

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

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



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)

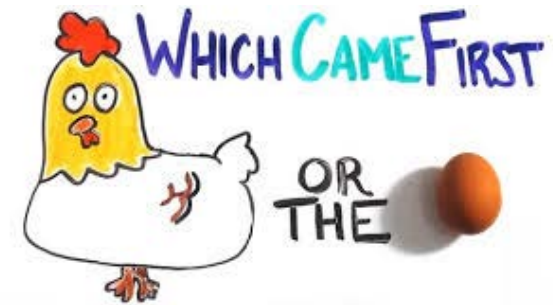
- Just-in-time delivery companies could be disbursed immediately
- Instant Payments may offer flexibility in cash-management, but cash has to be managed *24/7/365*



Challenges and Risks

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



Source: ECB (2016), European Commission (2015)

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



A market-driven approach

- 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
 - Confirmation 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**

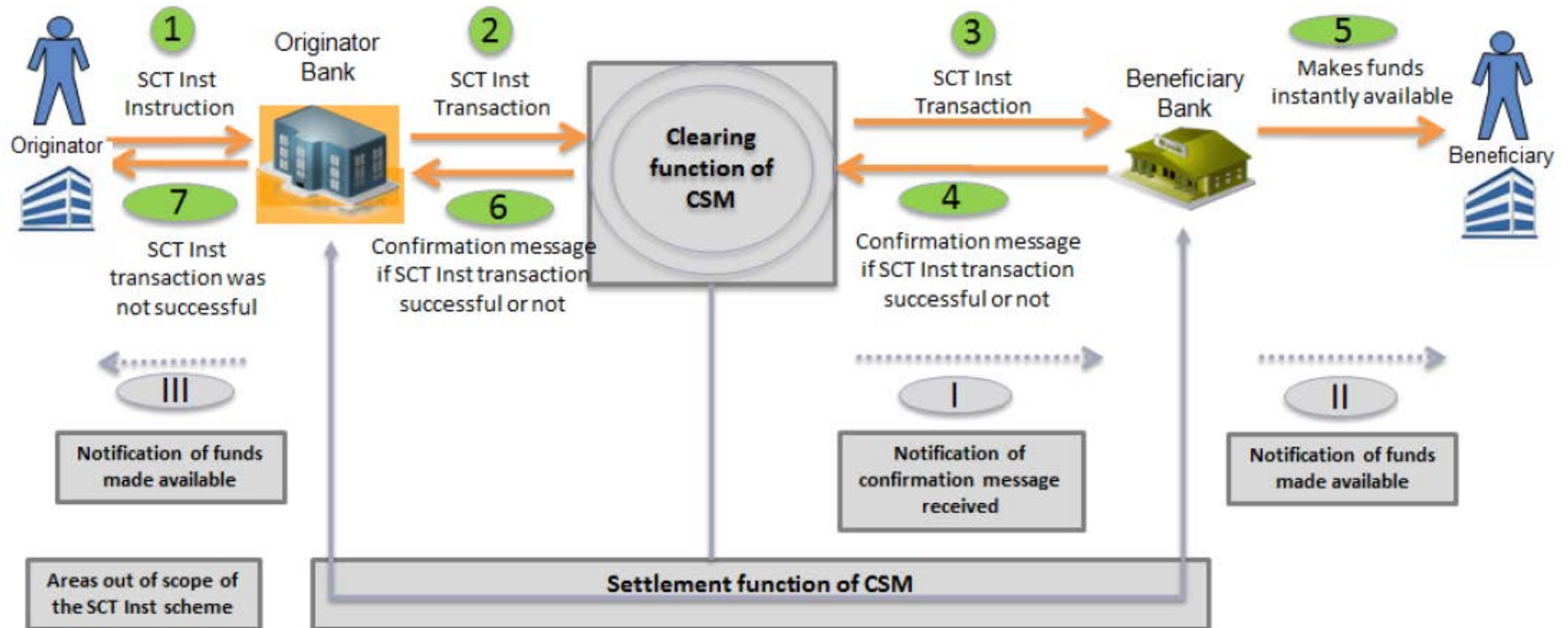
The SCTInst scheme (1)



Source: EPC

The SCTInst scheme (2)

Overview





24/7/365
operating hours



Support compliance with
SCT Inst scheme



Multi-currency
technical capability



Settlement in
central bank money



Processing time
within **10 seconds**



Operated on
full cost recovery

- Liquidity on TIPS accounts is included in the **minimum reserve** calculation
- TIPS-Costs:
 - No **fixed fees**
 - No **joining fees**
 - **0,002 EUR** per transaction

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

Future of instant payments

Instant Payments



- **Attractive products are needed (not only „rails“)**
- **Joint efforts by the banking community** might help:
ex.: SCT_{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**

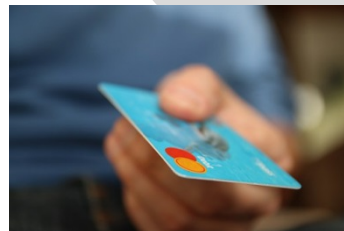
Success factors

Convenience

Cost

Security

Reachability



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

