

Are you Request to Pay ready?

Why Banks should prepare now



THE PAYMENTS BANK
FOR THE NEW ECONOMY

INTRODUCTION

Alongside contactless transactions and Buy Now Pay Later (BNPL), Request to Pay is emerging as a cornerstone of payments in the digital era. Created as a flexible way for bills to be settled between people, organisations and businesses, Request to Pay is a messaging service designed to complement existing payments infrastructure. It gives invoicing companies the ability to request payment for a bill rather than sending an invoice, and allows customers to pay in full or in part, communicate with the biller, or decline to pay. Sitting alongside Direct Debit and other payment methods, Request to Pay gives consumers and businesses additional choice and flexibility when managing their finances.

Though it's still early days, staggering growth numbers we've seen in recent years from Request to Pay specialist providers such as Tink, Trustly and Zimpler suggest enormous appetite for such services – and both governments and Banks are responding.

In the UK, FinTech Ordo has recently set up a Request to Pay service for invoicing,

personal payments and more, while NatWest launched its PayMe feature to enable peer-to-peer Request to Pay in late 2021. Sweden's SWISH payments app and the Dutch pan-industry app Tikkie both now offer Request to Pay services, and the UK, EU, Australia and Nordic markets have all established Request to Pay frameworks based on a platform approach.

Despite this popularity, recent research published in *Financial IT*¹ states that fewer than one in five European Banks currently offer Request to Pay solutions – though this is set to rise to around one in two by the end of 2023. In this paper, we explain why offering Request to Pay significantly expands Banks' customer service offerings and what you need to do to prepare.

Request to Pay – meeting demand

Request to Pay offers customers more flexibility, choice and control across a wide range of use cases, while reducing costs for Banks and merchants. According to the same *Financial IT* survey, 73% of corporates said reduced reconciliation costs were the main benefit, followed by better visibility of cashflow (63%). 71% of companies surveyed also said Request to Pay would reduce their dependency on payment cards and encourage customers to use cheaper Account-to-Account (A2A) alternatives to cards. For retail Bank customers (consumers), 87% said they would use Request to Pay as an alternative to Direct Debit given the better control of cash flow, greater visibility of money leaving accounts, and more flexibility of payment date. The ability to part-pay a bill was also cited as an advantage.

What are the key advantages?

Request to Pay offers a number of advantages for both Banks, merchants and their customers. For all parties, security is a big

plus: consumer authorisation happens within a Bank's app or website, meaning that Request to Pay transactions are protected by Bank-level security. This can include two-factor authentication and, where appropriate (over £100/€50), the Strong Customer Authentication protocols mandated by the EU's second Payment Services Directive (PSD2).

From a merchant point of view, Request to Pay payments don't happen over card rails and thus do not incur interchange fees, something that will be popular with companies currently dependent on card transactions. Finally, some consumers may appreciate the potential for instant settlement of transactions, depending on the method adopted by a Bank. In particular, Request to Pay is proving popular with micro-merchants and 'gig economy' workers looking to speed up cashflow – and with the 18-34 age group that uses instant payments for sports fees, concert tickets and similar cases.

From idea to implementation

Despite these positives, there's a way to go before Request to Pay becomes



reality. One step which will enhance its attractiveness is to resolve the current legislative requirement for full customer authentication for each payment request, under the provisions of Europe's PSD2. However, there are solutions at hand – such as the recent increase from €30 to €50 (£100 in the UK) in the minimum transaction value requiring authentication, as well as automated customer authentication systems that can satisfy this requirement. Longer term, it's unlikely that authentication is going to prove a blocker to Request to Pay's widespread adoption.

“Request to Pay is emerging alongside contactless and Buy Now Pay Later as a cornerstone of payments in the digital era.”



Once a Bank has decided to offer a Request to Pay solution, the next step is to select a means of integrating Request to Pay and a deployment method. The second part is relatively straightforward, with most Banks to date choosing to offer Request to Pay services as part of their internet banking and mobile app services. Before that, however, comes the matter of integration with your existing systems.

There are two main routes to achieve this. The first is via a single integration with a third-party provider,

such as Trustly or Tink. These third-party solutions work by integrating with a Bank's API architecture. The customer provides the third-party with their username and password, and the third-party accesses the consumer's Bank account to retrieve the funds. Essentially, the third-party receives permission from the end user to operate their account on a transaction-by-transaction basis, with exchange of funds occurring through automated clearing houses, such as Faster Payments or Bacs. Security is assured by the fact

that the consumer has to input their Bank username and password for every transaction.

The other method, used by countries such as Australia, the UK and Denmark, and in development in the United States, is the creation of a single 'one to many' platform for Banks and merchants that enables Banks to access a suite of standardised and robust Request to Pay services. Mastercard is working with players from Sweden, Denmark and Finland on a peer-to-peer payments network to cover all those living in these countries with a Request to Pay option. At present, Denmark's Mobilepay offers in-built Request to Pay technologies, plus OmniBilling, an e-invoicing platform that enables Banks, businesses and governments to establish an ecosystem for digital billing optimisation through Request to Pay. The platform empowers users by providing a central overview of transactions and real-time insight into flows of funds.

This 'one to many' platform is probably the best approach in the longer term, given the work that needs to be done to ensure that all Banks and their customers can engage

with each other. For instance, Britain's Pay.UK is working to define the parameters of an instant payments system that allows all players to connect in the same way to the same model. Looking a little further ahead, that kind of connectivity would make it easier to enable cross-border Request to Pay activity, as opposed to untangling a web of one-to-one integrations between Banks and third-parties. Securing Request to Pay via tokenization is another approach that could enable Request to Pay to go international and enable (for example) a Danish business to use Request to Pay when transacting with a British consumer.

Capitalising on the Request to Pay promise

While Request to Pay is rising fast in popularity, especially among consumers in the 18-34 age group, there's no doubt that consumers will need to see the benefits before more widespread adoption can happen. A major selling point is that Request to Pay promises to take away much of the friction currently present in bill payments. It also offers a new level of

flexibility, giving consumers the capacity to part-pay or pay in instalments. Its power can be increased further when combined with recurring payments (e.g. monthly insurance payments) or with BNPL, where Request to Pay can be used by consumers to modify repayment plans to fit their needs.

In terms of a Bank's strategy, Request to Pay fits with the industry-wide shift to digital services. In particular, integrating Request to Pay can form

part of efforts to modernise payment platforms and enable open, flexible API structures, especially if a Bank has accrued a wide range of payment platforms and products over the years. In the long run, it's likely that national and international 'one to many' Request to Pay platforms, such as those operated in the Nordics, Australia and the UK, are going to prove cheaper and more efficient than integrating a third-party service. Whichever integration method is

chosen, Banks looking to set up a Request to Pay product with instant settlement should consider switching from manual to automated fraud identification and risk management, including the use of Artificial Intelligence and Machine Learning to help prevent criminal activity in real-time.

Finding the right partner

Banking Circle is currently working with a range of Banks across Europe

on a number of Request to Pay related projects, including payments platform modernisations, developing API architectures, integrating third-party services and more. Organisations including Banks, FinTechs, and Payments businesses who want to play a leading role in tomorrow's payment services ecosystem should start to identify their role in the Request to Pay ecosystem today.



“Request to Pay demonstrates the potential of a flexible payment system based on Open APIs to reduce friction and meet user needs in the digital era.”

¹ See Financial IT, 21 February 2022: How close are we to industry adoption of R2P? <https://financialit.net/blog/pay-payment/request-pay-what-it-and-how-close-industry-adoption>



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