

Instant payments

Real time payments are currently the number one topic in the payments business. They represent another major upheaval for the European payments business. The implementation period began with the publication of the final regulations on Real Time Payments. First implementations went live end of 2017. Further development in 2018 due to TIPS.



Overview

Instant payments are a hot topic worldwide and a driving force of innovation in payment methods. The ECB's Euro Retail Payments Board (ERPB) first put the topic on the agenda in 2014 and is working together with banks and other industry players to ensure that implementation is as rapid, efficient and consistent as possible. The publication of the final regulations on SEPA instant credit transfers (SCT^{INST}) end of 2016 marked the beginning of the implementation period with first solutions ready at the end of 2017. 2018 will see further development due to TIPS as a new player in clearing systems.

The focus is on the following main aspects:

- Availability: 24/7/365
- Immediate availability to the recipient of the payment
- Retail and P2P payments
- Pan-European interoperable standardisation
- Clearing virtually in real time
- Single transactions instead of batch processing

Definition

The ERPB defines instant payments as electronic retail payments that are available 24/7/365.

Interbank clearing should be immediate or close-to-

immediate and the transactions should be instantly credited to and available on the recipient's account.

This is irrespective of the payment instrument used and of the underlying arrangements for clearing and settlement.

Various possible procedures are currently under discussion at the European level and testing is being carried out to determine whether the SCT^{INST} infrastructure must be completely rebuilt or whether use could be made of an existing infrastructure during a transitional phase.

Procedure

Around the world a number of proprietary stand-alone solutions exist for handling payments in real time or close to real time. In Europe, several non-euro instant payments solutions are already in use and euro solutions are currently being created. Integrating these systems into a standardised framework will be a critical success factor over the next few years.

Determined to foster a holistic pan-European instant payments system, the final version of the SEPA instant payments rulebook was published in November 2017. First solutions went live end of 2017 with limited reach. Further development will be seen due to the new clearing system

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TIPS, which will create a greater reach for participating banks.

Participation is still optional, although it is conceivable that mandatory regulations will be introduced if market penetration will still be low after a certain period of time.

In addition to uninterrupted clearing, prompt settlement of the payments is currently seen as a major challenge for continuous real-time processing. Settling the full volume of European payments in real time is hardly feasible with today's systems and processing logic.

Furthermore, the processing of a steadily growing number of instant payment transactions will not be feasible without extensive changes of banking systems. The large number of interfacing systems which deliver or receive data contradicts with the speed needed to process transactions with the efficiency required for instant payments. With increasing adaptation of real time payments in the banking industry, processing risks will arise. These risks have to be addressed and mitigated.

Existing systems will need to be gradually adapted and expanded to enable real-time processing. In addition, however, the obsolete nature of many system components means that an entirely new infrastructure needs to be set up in parallel to the payment systems currently in place. It remains uncertain when and if instant payments will displace traditional credit transfers and become the standard form of payment in Europe.

On top of the actual construction of an instant payments handling system, European banks will also face high integration costs.

Challenges

Both the creation of a new instant payments infrastructure and the comprehensive upgrading of existing payment systems will have significant effects on the European payments landscape:

- Guaranteeing availability 24/7/365 involves far-reaching changes in organisational structure.
- KYC and AML services need to be capable of analysing data and making decisions in close to real time.

- IT processes will have to be adjusted, as the current habit of running system upgrades on bank holidays will no longer be possible.
- Furthermore the continuous update of the scheme will lead to continuous changes in the bank's instant payments infrastructure.

Outlook

Instant payments will result in far-reaching changes to the payments and IT landscapes in the coming years, and will require fast solutions and forward-looking planning. Pilot systems are live since the end of 2017 and in 2018 a larger number of banks will bring their instant payments systems to the market. Interoperability must be assured and existing systems must be made ready for real time.

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- Strategic specialist advice
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- Project management
- Test management and test execution
- High competence in e-banking products

Conclusions

Instant payments are coming!

- Time to market is a critical factor.
- High demands on existing systems
- Far-reaching implications for clearing and settlement
- Existing business models need to be rethought.
- New fee structures required

For questions and further information:



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