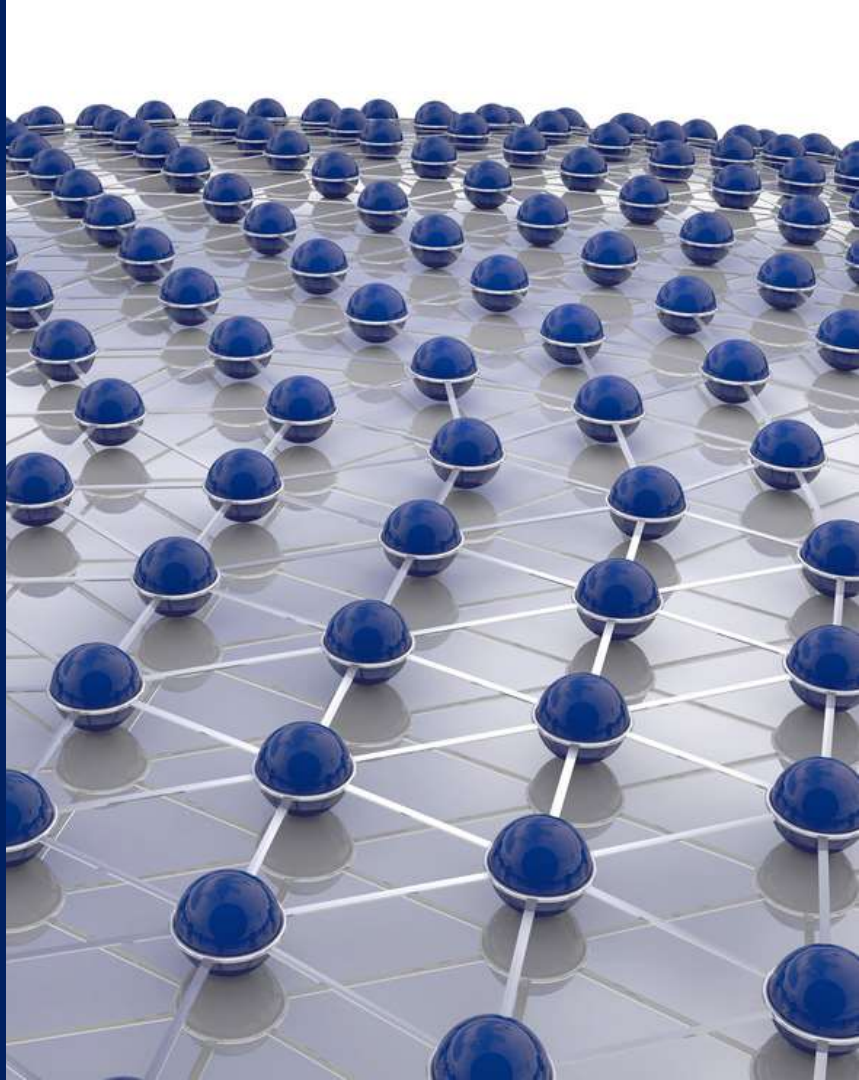# Developments in Instant Payments

SWIFT Business Forum Romania

28th October 2015

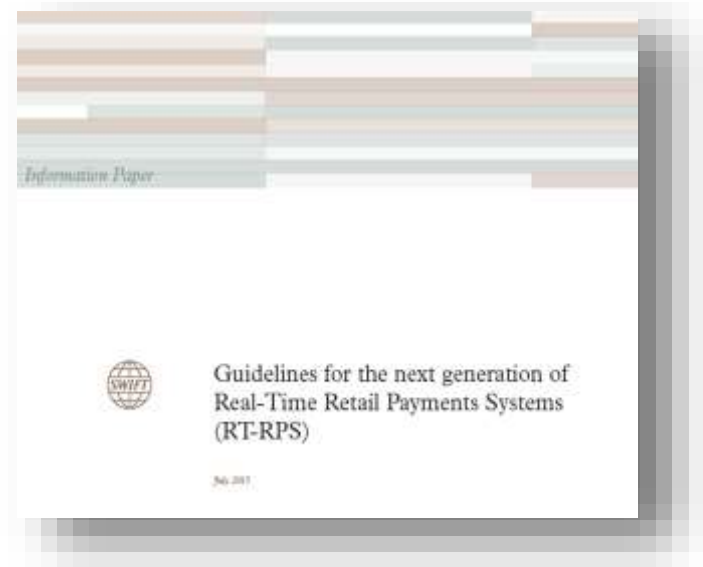# SWIFT Whitepaper for Real-Time Retail Payments Systems

The Global Adoption of Real-Time Retail Payments Systems
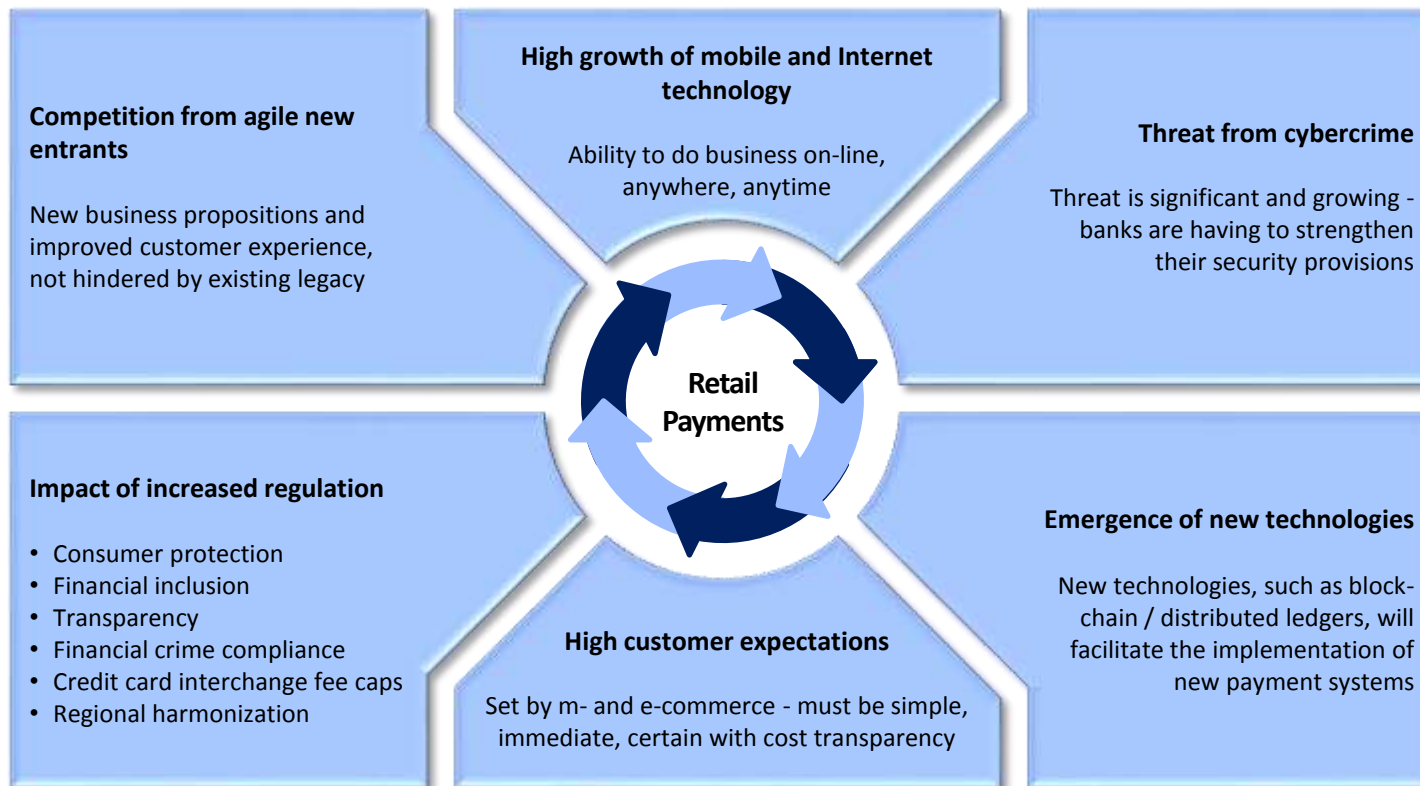
April 2015

Guidelines for the next generation of Real-Time Retail Payments Systems
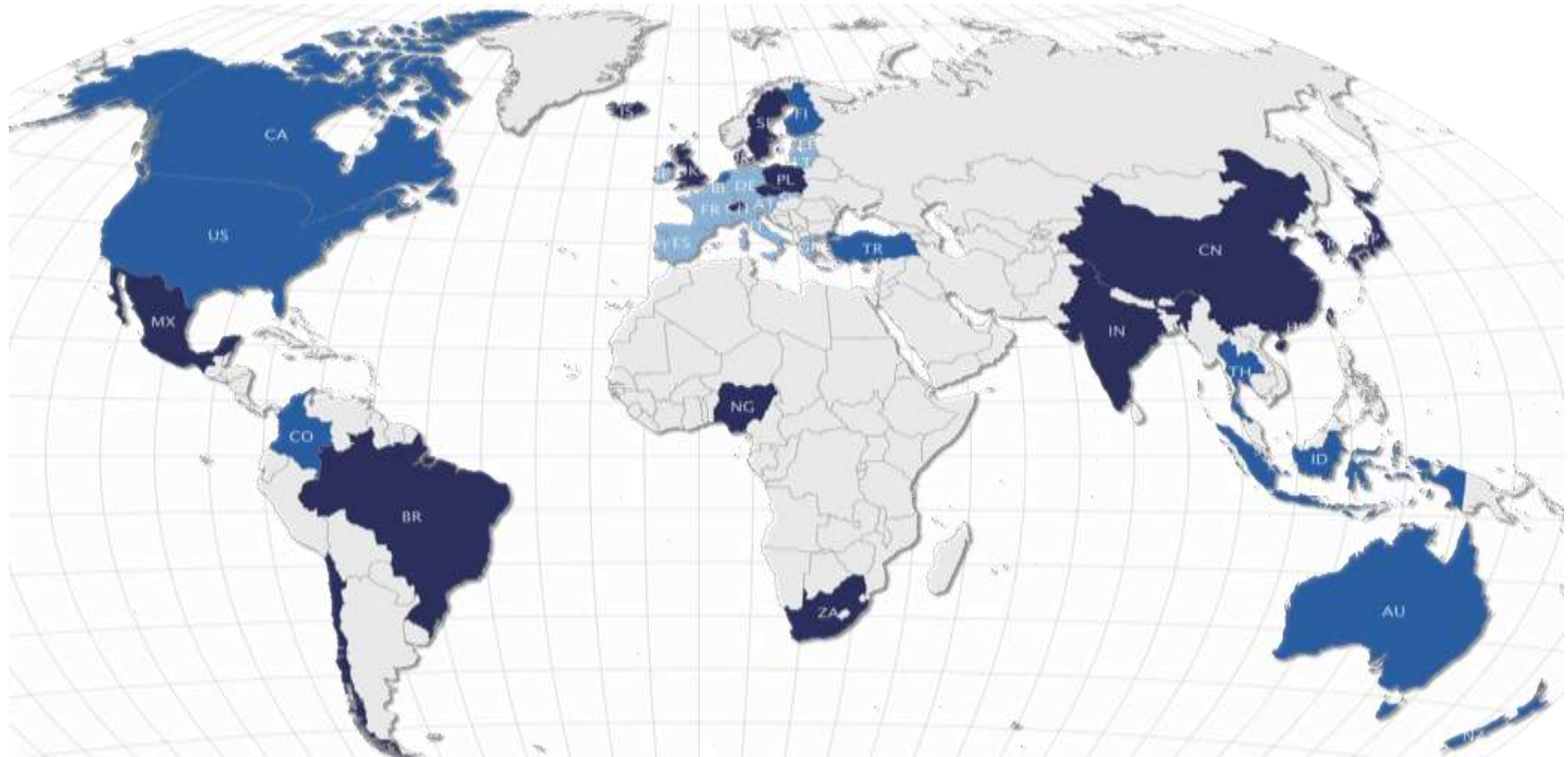
July 2015

Background

The new reality of retail payments has an impact on banks

High growth of mobile and Internet technology

Ability to do business on-line, anywhere, anytime

Competition from agile new entrants

New business propositions and improved customer experience, not hindered by existing legacy

Threat from cybercrime

Threat is significant and growing - banks are having to strengthen their security provisions

Retail Payments

Impact of increased regulation

- Consumer protection
- Financial inclusion
- Transparency
- Financial crime compliance
- Credit card interchange fee caps
- Regional harmonization

High customer expectations

Set by m- and e-commerce - must be simple, immediate, certain with cost transparency

Emergence of new technologies

New technologies, such as block-chain / distributed ledgers, will facilitate the implementation of new payment systems

Instant Payments Systems, live in 18 markets, with many more being planned

| Live | 18 countries 'live' | Planning | 12 countries 'exploring' / 'planning' / 'building' | Eurozone | 17 additional Eurozone countries 'exploring' |

RT-RPS Characteristics
Key features to be supported by an instant payment system

| 24 x 7 | Instantaneous | Irrevocability | Certainty |

24x7: payments can be sent and received all times of the day, every day of the year

Instantaneous*: good funds must be available on the beneficiary's account in, typically, less than a minute
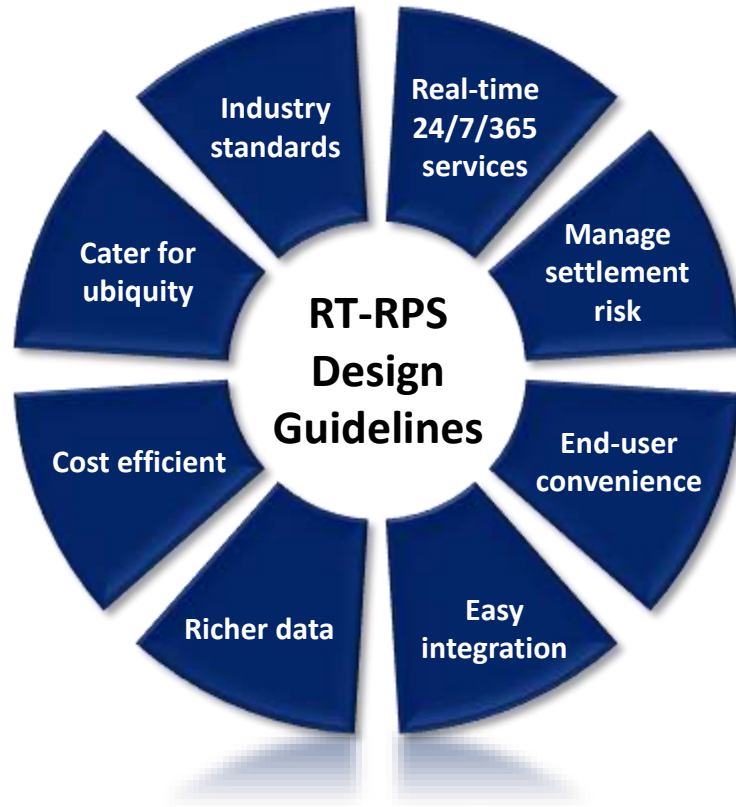
Irrevocability: once payments are processed, they can't be recalled

Certainty: payments sent to a beneficiary bank are individually explicitly confirmed (to both payer and payee) or rejected
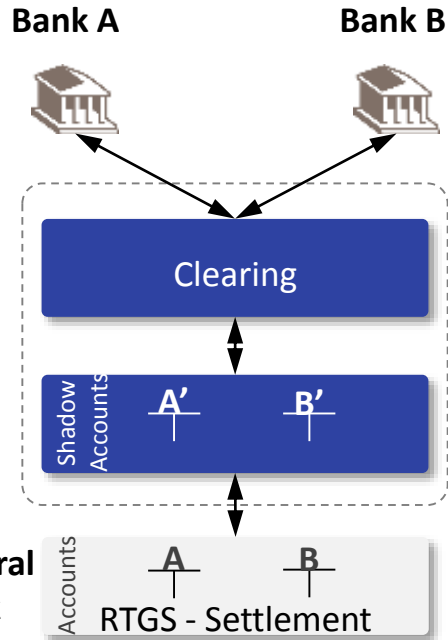
SWIFT RT-RPS Design Guidelines

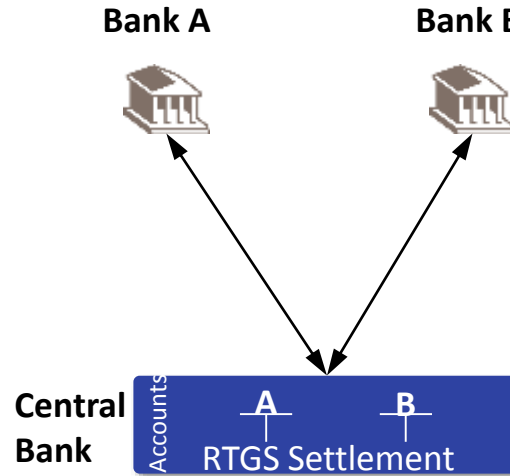*Resulting from deep expertise in payments, MIs and standards*

- Industry standards
- Real-time 24/7/365 services
- Manage settlement risk
- End-user convenience
- Easy integration
- Richer data
- Cost efficient
- Cater for ubiquity

RT-RPS Design Guidelines

Market trends and landscape
There are different approaches to clearing and settlement

Hub Approach or **RTGS Approach** or **Distributed Clearing Approach**

Bank A   Bank B

Hub

Clearing

Shadow Accounts: A'   B'

Central Bank

Accounts: A   B

RTGS - Settlement

Bank A   Bank B

Central Bank

Accounts: A   B

RTGS Settlement

Bank A   Bank B

Clearing

Central Bank

Accounts: A   B
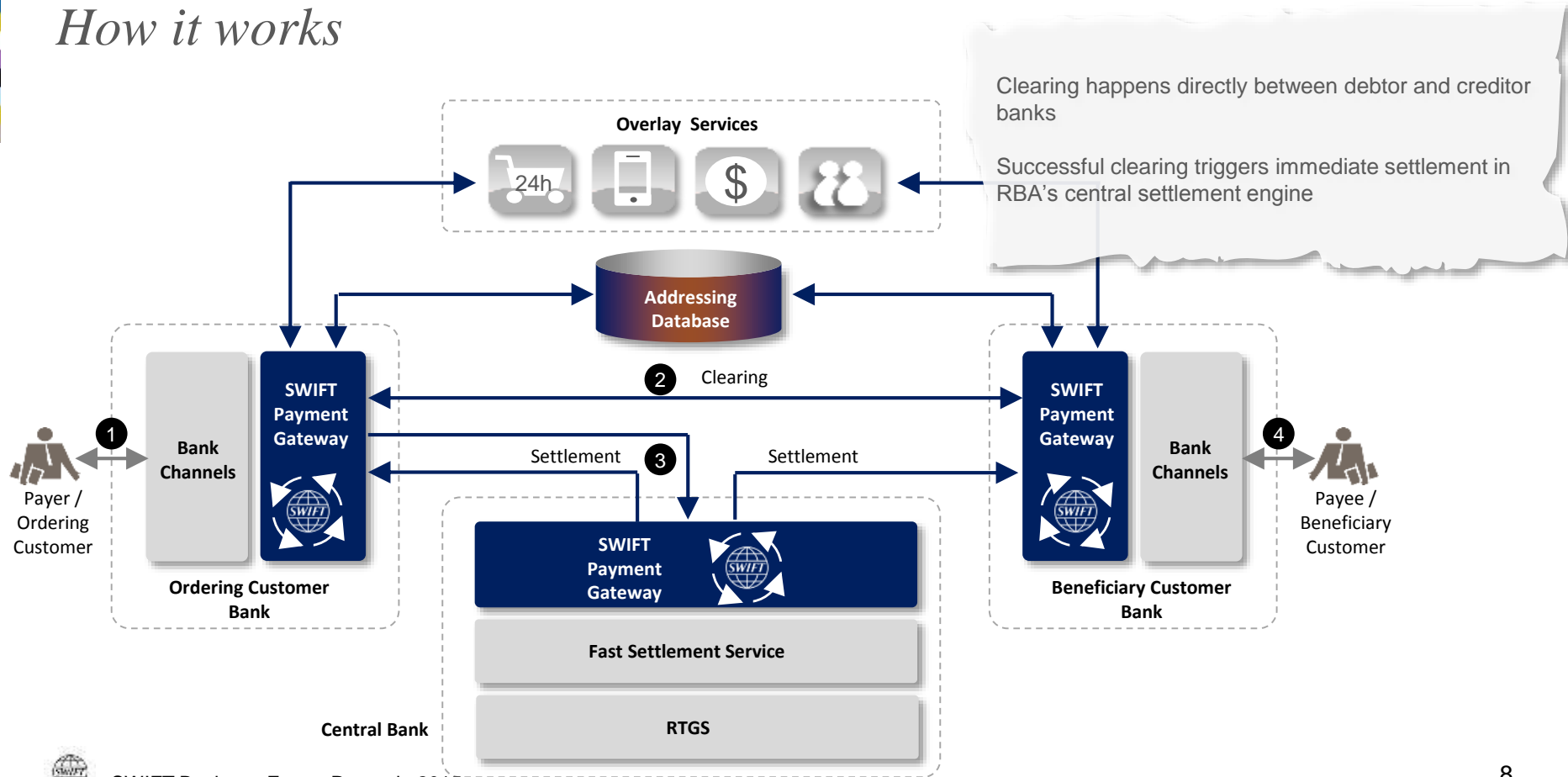
RT App - Settlement

Accounts: A   B

RTGS – Liquidity Mgt
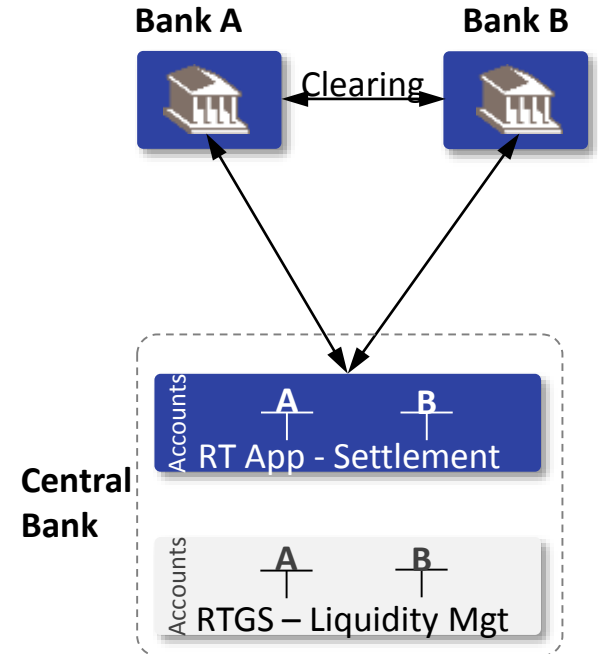
Real-Time 24/7/365

EOD/Intra Day during Business Hours

Case Study - New Payments Platform Australia
How it works

Overlay Services

24h

$

Clearing happens directly between debtor and creditor banks

Successful clearing triggers immediate settlement in RBA's central settlement engine

Addressing Database

Payer / Ordering Customer

1

Bank Channels

SWIFT Payment Gateway

Ordering Customer Bank

2 Clearing

Settlement **3**

SWIFT Payment Gateway

Fast Settlement Service

RTGS

Central Bank

Settlement

SWIFT Payment Gateway

Bank Channels

4

Payee / Beneficiary Customer

Beneficiary Customer Bank

Future Considerations
Need for coexistence

### Current Domestic - One-size does not fit all

- **Common characteristics**, e.g. instant clearing, confirmation, posting and 24/7/365 operation

- **Different approaches** for clearing and settlement to suit local market needs

- Current focus is mostly **domestic** to meet local market needs

Need coexistence and interoperability

- Need **interoperability** to avoid fragmentation and cost of multiple integrations and to ensure ubiquity

- Need for common message standards, market practice, exception handling, API approach, settlement methods and service levels

- SWIFT is well placed to facilitate **cross-industry dialogue**

Future Cross-border

- Need for **cross-border** clearing and settlement, e.g. single currency zones, in medium- to long-term
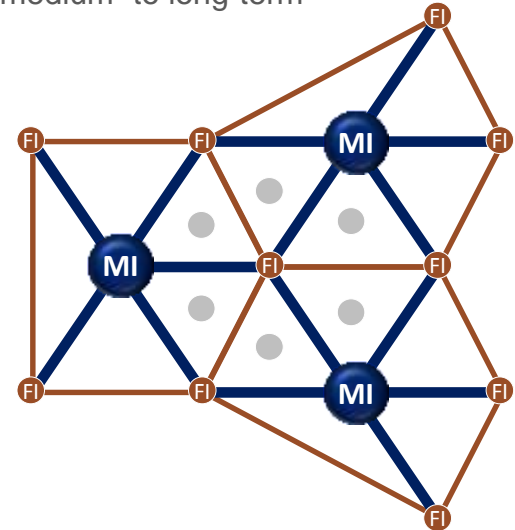
Reach through interoperability

What does it need to reach counterparts across Europe

RT-RPS scheme

Interoperability framework

Routing information
(directory service)

Need to share reach information with
participants on business and technical attributes

<u>Interoperability on clearing layer</u>
Relaying transactions in real time

Need for a protocol switch gateway to relay
transaction from one CSM to another. Bridging
communication topology and clearing logic

<u>Interoperability on settlement layer</u>
Based on central bank liquidity
Based on a net settlement scheme

Need for settlement relationship between CSM's
in central bank money or fiduciary accounts

ISO Real-time Payments Group: laying the foundations for inter-operability

- Formed May 2015 by ISO 20022 RMG Resolution

- Larger group ~ 50 participants; open participation

- Initial drafting group:

  - ACI, Canadian Payments Association, Gefeg, Nets, The Clearing House, Vocalink, Volante

  - UK Payments Council facilitating

- Others to join including SWIFT

- Objective: define a market practice for real-time payments, based on the existing ISO 20022 payment message standards

- Timeline: deliver first draft of guidelines by end 2015

Future Considerations
SWIFT's role

Deep standards expertise

- Registration Authority, including ISO 20022

- Participates in the standards maintenance process

- Trusted facilitator of global market practice

Strong payments and MI expertise

- Track record in complex and large-scale MI projects

- Numerous initiatives, e.g. SEPA, TARGET2, T2S, SADC, JASDEC, DTCC, CPA, CLS, SGX, ASX, EBA STEP2, EBA EURO1/STEP1

- SWIFT used to ensure resilience and security and reduce overall industry costs

Solutions enabling real-time payments

- Developing modular low latency / high volume infrastructure components for RT-RPS

- Infrastructure can be re-deployed into other markets, irrespective of local topology

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