Instant Payments
Adapting to a worldwide trend

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Advantages of instant payments

- Payments are **immediately available** for the beneficiary at all times
- Payments are processed **24/7/365**
- Full **transparency** through notification messages for payer and payee
- Use of **mobile phone number** as a proxy for the IBAN will improve usability
- For **merchants**: Possible fee reduction because of disintermediation

Essential for mobile, online and P2P-Payments
Possible use cases

Overview (1)

Person-to-Person Payments (P2P)

- Can accelerate user acceptance (e.g. in Denmark and Sweden)
- Users can familiarize themselves with the application
- May open the door for further use cases

E-Commerce

- Risk minimization for the merchants due to irrevocability of real-time payments
- May be a substitute for other (expensive) e-Commerce payment methods
- Merchants have to incorporate the notification message in their systems to reap full benefits
- Suitable for digital goods
Possible use cases

Overview (2)

**Point-of-Sale (POS)**
- Similar to the use in e-Commerce, Instant payments may substitute other payment methods
- Could lead to cost savings for the merchant
- May lead to a slow decline in cash usage

**Business-to-Business (B2B)**
- Just-in-time delivery companies could be disbursed immediately
- Instant Payments may offer flexibility in cash-management, but cash has to be managed 24/7/365
Main Challenges

- Banks have to adjust their IT-infrastructure to the demand for 24/7/365 real-time payments
- Attractive end-user solutions have to be developed to encourage the use of Instant Payments
- For broad usage, reach has to be achieved quickly

Main risks

- **Liquidity risks**, because of liquidity management outside of regular business hours
- **Fraud risks**, real-time payments enable real-time fraud
- **Reputational risks**, delays in payment processing are immediately visible to the customer
The European Payments Market

**Eurozone**
- Countries: 19
- Population: 339.3 mln
- Banks: 5,305
- Payments per year: 68.1 bln

**EU-28**
- Countries: 28
- Population: 508.2 mln
- Banks: 6,898
- Payments per year: 103.2 bln

**SEPA**
- Countries: 34
- Population: approx. 520 mln

European approach
Instant payments - the situation in 2014

- **SEPA migration** nearly completed

- Meanwhile, **national real-time payment solutions** started to arise, including
  
  - Mobile Pay in Denmark (started in 2013)
  
  - Faster Payments in UK (started in 2008)
  
  - Swish in Sweden (started in 2012)

- **Danger of re-fragmentation** in the euro area
  
  - The need for European coordination arose
Initiation of a discussion on Instant Payments with an advance of the European Retail Payments Board (ERPB) in December 2014

The objective of the ERPB is to contribute to and to facilitate the further development of an integrated, innovative and competitive market for euro retail payments in the EU with an involvement from the supply side as well as the demand side of the market and chaired by the ECB.

Definition of Instant Payments:

- Electronic retail payment solution available 24/7/365
- Immediate or close-to-immediate interbank clearing and crediting of the payees account
- Conformation to the payer (within seconds of the payment initiation)
- Irrespective of underlying payment instrument used, clearing arrangements and settlement

Goal: At least one Instant Payment solution (pan-European or mutually interoperable) to be available to all payment service providers in Europe
European approach

The SCTinst scheme (1)
European approach

The SCTinst scheme (2)
European approach
TIPS as a Eurosystem contribution

- Liquidity on TIPS accounts is included in the minimum reserve calculation

- TIPS-Costs:
  - No fixed fees
  - No joining fees
  - 0.002 EUR per transaction
European approach

TIPS as a Eurosystem contribution

Vision 2020

Key Aspects

- Enhancement of services
- Consolidation of technical infrastructure
- Cost reduction
- Contribution to further market integration

→ Instant Payment involvement of the Eurosystem
  - Eurosystem as catalyst for pan-European Instant Payments
  - Providing efficient settlement with central bank money
  - Prevent a re-fragmentation of payment markets
Outlook
Future of instant payments

Instant Payments

- Attractive products are needed (not only „rails“)
- Joint efforts by the banking community might help:
  ex.: SCT\textsubscript{inst} as the „default“ for all online- / mobile initiated payments
- Combination of IP and „open banking“:
  opportunity for new business models
- Competitiveness toward other payment instruments

Success factors

- Convenience
- Cost
- Security
- Reachability

Do you want to pay instantly?
- Yes
- No
Outlook

Lessons learned

- End users demand real-time payments in a real-time world
- Due to conflicting interests of market participants, coordination was needed
- Banks embracing Instant Payments may gain a competitive advantage and ward off competition from FinTechs
- Adapting the systems takes time and a change of mindset