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PAYMENTS

Real-time payments for rent: How an Australian bank fills a niche

By John Adams | September 14, 2023

Australia's real-time payments market has developed much the same as in the U.S., with gradual adoption from early users and banks making tentative first steps.

The Melbourne-based ANZ Bank has developed a new business line that measures real-time payment usage, adjusts processing capacity and leases IT space as needed to other institutions. It's a "real-time as a service" strategy that's also emerging in the U.S. and other markets where banks are trying to figure out strategies for instant settlement on the fly.

"It takes a long time to cycle through to new technology," said Leigh Mahoney, head of wholesale digital at ANZ Bank.

As in the U.S., Australian banks are deciding which uses are best for real-time payments, often settling on recurring payments such as utility bills to protect consumers from overdrafts while waiting for other types of merchants to demand for the more expensive real-time option.

Waiting game

There were about \$640 billion in real-time payments in Australia in 2022, the fourth year of operation for the NPP network, which is overseen by Australian Payments Plus, a coalition of



ANZ Bank is offering its real-time payments technology to other financial institutions.

Brent Lewin/Bloomberg

banks, merchants, payment companies and other agencies.

That volume is growing at about 10% per year and is in line with other real-time schemes in the Asia Pacific region. In the U.S., there were more than \$75 billion in real-time payments in 2022, with 2023 on pace to reach about \$130 billion or more with a similar growth rate of low double digits, according to The Clearing House. The FedNow rail launched in July with about 60 participants, though many of those

are bank technology companies that sell to numerous financial institutions.

Early usage in Australia is predominantly from consumers and not businesses, Mahoney said. The delay in business adoption is partly due to coverage. Real-time payments cover about 95% of addressable bank accounts in Australia. That's more than in the U.S., where real-time payments via The Clearing House's RTP Network cover about 75% of deposits and the FedNow rail has been live for only about three months.

The lack of total coverage leaves out some consumers and businesses, creating a gap that has slowed adoption, particularly among businesses that require universal availability for all payments, Mahoney said.

“The legacy payment system, or our version of ACH, reaches more account numbers than the real-time network,” Mahoney said. “So the question for businesses is do you use the old system that covers 100% of accounts or the new system that doesn’t reach all accounts?”

When ANZ, one of Australia’s big four banks, first began work on its instant payments infrastructure about seven years ago in anticipation of NPP, it connected its technology and processes to Australia’s real-time payments network, building an in-house system for its own customers.

Working with Verizon, ANZ more recently created an agency to sell its infrastructure, processes and systems to its financial institution customers. The bank adjusts its applications to expand and contract as demand changes, and reserves capacity for its own processing while ensuring capability for its agency clients. It has also built internal tools to observe volume and compliance with its service level agreements.

“This enables other banks to use our services to offer real-time payments to their customers,” Mahoney said. “They can deploy their capital differently and invest in their customer

value proposition instead of the back-end systems and use our technology to power their business.”

ANZ said it’s not authorized to name banks that have signed up to use its IT systems to support real-time payments. It identified its customers as a mix of Australian financial institutions and foreign banks that support real-time payments in Australia.

One hundred seven banks support NPP, which is more than the 97 banks headquartered in Australia, according to Statista.

ANZ supports real-time payments in Hong Kong, Singapore, India and Indonesia. It is part of NP IFTI, an Australian Central Bank-supported project that’s designed to enable cross-border real-time payments. That product is expected to launch in 2024.

Real time, on demand

The need for banks to quickly add real-time payments is feeding a market for an on-demand model for low-volume users, according to Jacob Morgan, principal analyst at Forrester Research.

U.K.-based Starling Bank recently developed a payments-as-a-service/embedded payments division that enables access to the U.K.’s faster payments network. This targets neo banks, fintechs and business payment processors that want to build new platforms or products that require instant payment processing.

Singapore-based financial institution DBS has similar real-time payments “as a service” technology. DBS’ users include Grab, the southeast Asian ride sharing app that also offers an expanding range of financial services to its riders and drivers. Grab drivers use DBS’ real-time payments back end system to accept payments from riders and to make purchases such as fuel or mobile top ups.

In the U.S., BNY Mellon is among the banks that act as a third-party service provider for real-time payments, using its private label user interface to enable other banks to customize their real-time payment services along their own brands. Credit unions also share resources to extend real time payments, according to Gregory MacSweeney, a spokesperson for The Clearing House.

“The sharing of technology happens in a number of ways,” MacSweeney said. “The banks and CUs do it, and tech providers, fintechs, user groups, and other platforms do it as well.”

The strategy is a result of banks in markets like the U.S. and Australia playing catch up in adopting real-time payments and having different needs based on volume, Morgan said.

“More and more banks are offering access to payment services, and payment infrastructure via APIs,” Morgan said. “API based payment initiation routes payments directly from account to account, many of which flow over faster payment networks.”