Instant payments
Embarking on the payment transformation journey

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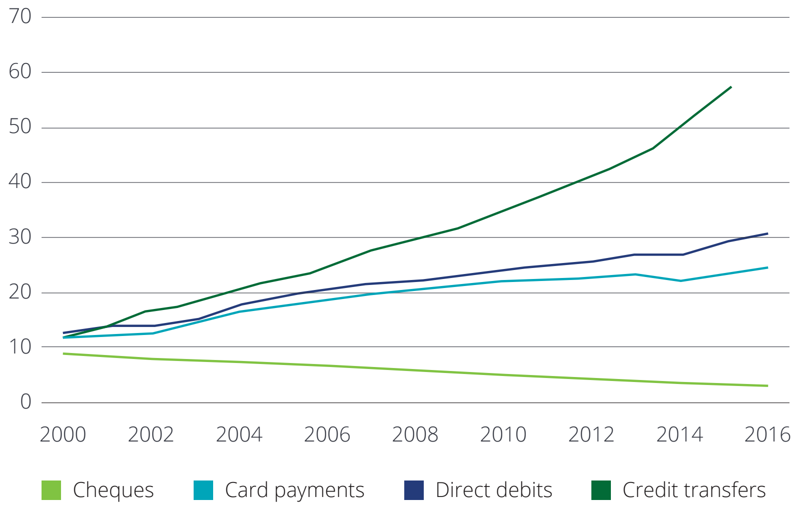
"A race against time"—We live in a time-constrained world where we expect services at our fingertips. Our lives are dominated by organizations providing us with the convenience of instant messaging, online books 24/7, "pay-per-view" movie streaming, real-time holiday reservations, online shopping experiences, and the list goes on. Although payment is an intrinsic part of every transaction, it has not been able to keep pace with the digital revolution in the social and commercial space.

The service providers of the future expect instant access and reuse of funds for services rendered, even during non-business hours. As a result, instant payments is likely to be a new standard, touching every aspect of modern consumer lifestyle 24/7.

Constant changes and increasing speed are the cornerstones of modern society. The last few decades have seen the emergence of disruptive technologies (i.e., the PC in the 1980s, the internet in the 1990s, and social media and mobile devices in the 2000s) that have overthrown existing market leaders such as Remington, Yellow Pages, and Nokia. The current decade is witnessing the rise of a few innovative technologies with the potential to influence customer behavior and alter the existing landscape. The Internet of Things, biometric authentication, blockchain, and robotic process automation are just some of the disruptive technologies with the potential to enhance delivery models and provide services in a flash. Increasingly, companies are looking to reinvent their service offering to meet customer needs "Anytime, Anywhere, Instantly".

Use of the main payment services in the EU
(Number of transactions per year in billions, partially estimated)



Source: ECB

Firms like Amazon (e-commerce), Uber (transportation) and AirBnB (accommodation) are transforming the industry by providing customers with services that are cheaper, easily accessible, and available 24/7. Though payment is an integral part of the value-chain, it has struggled to keep pace with the technological advancements achieved in other industries. Today it takes a minimum of one business day for a payment in euro to reach the beneficiary, whereas Amazon can provide same-day delivery of physical goods. Likewise, Uber can help customers to book a taxi in matter of seconds with real-time tracking of the driver. The inertia in the current payment ecosystem exposes the service provider to a risk of payment default. Furthermore, lack of real-time visibility on the payment status has aggravated the problem for stakeholders.

In the years to come, instant/real-time payments will be the new normal, substituting traditional payment methods like cash, check, credit transfer and card. Banks have to develop new products and services around instant payment to keep up with the changes occurring in other industries and meet customer expectations. It is imperative for banks to take advantage of the new open banking ecosystem in order to develop unique value propositions for their customers and create new business opportunities.

A request for a new payment journey

In 2017, the European Central Bank published statistics on non-cash payment and its evolution over time. The study highlighted the fact that European consumers are steadily moving away from paper-based transactions to electronic methods. Card payment is still a dominant payment method across Europe accounting for 50 percent of transactions.

The following payment methods are commonly used to transfer funds in the market:

Cash: Cash is a universally accepted payment instrument and most commonly used in developing or third-world countries by those without a bank account. Cash protects the privacy of the user and is most suitable for face-to-face transactions. However, it is the most expensive instrument, with significant cost incurred around production, distribution, management, and security. In 2016, India banned 86 percent of its currency to neutralize the threat of counterfeiting and the shadow economy created by cash transactions.

Checks: Though usage of checks is steadily declining around the world, consumers still use them as an alternative to cash for peer-to-peer and consumer-to-business transactions. However, the recipient is exposed to default risk due to a lack of instant validation of funds and the possibility that the issuer will place a stop payment order on the check.

Card (debit & credit): Card is the most suitable instrument for retail payment since the card infrastructure provides quick payment execution with real-time positive fund verification. Nevertheless, these payment instruments incur high processing costs due to inefficient infrastructure, chargeback, and fraud. Moreover, card usage is dependent on beneficiary acceptance and the transaction amount is restricted by a daily credit limit.

Credit transfer: Credit transfer is the electronic payment method predominantly used by businesses for the domestic transfer of funds. It is frequently used by corporations for business-to-business and business-to-consumer payments because of lower cost of processing and faster speed of execution.

Direct debit: Direct debit is most suitable for recurring payment such as utility bills and insurance premiums due to batch processing and the low cost of execution. However, the payer has limited control over the payment lifecycle. A direct debit authorizes the recipient of funds to initiate the payment on behalf of the payer.

However, the evolution of the service delivery model and changing consumer preferences are putting pressure on traditional payment products. Existing payment methods do not match the immediacy and ubiquity of new digital processes in commerce and social life. All payment instruments with the exception of cash have inherent weaknesses in that the transfer of value cannot be achieved outside standard business hours.

Suitability and comparative assessment of existing payment products
The table below presents the suitability and a comparative assessment of existing payment methods based on the preferences of modern consumers

	Payment suitability					Customer preferences			
Payment instrument	**Face-2-Face**	**Bill payment**	**Retail**	**E-commerce**	**M-commerce**	**Convenience**	**24/7 availability**	**Speed of execution**	**Cost to make payment**
Cash	✓	✓	✓	×	×	●○○○	●●●●	●●●●	●○○○
Check	✓	✓	✓	×	×	●●○○	●●○○	●●○○	●●○○
Card	×	✓	✓	✓	✓	●●●○	●●○○	●●●○	●●○○
Credit Transfer	×	✓	×	✓	✓	●●○○	●●○○	●●○○	●●●○
Direct Debit	×	✓	×	×	×	●●○○	●●○○	●●○○	●●●○

Convenience: Ease of carrying and suitability of payment instrument for different type of transaction (e.g., peer-2-peer, bill payment, retail, e-commerce, m-commerce)
24/7 availability: Flexibility to use payment instrument during non-business hours and reuse funds
Speed of execution: Total time required to finalize the transaction including initiation, clearing, and settlement
Cost to make payment: Total cost for processing the payment transaction (e.g., logistics cost, printing, transaction processing, clearing and reconciliation)

Rocket fuel for the launch of Instant Payments

The psychology of instant gratification is defining the characteristics of modern society. The expectations of the tech-savvy generation and digitalization have resulted in greater "speed" in all areas of life. Furthermore, regulations are opening up the banking ecosystem, fueling the development of real-time payment platforms by FinTech firms.

Changing customer preferences: "Power of Now"— The demand for instant services has forced the customer to look for real-time solutions in social and commercial spaces. Consumers increasingly expect convenience, 24/7 availability, and money that moves as fast as an email. Furthermore, the adoption of mobile for daily activities and the use of digital wallet solutions such as Apple Pay or Google Pay to transfer funds have increased drastically due to ease of use.

Market demand: Changing customer preferences have given rise to a new service delivery model. The last decade witnessed the emergence of firms focused on providing services that are instant, easily accessible, and available 24/7. Likewise, there is increasing pressure from the market for instant payment for services rendered at lower processing costs.

Digitalization and technological advancement: The adoption of new technology (e.g., biometric authentication, distributed ledger, wearables, digital wallet) has drastically transformed the payment landscape over the past few years. The emergence of virtual currencies as Bitcoin and Ripple with near real-time settlement has provided organizations with a cheaper alternative to traditional payment methods. Leading money transfer services and online retailers are increasingly looking to provide virtual currency as an additional payment option to its consumers.

Regulatory pressure: Open Banking (UK) and PSD2 (Europe) regulations will create a new banking ecosystem allowing third parties to access customer bank account data and initiate payments. Agile FinTech firms are in a better position to disrupt the payments market and create innovative digital solutions and new business models. FinTech firms are likely to be at the forefront, taking control of the customer experience.

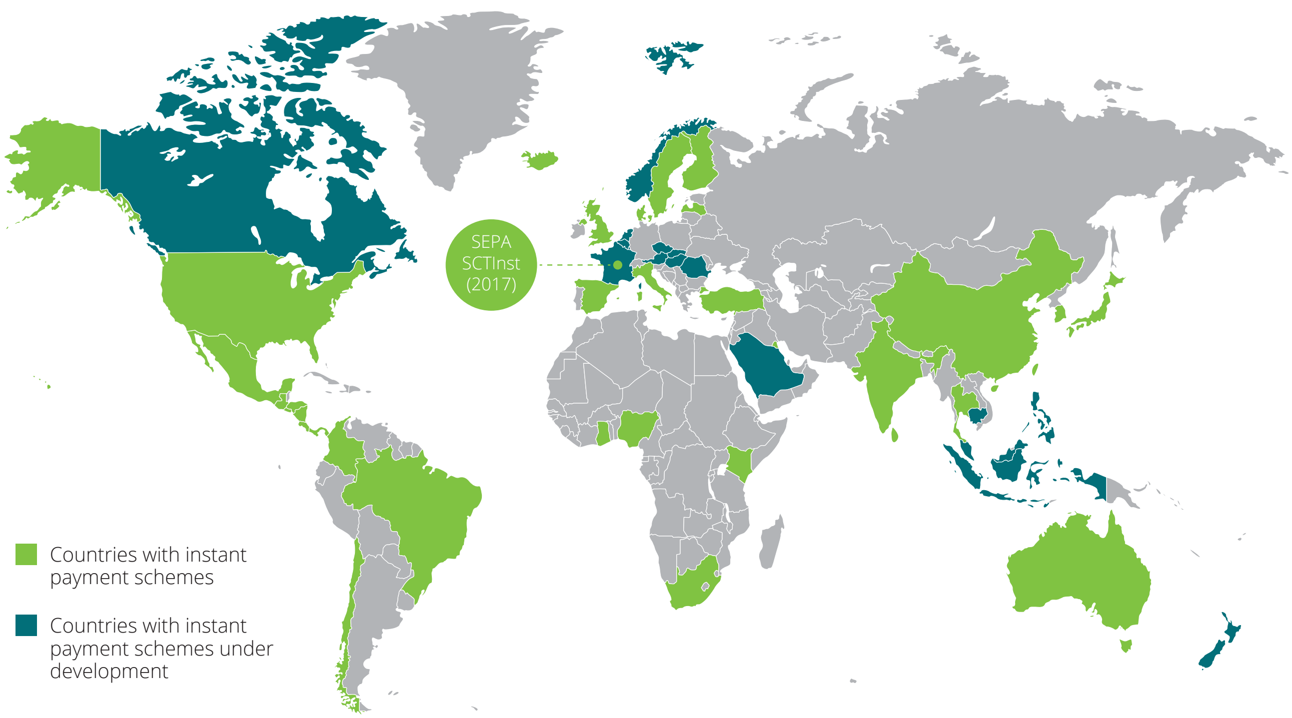
Countdown to the worldwide launch of instant payment

The concept of instant payment is not new. The first instant payments scheme was launched in 1973 in Japan. The mass movement to instant payments is quickly gaining traction globally. Led by the various central banks in close collaboration with market participants, real-time payment infrastructure for domestic payment is currently being rolled out in many countries around the world. Australia recently went live with its New Payments Platform (NPP), enabling customers to send money via a service called PayID.

By the first quarter of 2018, there were more than 44 active domestic instant payment schemes around the globe and a further 13 schemes planned or under development. Europe has also been at the forefront of this change with some country-driven instant payment initiatives such as SIC in Switzerland (1987), FPS in the United Kingdom (2008), BIR in Sweden (2012), and Elixir in Poland (2012). However, these instant payment schemes only operate within the borders of a country, or among the customers of the same payment service provider.

To avoid fragmentation, the European Payment Council launched the pan-European SEPA Instant Credit Transfer scheme (SCT Inst) on 27 November 2017. The SCT Inst scheme will increase the speed of euro payments within the European Union. The scheme has the potential geographical scope to cover 34 European countries and territories.

Instant Payment initiative across world - Q1 2018



Countries with live instant payment schemes

Australia - NPP (2017)
Bahrain - EFTS (2015)
Brazil - SITRAF (2002)
Chile - TEF (2008)
China - IBPS (2010)
Colombia - CENIT (2014)
Denmark - NETS (2014)
Finland - Siirto (2017)
Ghana - GhIPSS (2016)
Hong Kong - FPS
India - IMPS (2010)
Italy - Jiffy (2014)
Japan - Zengin (1973)
Kenya - PesaLink (2017)
Latvia - ZIBMAKSĀJUMI(2017)
Mexico - SPEI (2004)
Nigeria - NIP (2011)
Poland - ELIXIR (2012)
Singapore - FAST (2014)
South Africa - RTC (2006)
South Korea - HOFINET (2001)
Spain - Bizum (2016)
Sweden - BIR (2012)
Switzerland - SIC (1987)
Sri Lanka - SLIPS (2013)
Thailand - PromptPay (2017)
Turkey - BKM (2013)
United Kingdom - FPS (2008)
United States - RTP (2017)

Instant Payments takes off in Europe

The SCT Inst scheme was primarily launched to strengthen the single market and to bring around 500 million people into a single scheme for euro transactions. More than 600 PSP across Europe have enrolled in the SCT Inst scheme.
The key features of the SCT Inst Scheme are:

Key features of the SCT Inst Scheme

A universe of possibilities for the future

Instant payment has potential applications in a variety of customer segments. Banks will have to develop a value proposition taking into consideration the existing use case, solutions available in the market, and the characteristics of the service made available to target customers.

The following section highlights the various use cases and the likely candidate for instant payment in future:

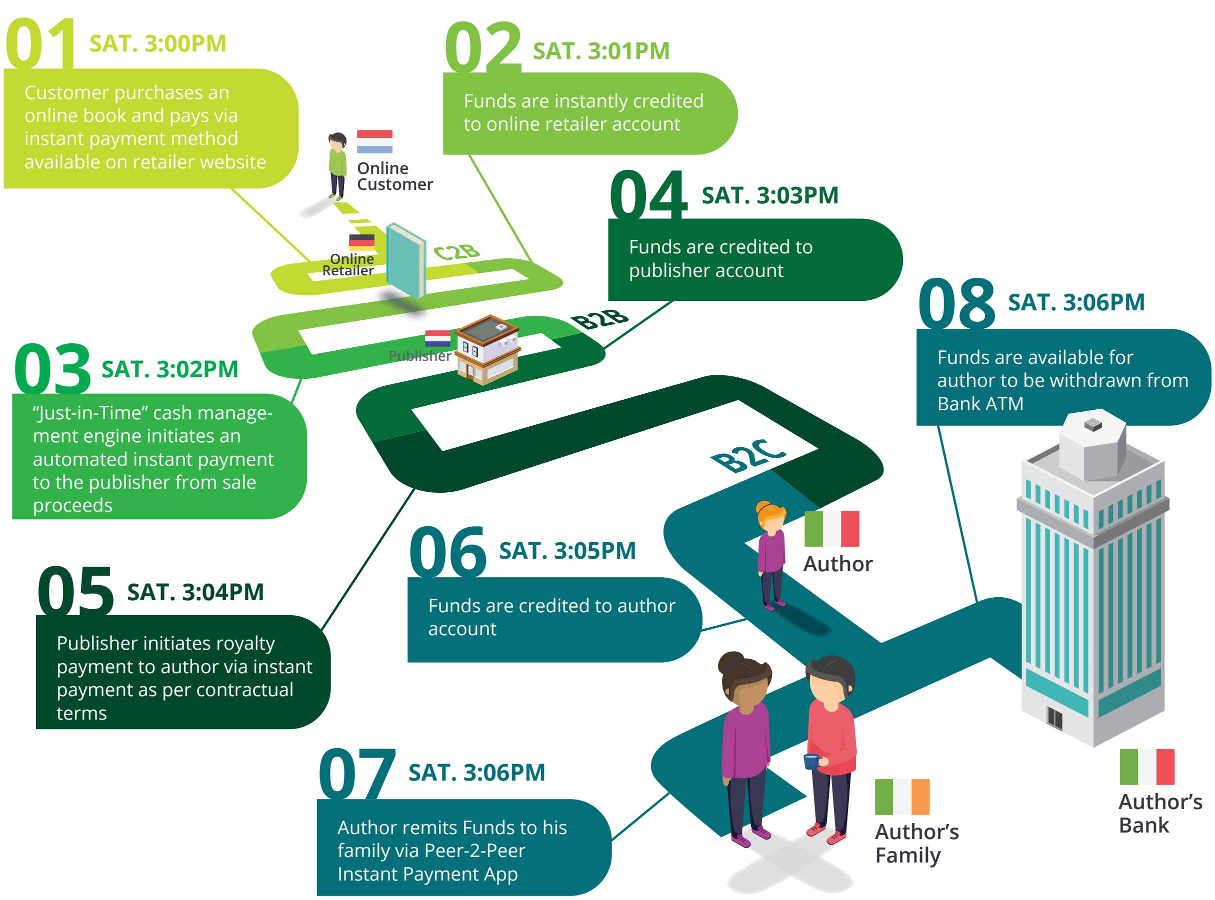
Peer-2-Peer (P2P)
Instant payment is likely to replace cash and checks for everyone with a bank account. The most suitable use case for instant payment in the P2P segment includes: emergency money transfer, remittance, rent payment, restaurant bill split, and payment for second-hand goods during non-business hours. Banks and FinTech firms can provide secure and anonymous payment mechanisms by developing a mobile-based service around instant payment (e.g., Pay to Mobile No. or Facebook ID). Likewise, banks can achieve significant cost savings by reducing cash costs arising from the distribution of cash, ATM maintenance, and security costs7. Increased usage of instant payment solution in the P2P segment will ultimately lead to a cashless society.

Consumer-2-Business (C2B)
A merchant can provide consumers with an alternative payment instrument to cards for e-commerce/bricks-and-mortar retail transactions. This will lower the payment cost for merchants and reduce credit risk for e-retailers on the sale of digital content such as music, movies, and books. The merchant can then pass the cost savings to consumers in the form of loyalty rewards. Likewise, instant payment also provides consumers with the convenience of paying bills at the last minute without incurring a penalty. Other notable use cases in the C2B segment include "pay-on-delivery" of physical goods and "pay-per-use" services.

Business-2-Business (B2B)
Instant payment will be more widely accepted for corporate payments if the transaction limit is increased (>€15,000). Banks can develop overlay services around B2B invoice payment for corporates to implement "Just-in-Time" cash management practices. Firms can achieve cost saving by efficient use of cash and the streamlining of the reconciliation process.

Business-2-Consumer (B2C)
An organization can also use instant payment for salary and pension payments. This would provide the recipient with faster access to funds.

Sneak-peak into Instant Payment Journey



Conclusion

"A chain is only as strong as its weakest link". Organizations around the world are constantly enhancing the service delivery model to provide a seamless experience to its customers. Payment being integral part of the ecosystem can no longer afford to be the weak link. Industry demands a payment product, which is instant, secure, cheap and available 24*7 across multiple channels.

Instant Payments is likely to be a new normal for retail transactions and potential substitute to Cash for Peer-to-Peer transactions. The Instant payment solution may find wider adoption beyond retail transactions if banks can further reduce the processing time (<10 sec) and increase the transaction limit (> €15,000). Instant Payment scheme is likely to bring a paradigm shift in European Payment landscape.

Organizations will have to adapt and embrace the change brought by Instant Payment. Firms have opportunity to disrupt the business model or alter the value-chain by aligning finance supply chain with physical supply chain. Instant Payment can help firms to implement "Pay-per-use" service model or "Just-In-Time" cash management practices.

In the new open banking ecosystem, Banks will have to define their strategic positioning from being an "Early Adopter" or "Wait & See Approach". With wider acceptance, Instant Payment is likely to impact existing revenue for Banks from Cards, Wire payments or Credit Facility. Banks can choose to collaborate with Fintech to create next-gen payment / Cash management services over Instant Payment infrastructure. In years to come, Banks will be required to offer instant payment solution to its customer similar to ATM services.