions and arguing with your colleagues over whose turn it is to get the Starbucks in, there's nothing better than enjoying a little instant relaxation.

You make yourself an instant mug of hot chocolate using the boiling water tap you had installed at great expense last year, sit down on the sofa and instantly purchase and begin watching that box office film you wanted to see on a popular streaming service and the doorbell rings,

alerting you to the delivery takeaway you ordered on your way home that almost beat you to the door. You're living the real-time dream, right?

Wrong. Those 'real-time' payments you just made to Deliveroo and Films4U is anything but instantaneous, despite your phone buzzing to tell you that the money has left your Monzo account.

"From a consumer's perspective, it may appear that we already have instant payments," says Mark Ranta, head of digital banking solutions at ACI Worldwide. "However, the ability to transact at any time of the day doesn't necessarily mean that your money is

moving in real-time. Merchants don't receive any cash from you instantly. Instead, your payment has to first move through various different settlements and agreements, preventing them from collecting your money for a few hours, days, or maybe even weeks."

In a world where you can begin watching a film, connect to a friend on the other side of the planet and download Rick Astley's entire back catalogue in the blink of an eye, it seems ludicrous that payments are still so sluggish in reaching their destinations. It might be OK for us as consumers. Being able to initiate a transaction and immediately see a result

is one thing, but it doesn't really help the merchant who's trying to balance the books at the end of the day. So, why are payments still so lethargic and what's being done to lend them the lightning pace that we expect in the rest of our digital lives?

"We've built up the current ecosystem over the course of hundreds of years, ever since the introduction of cash and coin," says Ranta. "Sure, we may have entered the digital payments era, but we're still operating within heritage infrastructure developed in the 1960s. If we wish to make the leap from generation one technology to a system capable of instant payments, then we need to totally redefine the architectural layer that underpins that ecosystem," he says. "Only then will we be able to remove all of the stops that were necessary in an older, card-based world, and achieve the real-time dream."

OK, so redesigning the central infrastructure of the payments ecosystem is clearly what's needed in order to turn our current illusion of instant payments into a reality. The question remains, however, how does your average financial institution begin this frankly mammoth process without completely derailing its ongoing operations. Thankfully, Lu Zurawski, solutions practice lead in consumer payments EMEA at ACI Worldwide, is confident that one little acronym could hold the key to minimising disruption on the journey to real time.

"Application programming interfaces or APIs have been around for a long time and are basically just a means of allowing different programming components to talk to each other," says Zurawski. "Open APIs are the next step along this digital pathway, although they're more than just an evolution of existing API technology. In reality, what open APIs amount to is a new state of mind," he says. "They allow an organisation to make their services freely available to third parties, be they a payment service provider, retailer or any other business. This notion of open, easily discoverable services is a world away from the banking tenets of old."

Ranta adds: "Once you accept this new organisational mentality, you can begin to make open APIs work for you as a means of decoupling your old monolithic applications. The easiest way to think about them is as individual building blocks, much like Lego. You take your aged heritage architecture,

and then pick out discrete services from within it, turning each of them into a brick. Then, you piece together these bricks in new and interesting ways to achieve the capability you desire, be it real-time payments or something else," he says. "Open APIs give banks the chance to slowly migrate their services, avoiding any potential disruption that a rip-and-replace approach may cause."

Compliance v strategy

In spite of the obvious benefits of embracing open APIs with open arms, many banks have waited for regulatory change to force their hand. In the case of Europe, the revised Payment Services Directive (PSD2) is the latest regulation to have given financial institutions a push towards open innovation, although Zurawski believes that banks are placing themselves at a distinct disadvantage by cutting things so fine.

"One of the biggest problems I'm seeing today is this belief that open banking is some sort of a compliance project," he says. "The goal of many financial institutions is to simply meet the minimum requirements in order to comply with new regulation – to tick all the boxes, as it were. This mentality is problematic, as it severely restricts their thinking. At no point are they considering how open banking can, and will, create new value propositions and flows of revenue."

In the US, the attitude is slightly different. "Sixty-four per cent of the US market believes that there is value to be added for their customers

by implementing real-time payments, and open APIs are the best way of doing this," says Ranta.

"You can see the advantages of a pragmatic approach towards open banking in firms like BBVA and Crédit Agricole. These were the early adopters that set their sights on developing API-driven ecosystems years before regulation shifted the landscape. Now, they're reaping the benefits of their proactivity since they can pick and choose which fintechs they work with. As a result, they're seeing very high customer loyalty and satisfaction scores because they can provide all the services that their customer base is demanding of them. They aren't limiting innovation to within," he says, "but are reaching out to a whole host of partners

to gain information and enhanced value from outside their own walls. Over time, we're going to witness a big divide open up between the compliance followers and the strategic thinkers."

When it comes to payments, one particular phrase that often goes hand in hand with real time is frictionless. Just as we're beginning to expect our transactions to occur instantaneously, we're also expecting them to be so inconspicuous that we don't even notice them until we check our bank balances. It's another capability that open APIs can help financial service providers to achieve, although Ranta and Zurawski believe that it should be treated with a certain level of caution.

"The watch phrase here is appropriate friction," says Zurawski. "I don't think we should be using the term frictionless, as a degree of friction is necessary to ensure customer safety and peace of mind."

"At the end of the day, friction is important in payments as they involve something highly personal – your money," says Ranta. "It's nice to know that your hard-earned cash isn't going to just fly out of the window. On the other hand, using an API to incorporate just one additional security step is still going to make a

transaction seem extraordinarily fluid from a consumer's perspective."

He points out that biometric facial recognition or a thumb print adds mere microseconds to the process, whereas historic verification methods would have added up to 10 minutes.

"It's important to remember that, at its core, open banking is about allowing payments to be integrated seamlessly within commerce," says Zurawski. "Until now, in order to make a payment, you've had to finish your shopping and manually move to the payment page. That's forced shopping and payment to remain as two separate experiences. Open APIs make it possible to merge these into one, allowing customers to focus purely on the shopping experience. This is one of the most fundamental changes that will be brought about by open APIs and open banking and if turning payments (even those with two-factor identification) into something that magically happens in the blink of an eye isn't frictionless, I'm not sure what is."

“Open APIs are more than an evolution... they are a new state of mind”