

Instant Payments

What is “instant payments”

- Banks and other PSP must support real-time commerce with the ability to make payments in real-time.
- This is also a way to compete with non banks getting involved in the payments activity (payment initiating PSPs)
- Real time payments is receiving increasing attention in a number of payments markets. There are* currently 18 countries 'live', 12 countries that are 'exploring/planning/ building', and an additional block of 17 countries that are 'exploring' through a pan-Eurozone initiative.
- Main characteristics of real-time (instant) payments:
 - Funds are irrevocably made available to the beneficiary in real-time (seconds) -> end-to-end / account-to-account.
 - The Initiator is receiving in real-time the confirmation on completion.
 - Available 24 / 7 / 365.
 - Convenience – as easy as cash, no need to know beneficiary account number.
 - Generally accessible to end-users via mobile and online channels.

Challenges for developing a national system

- Technological “readiness” of participants
 - Core banking systems must be capable to support real-time demands;
 - Instant payments require immediate reconciliation, something which will require extensive modernisation of the banks’ IT systems and will cost a tremendous amount of money.
 - The banks' core IT systems, as well as the linked gateways and control systems which validate transaction data, would be affected.
 - All other players in the market would have to invest, including, for example, linked payment service providers (PSP).
- Credit costs - the costs of making the credit available early (before receiving funds from settlement)
- Risk mitigation – guarantee scheme costs
- Customer acceptance
- Wide reachability – more participants will strengthen the “network effect”
- Building a clear financial business case

Instant Payments across Europe

Leading this topic are the European Central Bank (ECB) and the European Retail Payments Board (ERPB), who are driving the development of a real-time payment system.

- The ERPB has established a working group to address the topic of real-time payments. This, in turn, has tasked the EPC with working on approaches to solutions.
- The EPC has already successfully developed the SEPA standard, so has a great deal of experience in this matter. Their first task is to identify customer and company expectations and to make recommendations on how these can best be fulfilled.
- The key question is: should there be a single, SEPA-wide solution, or do people want to link national real-time projects together? Answers to this question, as well as a possible rollout plan, should be presented by mid-2016. In all probability, a solution for instant payments will be created first for credit transfers, with card and direct debit payments coming later.
- On 10 August 2015 the ISO Real-Time Payments Group (RTPG) has published a first draft of ISO 20022 messages to be used by the global payments industry & invited industry stakeholders to comment on the proposals. The goal of the group goes beyond helping countries with domestic implementation. It aims to achieve interoperability between national systems. Interoperability will provide the basis for an eventual single set of standards for cross-border real-time .

Instant Payments across Europe

Two approaches:

a unified system for
the SEPA area

each individual country focus on their
own real-time solutions, which could
then be linked via standardised
interfaces

- Over 95% of payments still not cross border so national initiatives still to be expected. Interoperability will develop once national systems are established
- Decisions made at the earlier stages of design and implementation could make interoperability easier to achieve in the long run.
- Technical compatibility between systems including standards, networks and gateways, security and execution times
- Where systems are connected together the challenges are:
 - Knowing if the payee account can be reached – customer and bank perspective
 - Undertaking settlement (including possible FX conversion)
- There are some industry initiatives in this area such as the EPC Ad-hoc Task Force on Instant Payments and the Open Forum on Pan-European Payments and the EACHA Innovation Group on Instant Payment Interoperability Framework (interconnecting national IP systems in a similar manner to SEPA SCT).

TRANSFOND Instant Payments Concept

TRANSFOND to provide:

Common platform for interbank instant payments as to enable banks for innovative services and to compete with non banks PSPs

- New system
- 24/ 7/365/15 seconds to complete (end-to-end)
- Deferred net settlement (twice a day- in ReGIS)
- Fully collateralized (liquidity blocked in ReGIS)

Top Issues:

- Building the business-case
- Service positioning (premium vs. low price)?

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e-solutions for performance

Thank you!

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