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An Asian Perspective on ACH Transactions



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Beyond Europe and the US, the international ACH payments market is highly fragmented. Leif Simon examines the different challenges faced by providers in different regions.

While there will always be demand for global payment and settlement services, the nature of the market is constantly evolving, thus shaping the product offerings of transaction banks. Even the automated clearing house (ACH) payment space, which is often considered one of the least complex and commoditized product areas, is changing, thereby leading to greater product differentiation between providers. Indeed, in both Asia and the rest of the world, the ACH payment landscape is undergoing significant change.

Asia and Beyond

In order to put the current developments in Asia into perspective, it is important to consider the stage at which the ACH markets across other regions such as Europe and the US are in. In economic terms, both of these regions are highly developed and have mature and sophisticated payment systems where ACH payments are widely used by both business and individuals. However, the past several years have seen changes in both these markets that have served to undermine traditional business models in this area. For example, the rollout of the Single Euro Payments Area (SEPA) across Europe has driven down pricing on cross-border payments in

Europe as they are essentially now being treated as domestic payments and are priced as such. Another recent development is the "Faster Payments" initiative in the United Kingdom, which will likely reduce the need for corporate clients to go through urgent payment systems and hence will accelerate the urgent-bulk convergence.

Initiatives such as the above mentioned are presenting significant opportunities for corporates to revisit their existing setup with respect to account structure as well as payables and receivables management with the aim of streamlining their internal operations and reducing transaction charges. This will require that corporates take a more strategic view on initiatives like SEPA rather than treating them as mere regulatory requirements that need to be fulfilled.

Compared with Europe and the US, the ACH payment landscape in Asia is much more fragmented. While more developed economies such as Japan, Singapore and Hong Kong have been using ACH payments for some time, it is a relatively new concept across some of the emerging markets. As a result, we see differing levels of maturity with respect to ACH payments across different markets, ranging from the simplest of clearing mechanisms to sophisticated infrastructures such as that run by the Korea Financial Telecommunications and Clearing Institute (KFTC) in South Korea.

Despite the fragmentation of the Asian ACH landscape and the relatively nascent clearing systems in some markets, one common feature is the strong growth in ACH payment volumes across the region. Local regulators are also increasingly seeing the value of electronic payment systems playing a key role in supporting economic growth and are therefore focusing on enhancing the efficiency and security of such systems.

This can be illustrated by the development of the Indian payment and clearing systems in recent years. The shortcomings of traditional payment methods such as cash and cheques have led to the establishment of the National Electronic Funds Transfer system (NEFT) as a nationwide electronic payment scheme. To encourage movement from paper-based processes, the Reserve Bank of India currently regulates charges that banks can levy on customers for electronic transactions and is currently waiving its own processing charges to banks for electronic payments.

Many other Asian countries have also introduced electronic payment systems and incentives to promote their adoption, thereby increasing the visibility of ACH systems and driving up transaction volumes. However, the increasing penetration of such electronic systems has made an impact on the market. For example, there is increasing complexity associated with connecting to the large numbers of different domestic clearing systems, and there is a need to ensure that accurate and consistent account information is available to support critical processes, such as receivables reconciliation. There is also a growing number of non-bank payment

providers, including invoicing and collection agencies, Internet payment providers and mobile payment operators looking to participate in this market. In such a dynamic environment, transaction banking providers with an extensive international network, direct access to the clearing systems and strong onshore expertise will offer clients a clear advantage over the rest of the providers.

Deutsche Bank is one such provider that is committed to innovation and continued investments in technology to enhance its leadership and relationships with its clients. Despite the financial volatility in 2008-2009, it has maintained its investments in building new infrastructure, systems and highly scalable solutions to help clients improve efficiencies and reduce operating costs. The Bank is also a direct member in all relevant payment clearing systems in 14 markets across Asia, hence it is able to offer service levels (e.g., cut-off times) which are on par with those of local banks.