

The instant payments business case - for banks

Banks everywhere are under pressure from customers as well as regulators to deliver an instant payments service that never fails and is available around the clock. The investment necessary to achieve this is substantial, while the returns are less certain. The Dutch banks have committed themselves to delivering an instant payments service open to consumers, businesses and the public sector by May 2019. Inge van Dijk, Programme Manager, Instant Payments, at the Dutch Payments Association, explains how the Dutch banks are going about delivering that promise.

“Consumers and companies should be able to send and receive instant payments (within five seconds) both on-line and face-to-face, 24 hours of the day, any day of the year.” This was the bold statement of the Dutch Payments Association, the trade association of the banks, payment institutions and electronic money service providers in the Netherlands, in May 2015.

The Association set its members the goal of achieving this objective within four years. The Dutch project fits with the plans - led by the European Payments Council (EPC), under the guidance of the European Retail Payments Board (ERPB) - to design and build a pan-European instant payments scheme.

A year and a half later, the Dutch ambition is still on track. The majority of members of the

Association have committed themselves to offering instant payment services from 1 May 2019. The speed of the payments is also set at a maximum of five seconds, which means instant payments will be at least as fast as the current debit and credit card experience of consumers. In other words, from May 2019, instant payments within five seconds will be normal in the Netherlands.

Dutch consumers and businesses want instant payments

Feedback on the timetable and the implementation plan is unanimously positive, from both consumers and retailers in the Netherlands. Merchants in particular have welcomed the proposed service, because it has the potential to provide them with instant

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access to the revenues they generate over the weekends, when shops are open but banks are not.

Other likely users that have welcomed the prospect of instant payments are eBay-like on-line marketplaces active in the Dutch market, whose users will be able to make instant peer-to-peer payments; companies that can pay temporary workers as soon as a job is done; and on-line consumers that want to pay instantly for immediate delivery of goods.

Support from business and the consumer is essential, because in the end it is the potential customers that will determine the success or failure of instant payments in The Netherlands. To attract as many as possible, the new instant payments infrastructure will be designed to cater for transfers between any and all parties in the Dutch economy, whether they are consumers, businesses or government organisations. Naturally, this implies that the infrastructure must be robust, and have sufficient capacity to support growth in the volume and value of payments - without limit.

The importance of cultural change

Whether to offer customers instant payments-based products and services is a choice now being considered by many payment service providers (PSPs) – not only in the Netherlands, but in Europe and beyond.

The principal challenge they face is the shift in service mind-set required by instant payments. Moving from making payments within the same business day to providing instantaneous payments necessitates a comprehensive review of the service offering to adapt it to a culture of “always on” and “always-available.”

This cultural change applies not just to peer-to-peer payments between consumers, but also in consumer-to-merchant and business-to-business transactions. Banks are conscious they must create a worthwhile end-user experience, or take-up of their instant payments proposition will be slow and uneven.

However challenging the cultural shift, it is one banks know they have to make. If they do not take committed steps now to deliver instant payment services, someone else will likely do it for them. To retain existing customers, let alone secure new ones, the banks know they must develop and deliver products and services that make good use of the new possibilities created by an instant payments infrastructure and go far beyond the current portfolio of payments products offered by banks.

Technology and operating procedures need comprehensive review

In addition to assessing the impact of instant payments on their existing products, and developing new services to generate fresh income streams, banks have understood that they will also need to control their costs and future-proof the investments they will have to make.

Banks will need to undertake comprehensive reviews of their technological infrastructures and operational processes. Their systems have to work within low latency, 24x7 operating timetables and zero down-time constraints to deliver a minimum of 99 per cent availability.

Demands of this kind mean the impact of instant payments reverberates across their entire payments architecture. Security and identity

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management, initiation channels, payments order management, payment engines, core banking account management, fraud systems and archiving systems all have to be adapted to the increased speed of payments.

Long-term gains can be secured by consolidating currently fragmented payments applications, processes and platforms, but this requires time and investment, which the business case does not always support.

This is especially true of a marketplace in which technology is changing fast. The fast pace of change in digital banking technology confronts banks with an unenviable choice between moving quickly to take advantage of immediate opportunities and planning for the future, when ideally they would like to do both.

Banks must choose whether to compete or collaborate

It might seem obvious that the members of any banking community developing an instant

payments infrastructure should collaborate to develop the “scheme”¹ which will be supported by the clearing and settlement services provided by the infrastructure. However, it is the additional customer services layer that should be the focus of their individual efforts. For PSPs, the service layer is of course a very important aspect of the investment.

In making their plans, PSPs can certainly learn from their peers. A number of instant payment infrastructures are already in operation, so banks can benefit from the experience of the early adopters who have made a success of instant payments. That experience can explain not only the factors that govern success, but those which hamper it.

This prompts an interesting question: how far should banks go in collaborating with each other to develop instant payments services? Banks have divergent opinions on this question. Some are developing proprietary services to compete fiercely for customers. Others have chosen to collaborate, especially in the provision of mass-market services such as peer-to-peer mobile payments. When it comes to planning for success in instant payments, the guide book to success is still being written.

¹ “Scheme” is payments industry shorthand for a collection of business rules and technical standards for the execution of payment transactions within a particular community.

“Where is the real-time payments business case?” at Sibos

Thursday, 29 September 2016
10:15 - 11:15
Workshop B