

Payments needs a more collaborative model

Making the currently inefficient payments industry more open and collaborative will ultimately lead to better options for customers, argues Alex Mifsud, co-founder and CEO at Ixaris.



The world of payments is currently a cluttered and uneven playing field, where traditional banks, new regulated non-bank financial institutions and the unregulated fintech developer community, are all battling it out for supremacy.

This scenario is unstable and inefficient. Arguably, there is a need for a more collaborative and open industry that will ultimately deliver better payments options for customers.

Why collaborate?

A collaborative and open model would enable:

- Developers to continue to innovate and build increasingly diverse and intuitive applications that address every payment need imaginable
- Non-bank financial institutions whose success depends solely on innovation to underwrite the financial services required to power the new applications
- Established banks to identify winning applications and provide the distribution networks to grow adoption to large scale

What's holding us back?

Firstly, there is reluctance to collaborate due to a fundamental misalignment on the balance of risk and reward. The regulated entities – the banks and non-banking financial institutions – have legitimate concerns relating to security and compliance. Developers may well create compelling solutions but if there are fraud or compliance breaches, it is highly likely that the regulated bodies would have to pick up the tab.

Moreover, the systems used by the banks are often antiquated and struggling to support even the banks' existing services. Making these systems accessible to third parties, especially unlicensed ones, poses a formidable challenge. To illustrate: despite banks reaching out and trying to support the developer community (opening incubators or accelerators, providing funding etc) most are unable to offer these start-ups access to their own infrastructure.

So, what needs to happen now?

The payments industry has been slow to catch up with other industries that have been re-shaped by digital technology. During the dot-com boom of the 1990s, Internet start-ups had to raise millions of dollars to get even the most basic version of their service live. This was mostly due to the fact that access to software, servers, communications infrastructure and expertise was expensive. Today, 'lean start-ups' develop a service using public APIs and run it on the cloud – using hosting providers such as Amazon Web Services - meaning they need very little capital to start and can use the money raised to rehearse the application until their business model is worth scaling.

The payments industry is now at a similar point to the start-ups during the nineties. For example, UK payment start-up Wigadoo ran out of money having spent most of their funding on building the payments infrastructure, rather than on marketing and testing the product.

As such, there is a need to lower the cost of entry to the payments sector, making it easier for new payment start-ups to get started, test new models and to change approach when their experiments fail. This would not only be transformational for fintech companies and banks, but also the established infrastructure players, such as the card networks.

What does an open model need to provide?

- The ability for third-party payment applications to open accounts, access customer data and make use of banking infrastructure while guaranteeing integrity and privacy
- The means to ensure that applications do not maliciously or inadvertently extend what banks and other regulated FIs are licenced to provide
- An easy way to provide third-party payment applications access to banking infrastructure that does not need huge investment from the banks
- A means by which the parties can collaborate efficiently: developers can publish (suitably safe) payment applications, FIs can provide underwriting services, and banks acquire the applications and make them available to their customer base

To conclude

The benefits of a more collaborative and open payments industry are clear. The technology to enable this solution is now being developed, and is being funded by the EU under the Horizon 2020 programme. It will be interesting to see what 2016 brings and whether the payments industry can truly embrace and benefit from the changes needed.