EXECUTIVE BRIEFING

Payment Hubs and Associated Implementation Challenges

Stop wasting money

Financial institutions, often find themselves supporting multiple point solutions performing similar if not actually identical, functions across lines of business. One asset manager admitted at a conference that it had 13 different SWIFT gateways, for example. The payments area in banking often has separate processes for different payment channels, such as Fedwire, SWIFT, CHIPS or a low-value clearing network. This sort of duplication contributes to the banking industry's high level of spending just for IT maintenance — often estimated at 70 to 80 percent of IT budgets.

Even in a fairly static financial world that duplication wastes money. In a time of changing business practices, such as moving to real-time, and frequent regulatory changes such as SEPA or AML, implementing and maintaining those changes across multiple payment engines is not only inefficient and expensive, it has a high opportunity cost.

To improve operations banks are looking to centralize payment operations in payment hubs where it can provide specialized internal services such as exception handling and data completion. Through a centralized payment hub, banks can also achieve a better view of its customers and offer improved fraud screening and liquidity management.

Automate!

Payment hubs have been conceptualized and designed to replace silos that handle single types of payments. Hubs can take high value, low volume corporate payments and low value high volume consumer payments, card payments, wires, SWIFT and mobile and send payments out across multiple networks, following rules to choose the best route in terms of destination and cost.

They are flexible, so payment hubs can add new payment types as needed, or start with high value payments and expand to high volume payments in the future. Hubs provide a way to share services, such as AML, across multiple lines of business and to apply analytics to payment flows with the potential to develop new products and services. Hubs let banks develop new automated services, such as receipts, notifications and alerts and offer them to any channel, free of charge or for a fee.

Built on modern software, payment hubs provide agility. Because they don't require constant customization and maintenance, they are less expensive to operate and can readily adapt to new payment types and add new payment connectivity.

This could be especially important in the U.S. as the country moves toward real-time payments. Unlike other countries where the regulator or the central bank has mandated real-time payments, the Federal Reserve has chosen to act as a catalyst, encouraging banks and payment software providers to develop a faster payment system that is secure and ubiquitous — not necessarily quickly implemented or uniform in design. The Fed announced in March that it has

engaged McKinsey to help it "assess faster payment solutions from various providers across the U.S. Payments industry."

These could be phased in over time, they might eventually achieve the sort of integration that debit card rails have, but the process is likely to place some strain on the payments systems and reward banks and corporates that have an agile payments hub.

A different way of thinking

Hubs are a different way of thinking about payments. Instead of point solutions or line of business functions, payment hubs extend a fundamental function of banking across the institution. James Webster at IDC goes so far as to say "a next-generation payment services hub is defined as much by the philosophy behind the hub as the components that make up the hub."

Built on service-oriented architecture (SOA), hubs bring together different payment types into one location where the payment flows can be analyzed by customer, hubs provide the opportunity to develop a broader view of customers and then provide new services such as liquidity management, supply chain finance and trade finance.

A McKinsey paper on payment hubs warns that developing a hub is a long and complex IT journey.

Not necessarily. Volante's VolPay Hub has most of the necessary functionality available out of the box — such as a broad range of integration plugins and transformations necessary for interfaces to and from common payment sources. Integration is without doubt the most challenging part of any payment hub project and with the VolPay Hub, this is already taken care of. This means that setup is hugely simplified by making it a configuration exercise rather than a long-term coding project. With Volante's VolPay hub payment transformation projects that normally take years are completed in months and for simpler projects those that take months are completed in weeks.

Follow the business, not IT

And unlike in-house build projects which risk IT capture, Volante's VolPay Hub is led by the business process and not by technology. By virtue of VolPay's ready built modular design it's all about defining business rules and deploying the appropriate and ready-built integration plugins and transformations. This means a bank can start with its most important challenge, such as high-value payments, and then extend the Hub to SME and eventually consumer transactions in a business led development environment.

Payments will only grow more complex as the use of mobile grows, both in consumer and business finance. P2P payments like Venmo can carry some information about the payment, such as "rent" or "Booze, friends" or "Vegas debauchery". Real-time payment networks built on ISO 20022, like Singapore's, can carry data about the payment, making invoices electronic. A

delivery van can stop at a small shop, deliver the day's goods, accept payment by mobile and drive to the next stop — all digital.

Banks with flexible payment hubs will have an advantage over financial institutions that can't provide the services flexibility offers, from improved customer service to better views of payments and improved analytics. They also prepare a bank for improved risk management, both for itself and for corporate customers through the analytics it can run against their payments sent and received, and it offers the potential to add fee generating cash management services.

As banks help customers move toward global standards including ISO 20022, they can streamline international payments and make global operations simpler to monitor and less costly.

A modern payment hub reduces the work for corporate customers. They can send a variety of payment instructions to travel over multiple services and know the bank will send out international payment instruction over SWIFT and place domestic payments through an ACH, where that is the lowest cost route.

Finally, payment hubs with an SOA architecture move banks into modern system architecture so they are better positioned for new business demands.

We hear you …