

A hand holding a smartphone is shown in the foreground, with a blurred coffee cup in the background. The image is split into a white top-left section and a blue bottom-right section.

fire

FROM
OPEN BANKING
TO
OPEN
PAYMENTS

A better way to pay –
and get paid

WHAT ARE OPEN PAYMENTS?

The arrival of Open Banking represents a seismic shift in the way consumers and businesses use financial services. By giving regulated third-parties secure access to financial information, it is shaking up an industry that has been difficult to access – inviting more competition and stimulating innovation.

For consumers, Open Banking is better suited to meeting the needs of our increasingly digital society – offering greater choice and access to highly personalised services. For businesses, it presents the opportunity to create exciting new financial products that are more secure and cost-effective than ever before.

A one-click society

Thanks to the rise of mobile apps, voice assistants and streaming media, consumers now expect quick and seamless experiences with every digital interaction. And payments are no exception – indeed, contactless payments accounted for 19% of all payments made in the UK in 2018 ([UK Finance, 2019](#)).

In addition, consumers are increasingly customers of more than one bank or hold multiple accounts and access to accounts via mobile app has become the norm. The result is that everyone now carries a payment device in their pocket.

But account transfers, which have traditionally presented considerable friction for the payer, with account details requiring manual entry, have been left behind in the one-click revolution. Until now.

One of the new developments arising from Open Banking is the ability to pay instantly by account transfer. Termed Open Payments, this form of digital payment doesn't require any data entry from the payer, no three-day settlement time for the payee and, in some cases, instant reconciliation. Not only is the experience faster for all parties, it's also more secure than other payment methods. And, with fewer parties involved in the payment process, Open Payments are also significantly more cost-effective for businesses than traditional debit or credit card payments.

Who's who in Open Payments

With an instant bank transfer, payments can be made directly from the payer's account to the payee's account. Typically, four players will interact in order to complete the payment from end-to-end.



The consumer or business making the payment

The consumer or business receiving the payment

The regulated provider who initiates the payment from the payer's account with their consent

The account providers (e.g. banks or other payment account providers) with whom the payer and payee have accounts



BEHIND THE SCENES: WHAT'S DRIVING OPEN BANKING?

Key factors behind Open Banking include new regulations and technology advancements, while investment in financial services from private equity and public sector funding has contributed to increased innovation in products and services.

New regulations at the centre of the Open Banking revolution include the second European Payments Services Directive (PSD2) and its supporting Regulatory Technical Standards. Together, they have defined new regulated actors in the payments value chain and mandated access to accounts, while at the same time establishing consistent rules concerning the authentication of payment users.

PSD2 hinges on authorised parties providing and gaining access to customer accounts using open Application Programming Interfaces (APIs) that enable third-party systems to securely integrate and call pre-specified information when prompted.

Jargon-buster

There are a number of acronyms used in Open Banking to describe different regulated actors, legislation, standards and licences. Here are the main ones:

Acronym	Stands for	What does it mean?
ASPSP	Account Servicing Payment Service Provider	A regulated provider that offers a payment account with online access. Includes banks but also digital wallets and accounts with non-bank FinTechs, among others.
AISP	Account Information Service Provider	A third-party provider that is authorised to provide account holders with a consolidated view of account information from different account providers.
PISP	Payment Initiation Service Provider	A third-party provider that is authorised to initiate an authorised payment order at the request of a user from a payment account held with another payment service provider.
TPP	Third Party Provider	An AISP or a PISP.
API	Application Programming Interface	A set of rules and routines for developing software. An API specifies how software systems should interact.
PSD2	The second Payments Services Directive	An EU directive that aims to make the European payments markets more efficient, drive innovation and competition and make payments safer and more secure.
RTS	Regulatory Technical Standards	A set of standards, that forms part of PSD2, to achieve the strict security requirements for payments service providers in the EU.
SCA	Strong Customer Authentication	SCA aims to reduce fraud and make online payments safer by having consumers authenticate using two out of three possible methods: something they know (e.g. a password), something they have (e.g. their phone) or something they are (e.g. fingerprint or biometrics).

HOW OPEN PAYMENTS WORK

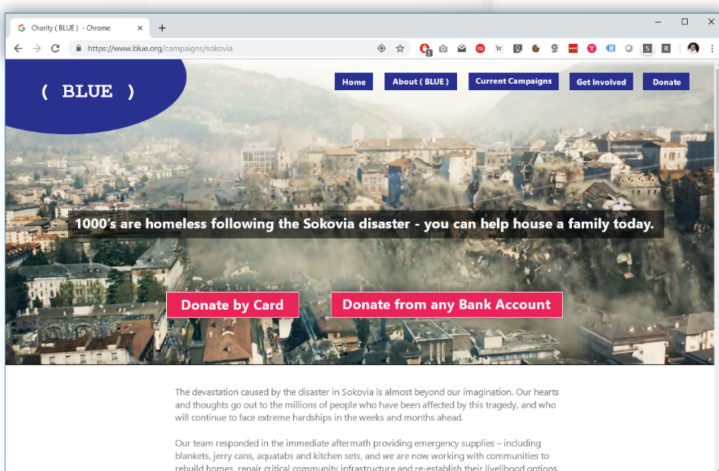
Leveraging Open Banking technology, Open Payments allow people and businesses to pay directly from their account, in real-time. It's safer, faster and more cost-effective than other payment methods available today. Here's how it works.

Discoverability

There are lots of ways to invite someone to pay using Open Payments. As the request is made via a simple web link, it lends itself well to many payment scenarios.



Social media button



Website button



QR code on a bus stop shelter

THE PAYER'S VIEW



- 1 | When a payer chooses to pay using Open Payments, they are invited to select their account provider from a list.
- 2 | After selecting their account provider, the payer is automatically redirected to their mobile banking app or online banking login screen.
- 3 | The payer's account provider will ask them to authenticate in their usual way as they sign in.
- 4 | The payer is then presented with all the payment details and asked to authorise the payment.
- 5 | After confirming the payment the transfer is confirmed successful or otherwise. No personal credentials are shared throughout the process.

Did you know?

While Open Payments might seem like a new way to get paid, the concept has actually been around for decades. In countries such as the Netherlands, Germany and China, account-based payment methods are very common across multiple channels. The iDEAL e-commerce payment system in the Netherlands enables consumers to push payments directly from their bank accounts to merchants and is the dominant online payment method.

BEHIND THE SCENES:

What's happening during Open Payments

For a payee to accept Open Payments, they need to work with a Payment Initiation Service Provider (PISP), who is authorised to initiate payments from a customer's account.

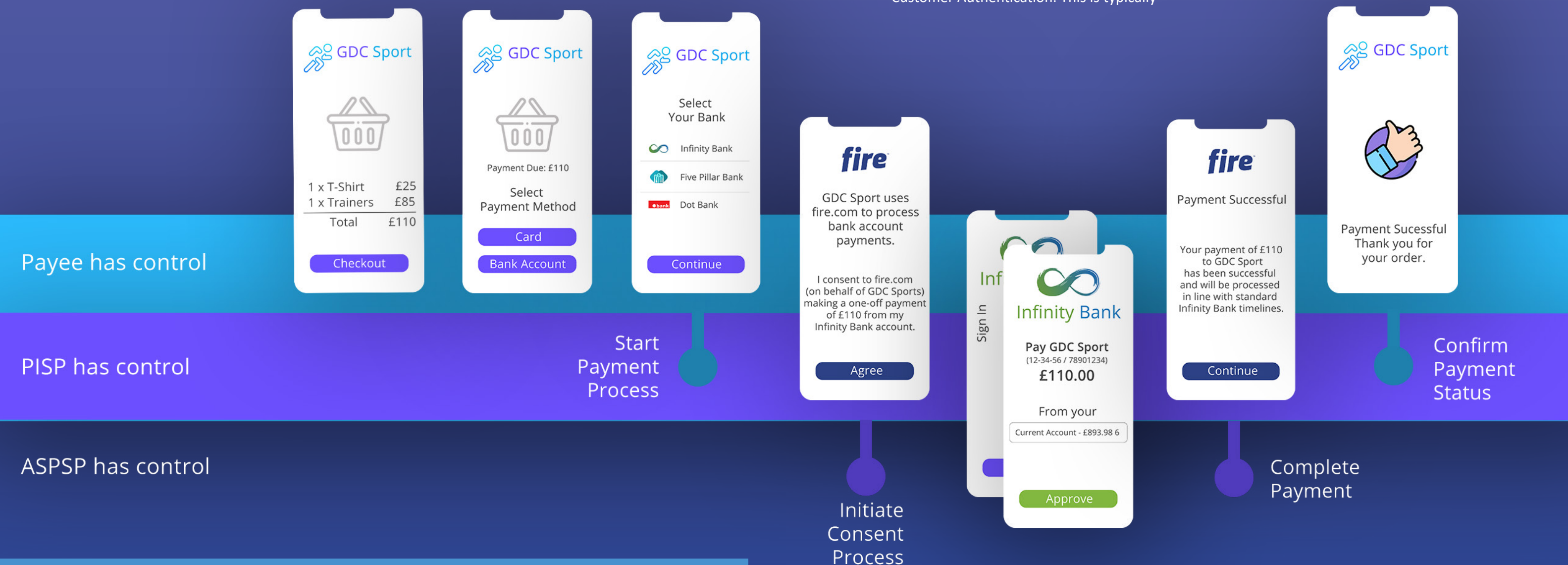
The process starts with payer selecting the option to pay from their account. Once the payment request is received by the PISP, the payer is asked to select their account provider, which then opens their account app on their phone or directs them to their online banking login. This is achieved via the use of APIs between the PISP and the account providers, and secured with mutually authenticated eIDAS digital certificates.

carried out during the account login process. For mobile banking apps, this can be as simple as using a fingerprint to login.
 2. Automatically present the payment details for authorisation by the payer. All details are pre-filled, with no data entry required.

The payer then authorises the transaction with a single tap or click, once authorised the account provider sends the PISP a token. The PISP initiates the payment from the payer's account using this token and the payment is made.

At this stage the payer's account provider carries out two critical functions:

1. Authenticate the payer using Strong Customer Authentication. This is typically



Worth noting

A full-service payments provider can also provide the account into which the funds can be settled. This aids reconciliation, the processing of refunds and speed of settlement. Integrated providers may also offer the ability to automate payment requests at volume and provide custom branded user interfaces.

THE PAIN OF GETTING PAID

Whether via card transaction or using an account-based method such as direct debit, getting paid quickly, safely and cost-effectively using traditional methods isn't always as easy as it should be.

COSTLY

Despite changes in fee regulations and more competition, some businesses still regard the cost of getting paid as expensive relative to the service being provided.

- Due to lower transaction volumes, smaller businesses tend to pay more per transaction to get paid and also find it hard to get access to a card acceptance or direct debit collection facility.
- As most payments involve sharing personal credentials, extra resources are often required to ensure compliance with data security requirements.

SLOW

Depending on the payment method and provider, it can take several days before funds settle into the payee's account. Reconciliation is often slow and manual.

- Card payments and account transfers between different providers may take days to settle, while international payments can take longer.
- Lack of integration in traditional payment processes means that reconciliation is often manual and slow.
- Reconciliation is further limited by a lack of data that flows with the payments - resulting in extra manual work to ensure reconciliation is timely and complete.

RISKY

Payment methods today are fraught with fraud. Common routes include tapping personal credentials as they are shared between parties, or misleading payers through impersonation.

- Fraud losses on UK-issued cards totalled £671.4 million in 2018 ([UK Finance, 2018](#)).
- Bank transfers are plagued by Authorised Push Payment (APP) scams, where payers are tricked into thinking they are paying one party but are actually paying someone else. APP scams increased by 40% in the UK in 2019 ([UK Finance, 2019](#)).
- If details are entered incorrectly when making an account transfer and funds are directed to the wrong account, it can be problematic for the payer to recover the funds.

FRICTION

Some level of friction is felt by either the payee or payer in nearly every way to pay, but it's particularly the case in account-based transfers.

- With the introduction of Strong Customer Authentication (SCA), online retailers will have to ensure payers authenticate at the point of payment. This will add further steps to the online card payment process and may increase abandonment rates.
- For payers, the friction of the payment journey varies in length depending on the method used. Contactless and one-click card payments are close to seamless for the payer, while paying via account transfer still involves data entry.

OPEN PAYMENTS: TAKING THE PAIN AWAY

Harnessing the power of Open Banking, Open Payments offers businesses and individuals a new payment method that effectively removes many of the problems associated with getting paid today.

- Payees do not need the same level of risk assessment for Open Payments as is required for card or direct debit, making the process accessible to more businesses.
- In an Open Payments transfer, the funds are pushed by the payer instead of pulled by the payee. With more information available to the payer regarding who they are paying, a reduction in chargebacks is expected.

- Open Payments made from one UK account provider to another are typically executed via Faster Payments – meaning settlement in hours not days.
- Non-sensitive data can also be stored along with Open Payments by full service providers, such as a customer reference number. These fields are automated, eliminating human error and speeding up the reconciliation process.

- Every party in an Open Payments transfer has their identity verified. The PISP and ASPSP communicate with each other using digital certificates – provided to them as a licensed provider of Open Banking services. The payer authenticates using SCA.
- As it is the payer's bank that confirms to the payer who they are paying, without the need to enter account details, both payer and payee can feel assured that funds will be directed to the correct account.

- With Open Payments, there is no need for the payer to remember account details. The payer is invited to authenticate, then view and authorise the payment in just a few clicks.
- To accept card payments online, retailers will soon be required to implement SCA with their online gateway or acquirer. With Open Payments, this responsibility rests with the payer's account provider – resulting in a simpler implementation process for the payee.



COST-EFFECTIVE

With fewer parties involved in an Open Payments transfer, it costs less for payees to accept than card payments. With a full-service provider, automated reconciliation can further free up resources.



FAST

Getting paid is good, but getting access to funds faster is great. With Open Payments, funds will settle into the payee's account more quickly – often within the same day.



SECURE

Open Payments is safer than any other payment method as no personal credentials are shared. All parties are securely authenticated, minimising opportunities for fraud.



SEAMLESS

With Open Payments, no data entry is required. Depending on the number of steps involved in the payer's account provider authentication process, the payment can be actioned in seconds.



REALITY CHECK

Open Payments is a faster, cheaper and safer way to pay and get paid. It presents a significant opportunity for businesses to improve their payment processes, while offering consumers a simple and safe option for paying online. However, as Open Banking is still a new development in the United Kingdom and Ireland, there are some factors that could impact its rate of adoption:

Account provider readiness

There are currently different standards when it comes to account providers' adoption of Open Banking technology and reliability is not yet consistent across all providers. In addition, while many account providers are now using biometrics such as fingerprint or facial recognition for customer authentication, others still rely on card readers, which is a clunky process.

Furthermore, some account providers have not fully readied their mobile banking apps for Open Banking. This means that some payers trying to use Open Payments on their phones are invited to authenticate by signing into their account via a mobile browser, adding some friction to the payment journey.

As a result, the widespread adoption of Open Payments may be gradual until all account providers provide a consistent Open Banking experience with modern authentication methods.

Consumer adoption

Although there are significant benefits to be gained from using Open Payments, individuals tend to stick with what they know. Businesses may need to incentivise the use of Open Payments initially to build momentum. Consideration also needs to be given to chargeback rights. Currently, card payments offer consumers a

certain amount of protection, allowing them to dispute and retrieve payments from their account provider. With account-based payments, consumers do not have the same rights and this needs to be addressed.

Limited features

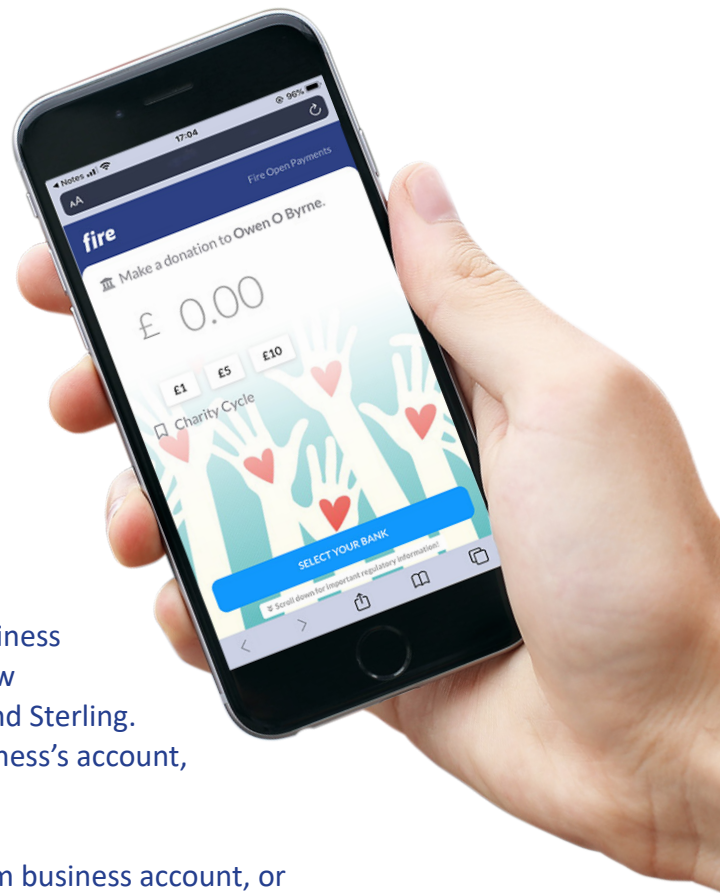
As Open Payments is a relatively immature product, there are a number of features not yet available – such as the ability to integrate with loyalty and rewards platforms. As adoption increases, providers will update and enhance the payment experience in line with customer demand.

A new payment option

Both PISPs and card providers are expected to work in parallel to offer complementary payment methods that payers and payees can pick from as appropriate. Contactless card payments, for example, are well-suited to public transport due to their speed and limited digital authentication required.

But when paying small-to-medium amounts online, or collecting payments at scale, Open Payments presents a faster, more cost-effective alternative to paying by card. For businesses looking to supplement their existing payments offering with a low-cost, secure and highly versatile way to get paid – the time to start thinking about Open Payments is now.

Enable your customers to pay you directly from their account – save on fees, reduce fraud and get paid faster.



Fire Open Payments is a new feature of the fire.com business account that leverages Open Banking capabilities to allow businesses to accept account-based payments in Euro and Sterling. Funds are matched to payments as they land in the business's account, effectively automating reconciliation.

With options to create payment requests in your fire.com business account, or integrate Fire Open Payments with existing systems for a fully automated collection and reconciliation service – the solution is suitable for businesses of every size, from start-up to corporate.

COST-EFFECTIVE

Accepting payments through Fire Open Payments is cheaper than other ways to pay. There's one, simple, low fee. Reduced chargebacks. Instant reconciliation.

FAST

By executing payments via Faster Payments (Sterling) or SEPA (Euro), funds settle into the account quickly – often on the same day.

SECURE

Fire Open Payments is one of the safest ways to collect payments. No personal credentials are needed, reducing the risk of fraud.

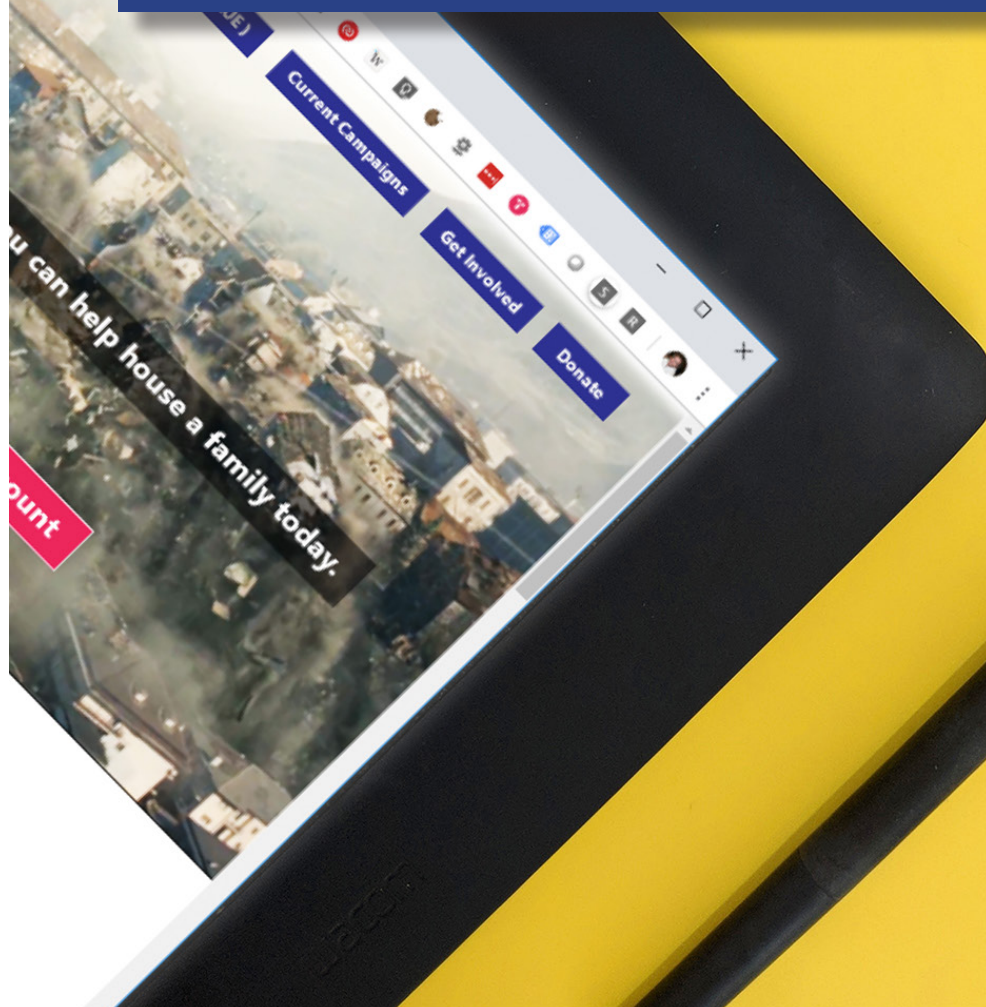
Fire Open Payment requests are made via web-link, so lend themselves to many different payment scenarios. From website buttons, SMS links, NFC tags and QR codes – there's no shortage to the ways you can invite your customers to pay.

TRY IT!



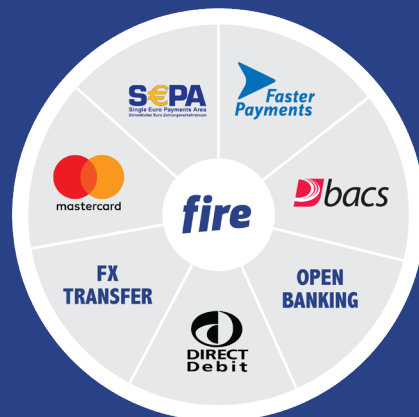
Donate £1, £5 or £10 to fire.com's chosen charities using Fire Open Payments by visiting fire.com/donate - or by scanning the QR code with your phone.

To find out how Fire Open Payments could work for you, get in touch with our team.





the complete solution for integrated payments



January 2020

About fire.com

fire.com is the complete solution for integrated payments. As a real-time digital and online payments platform, it is designed for businesses and other financial institutions to get easy access to a range of payment services. It supports the instant opening of accounts in euro and sterling, debit cards, FX, Open Banking and bank transfers – all accessible via a powerful API. fire.com enables its customers to develop highly integrated, high-volume payment processes as well as enabling other businesses to go to market with any combination of its accounts and payments services.



fire.com is led by Colm Lyon, one of Europe's leading figures in payments and fintech. In a career spanning over 30 years, Colm has built payment businesses (Realex Payments, fire.com), led change across the industry and supported the wider business community with great passion and enthusiasm, especially for start-up and scaling businesses. He has been acknowledged with numerous awards over the years.

Colm's primary focus is on helping businesses change the way they pay and get paid by providing payment services that are fully integrated, accessible and secure. Colm sits on the UK Finance Payments Products and Services Board representing the Digital PSP community.

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