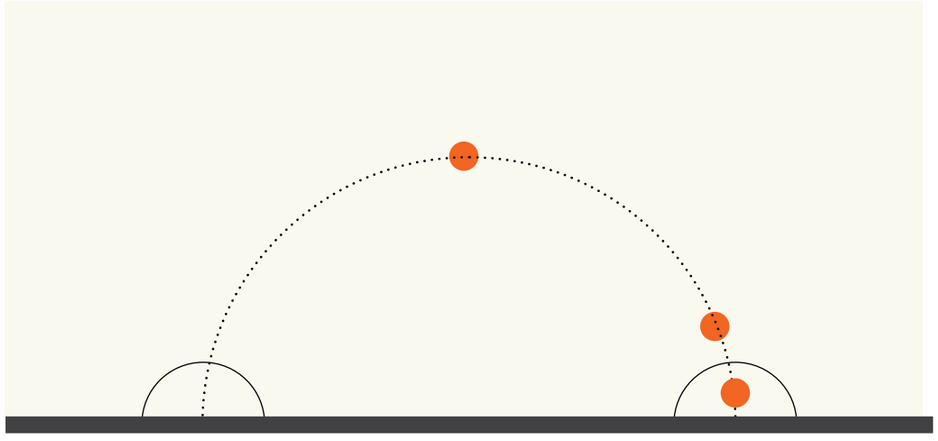
# *Sharing what SWIFT has learned about RT-RPS*

**The case for real-time retail payments systems (RT-RPS) is increasingly apparent in business-to-business (B2B), person-to-business (P2B), and person-to-person (P2P) transactions. Instantaneous or near-instantaneous posting of payments is now a reality in 18 countries, and a further 12 are either building, or planning to build, or exploring a RT-RPS. Europe is also looking to enhance the Single Euro Payments Area (SEPA) by adding a RT-RPS. Although there are differences between the approaches to RT-RPS between countries, they have in common both adoption of the ISO 20022 data standard, and a commitment to operating 24 hours a day, seven days a week, 365 days a year. SWIFT has a natural interest in the development of RT-RPS. It was involved in the construction of many large infrastructure projects, such as TARGET2, TARGET2 - Securities (TS2) and Continuous Linked Settlement (CLS), and is now building the New Payments Platform (NPP) in Australia. It is also part of the mission of SWIFT to monitor important infrastructural developments, and to inform and educate its members about their implications. Which is why SWIFT is publishing a series of white papers on RT-RPS. The first two of these, The Global Adoption of Real-Time Retail Payments Systems, and Guidelines for the Next Generation of Real-Time Payments Systems, are now available. MI Forum Magazine editor Dominic Hobson asked Carlo Palmers and Elie Lasker, senior market managers for real-time payments, at SWIFT, what the white papers can tell readers about the origins, costs and benefits, and future direction of RT-RPS.**



**Hobson**: Are consumers asking for RT-RPS or is it entirely the creation of regulators?

**Palmers**: The regulators have taken this up, but the original push came from consumers. There is an expectation in the market that payments need to be faster, because the delivery of goods is faster. At Sibos in Boston last year, it was pointed out that, in some cities in the United States, eBay now guarantees delivery within one hour. If the payment for that delivery still takes days, despite the fact it is completely electronic, it is no longer acceptable to consumers. Many question the need for instantaneous payment, but there is now undoubtedly an expectation among consumers that beneficiaries should not have to wait for their money.

**Lasker**: There are already services out there that offer a form of real-time payment, including PayPal, so real-time is becoming the new normal. In common with other innovative products, what starts as a luxury soon becomes a necessity. Eventually, of course, a necessity becomes a commodity.

**Hobson**: What do the regulators want from RT-RPS?

**Lasker**: It depends on the country. The Mexican central bank, for example, has mentioned financial inclusion as a key driver. In other countries, there is a need to attract foreign direct investment, so the regulators are pushing not only for faster payment, but for a well-ordered and well-functioning payments system. Other regulatory drivers include consumer protection and transparency. So there are multiple dimensions and, depending on the country, one dimension will weigh more heavily than another.

**Palmers**: Real-time is intended to replace a number of existing methods of payment. But one of the methods regulators certainly want to replace is cash transactions, which are of course a form of real-time payment. If real-time payments are passing through the banking system, regulators have better visibility and greater control.

**Lasker**: One of the biggest arguments in favour of RT-RPS for the banks is the reduction in the circulation of cash, because the cost of printing, transporting and handling cash is extremely high. It is costing the European banks alone billions of euros a year.

**Hobson**: What else is in it for banks?

**Lasker**: Banks are supporting RT-RPS to re-intermediate themselves.

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Ultimately, transactions will always settle via the banking system even if they are captured and initiated by third parties, but this means that banks are giving up on customer intimacy. By supporting instant payments they can retain the relationship with the customer. They can see the transactions, and understand what their customers are doing, so they have the business intelligence to cross-sell.

**Palmers**: When banks started thinking about RT-RPS, they focused on mobile payments. But building a business case for RT-RPS on P2P mobile transactions alone is difficult, so banks are now developing “overlay” services that offer additional value to consumers, companies, and e-commerce platforms. If an e-commerce platform is linked to an RT-RPS, buyers and sellers can not only trade in real-time but close deals in real-time. If those payments remain within the banking community, then the banks have full sight of the reason for the payment, who is paying who, and for what reason. “Big Data” is a hackneyed expression, but it is essential for banks to keep track of what their customers are doing, if they are to grow their own business by helping their customers to develop their business.

**Hobson**: Are businesses demanding RT-RPS?

**Palmers**: Any consumer who is using real-time payment in his private life will expect to be able to pay and get paid in real-time in his business life as well.

**Lasker**: RT-RPS allows businesses to optimize their working capital. If they have to wait to get paid, they need more working capital. RT-RPS also means they can release goods to customers sooner, because they do not have to wait so long for the money. That gives them a further competitive advantage. RT-RPS does not just speed up the financial transaction. It speeds up the whole transaction. It also makes transactions more efficient. Moreover, because most modern RT-RPS use ISO 20022 messages, payments can carry more information about who the payment is from, and what it is for. This translates into massive savings for businesses in their reconciliation departments.

**Hobson**: Can ISO 20022 do even more, and link RT-RPS across borders?

**Palmers**: ISO 20022 will likely become a requirement for inter-operability across borders, or at least will facilitate this. Cross-border RT-RPS is going to happen much sooner in Europe because euro payments systems have to provide equivalence between cross-border and domestic payments services. There will be either a single system for Europe or inter-operability between multiple domestic systems in Europe.

**Lasker**: For systems to inter-operate successfully, even a common set of standards is not enough. A common set of behaviours, i.e market practices, is required too. Banks exchanging payments in real-time have to behave in the same way, in terms of which message is used, how it is populated, how much time is taken to respond, and how exceptions are handled and repaired. It is critical that the rules of behaviour between banks are harmonized to ensure systems interact in the same way.

**Hobson**: Who can agree and enforce those harmonized rules of behaviour?

**Palmers**: In the payments industry, such sets of rules are called a “scheme.” The euro-zone banks had to agree a scheme ahead of the introduction of SEPA. The

banks in the United Kingdom had to agree one before the introduction of Faster Payments. The Australian banks are doing the same ahead of the NPP. Agreeing a scheme in one country is already difficult. Agreeing a scheme that crosses currencies, time-zones and settlement mechanisms is even more difficult. In Europe, fortunately, the banks can build on the SEPA rules. Even so, an RT-RPS scheme will have to go beyond the SEPA rules, because it is expected that banks will have only three seconds in which to agree a real-time payment. The expectation is that the European Payments Council (EPC) will step in and work on such a scheme, but it could also be done by the operator of the RT-RPS.

**Lasker**: Even if the EPC defines a pan-European set of rules, it does not guarantee that countries outside the euro-zone will follow the same rules. If we are to have a global RT-RPS, all participating domestic and regional schemes will need to harmonize their rules.

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**Hobson**: Which of ACHs and RTGSs stands to lose or gain most from RT-RPS?

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**Palmers**: Both RTGSs and ACHs will have to adapt, but in different ways. ACHs process payments in batch files while RT-RPS handle instructions one-by-one. To go from batch - where you can postpone processing until sufficient files are available - to processing payments one-by-one is a major step. It entails a switch from operating specific hours during the working day to operating 24/7/365. So ACHs will definitely have to change. But RTGSs will also have to extend their operating hours, and add the capacity to cope with much higher volumes.

**Lasker**: We have not yet seen an RTGS lose traffic when an RT-RPS is established in a currency. RTGSs are considered as systemically important systems and typically do not mix urgent high value payments with lower value – and less urgent – retail payments. We have seen traffic from the ACHs moving to the RT-RPS. So ACHs probably need to react first. In the future, however, the borders between ACHs, RTGSs and RTRPS are likely to blur and, in the longer term, converge.

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**Hobson**: Are ACHs adapting yet and, if so, how?

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**Palmers**: We have not seen an ACH take up the challenge and roll out a RT-RPS. In the countries where a RT-RPS is in place, it is a new system built next

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to the existing one. There are also a few countries where the RTGS is taking over the role of a RT-RPS, but no ACH is doing the same.

**Lasker**: What we have seen is some of the RT-RPS offer to process batch payments. Faster Payments in the United Kingdom, for example, processes batch payments, allowing its members to offer same-day value, whereas the BACS system still takes three days.

**Hobson: Will RT-RPS ultimately replace the RTGSs or the ACHs?**

**Palmers**: As Elie said, banks are still willing to treat systemically critical payments separately. But, from a functional point of view, a RT-RPS could handle a RTGS payment as well. Will the ACHs disappear? It still makes sense for certain types of payments to be netted and batched. For example, if a major telecommunications company is paying salaries to 50,000 employees, it makes more sense for them to deliver a bulk file to their bank and say, “Look, this is the debit account. Debit it once and pay these 50,000 employees.”

**Lasker**: To some extent, ACHs have already started to adapt, not by building RT-RPS, but by multiplying the number of settlement cycles. This allows the banks to post payments intra-day.

**Hobson**: What is SWIFT doing to help the transition to RT-RPS?

**Palmers**: The best way to answer that question is to look at the components we are building for the NPP in Australia. We are re-using as much of the existing SWIFT infrastructure of the Australian banks as we can. We are also decreasing our latency by installing a new protocol that allows messages to be processed locally rather than via remote operating centres, which increases the speed of the transactions. We are also re-using and upgrading interfaces to ensure we orchestrate the flow of messages in accordance with the demands of the NPP.

**Lasker**: Carlo is talking in terms of solutions. RT-RPS is also a relatively new topic. Like any new topic, it has triggered a lot of discussion. SWIFT provides a space where the industry can discuss RT-RPS, agree and disagree, and work on standards. Because we are neutral, we can facilitate dialogue between stakeholders, whether they are banks, central banks, vendors, or market

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infrastructures. The other aspect of our work is educational. Because RT-RPS is a new topic, people in the industry need to be brought up to speed, and that is a natural role for SWIFT to play. That is why we are publishing a series of white papers.

**Palmers**: SWIFT is important to standards too. One of the reasons SWIFT was created was to provide a place where standardization can be discussed. With this new type of transaction, that discussion is something that needs to happen. Standards are really important to RT-RPS.

**Hobson**: What has SWIFT learned from its experience in Australia so far?

**Palmers**: The commitment of market participants to collaborate is absolutely essential. In markets where there is insufficient commitment, a system might be created, but it is not successful. In Australia, by contrast, a large majority of the banks are so committed, co-operative and collaborative that it is really helping to drive the project forward. Almost the whole Australian banking community, including the central bank and the regulators, came together. They found each other. Although the NPP was driven at first by the central bank, once the commercial banks started to think about the overlay services that they could put in place, and of the potential benefits that the new platform could bring to their business, there was incredible commitment and drive from them to make it happen.

**Lasker**: The NPP is a project that is forcing us to re-think the way we function and alter the assumptions we make too. Today, for example, SWIFT does not offer all its services 24/7. The fact that we are entering a new market – and a retail market – where operating 24/7 is a given, has forced us to change our outlook. So NPP is a health-giving project for SWIFT. It is stretching the boundaries of the co-operative and the way we think. SWIFT is being changed by this.

**“Come and discuss real-time payments with us...” at Sibos**

**Monday 12 October 2015**
**15:30-17:00 p.m.**
**Conference room 1**

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