Developments in Instant Payments

SWIFT Business Forum Romania

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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

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

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

- **Competition from agile new entrants**
  - New business propositions and improved customer experience, not hindered by existing legacy

- **Impact of increased regulation**
  - Consumer protection
  - Financial inclusion
  - Transparency
  - Financial crime compliance
  - Credit card interchange fee caps
  - Regional harmonization

- **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
RT-RPS Characteristics

Key features to be supported by an instant payment system

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

*The term “Instantaneous Payments” is increasingly used to refer to retail real-time payments.
SWIFT RT-RPS Design Guidelines

Resulting from deep expertise in payments, MIs and standards

RT-RPS Design Guidelines

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

Resulting from deep expertise in payments, MIs and standards
Market trends and landscape
There are different approaches to clearing and settlement

**Hub Approach**
- Bank A
- Bank B
- Central Bank

**Central Bank**
- Accounts A, B
- RTGS - Settlement

**Shadow Accounts**
- A’, B’

**RTGS Approach**
- Bank A
- Bank B
- Central Bank

**Central Bank**
- Accounts A, B
- RTGS Settlement

**Distributed Clearing Approach**
- Bank A
- Bank B
- Central Bank

**Central Bank**
- Accounts A, B
- RT App - Settlement
- RTGS – Liquidity Mgt

Real-Time 24/7/365
EOD/Intra Day during Business Hours
Case Study - New Payments Platform Australia

How it works

Clearing happens directly between debtor and creditor banks

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

Future Cross-border

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

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**
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

- **Interoperability on clearing layer**
  - 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

- **Interoperability on settlement layer**
  - 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