Payments are getting faster

Instant payments is one of the biggest payment trends across the globe.

Instant payment schemes are being explored by major economies such as the US and Australia. However, a number of countries have offered this type of payment for some time, for example, the UK and Switzerland have benefited from instant payments for nearly a decade.

In the UK, when the Government asked the industry to shorten the clearing cycle to same-day payments, the industry went a step further and introduced real-time payments instead.

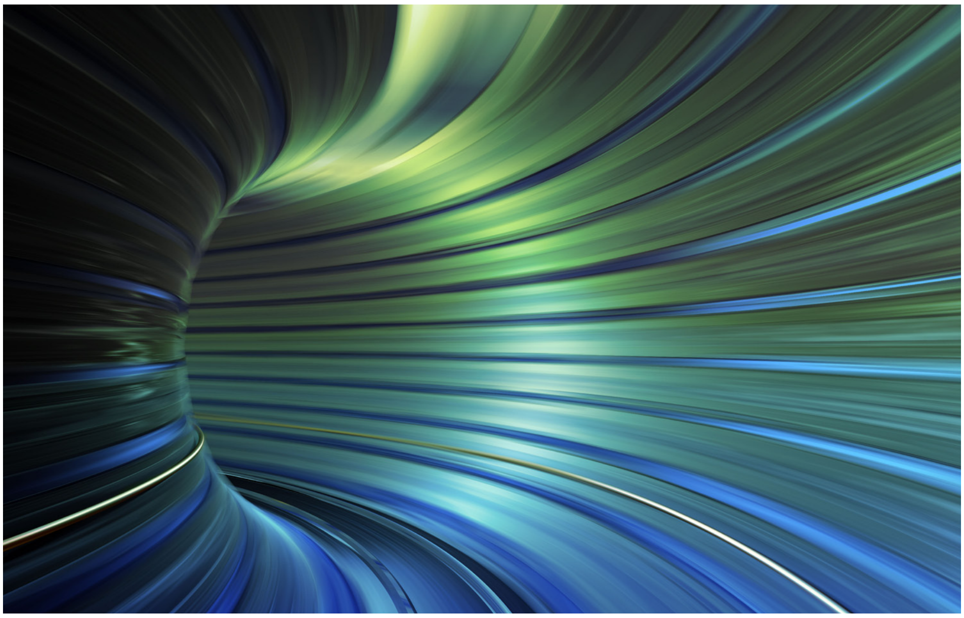
The resulting UK Faster Payments scheme was launched in May 2008 and it has underpinned the accelerating trend from physical payments (cash) to digital payments. A tipping point was reached in 2014, when for the first time in the UK, digital payments outnumbered those made by cash.

Such is the adoption of faster payments that volumes are predicted to grow by 101% between 2015 and 2025, reaching over 2bn payments each year[1]. This means that millions of millennials have come to see the speed, convenience and simplicity of the service as nothing special – just the norm.

Customer benefits

Both consumers and corporates benefit from faster payments. Consumers enjoy making payments between friends or paying bills and tradespeople in seconds. They can even drive away in a new car moments after buying it without having to wait for a cheque or draft to clear.

For corporates, faster payments enable an enhanced experience, for example, payroll management is easier as staff can be paid more efficiently and quickly than in the past. Supplier payments can be made and received quicker to improve cashflow and debtor management.



As faster payments is now a global trend, what learnings are available from the UK experience?

Industry lessons learned

- An industry-wide approach saw stakeholders working together to develop the propositon and its roll out. This meant that the whole industry was on board with standards built in a consensual and co-operative manner. In addition economies of scale could be reached, an example is the industry-wide communication strategy that supported roll out.

- Wide reach on launch meant that the vast majority of customers had access to the proposition and its benefits. This avoided a fragmented confused approach where some customers had access and others did not. Similarly, industry-wide minimum and maximum transaction limits supported adoption.

- Phased migration by channel e.g. Standing Orders, rather than a big bang approach helped users to become familiar and comfortable with the scheme, this approach also enabled controlled channel and revenue substitution.

- A common technical standard means that faster payments are not only interoperable with new and legacy systems but are scalable. When faster payments was built nearly a decade ago the ISO 20022 standard was in its infancy, and not used.

Bank lessons learned

Integrating an instant payments system is a complex task affecting nearly every aspect of a bank including, but not limited to, technology, operations, risk, credit, balance sheet management, marketing and communications and of course its people. Major changes are needed to manage payments that in the past typically took up to 3 days to

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process. Integrating an instant payments system into bank infrastructure is only one side of the coin; the other side is to integrate the system into customer channels such as mobile and digital.

Beyond the impact on bank technology, customer support must be considered, for instance is there a need to offer 24/7 help desk support? Decisions like this need to take into account Twitter, Facebook and other social media.

Harmonised scheme and bank limits provide certainty to customers and help increase adoption. However a balance is needed to ensure that rigid limit requirements do not stifle wider adoption and become a barrier to entry. Changes to limits could impact other products; robust holistic product management is needed to ensure a balanced customer proposition e.g. treasury management.

While value moves in seconds, the UK settlement cycle does not, the UK has deferred net settlement, which requires careful management. Depending on flows, there is potentially an impact on liquidity requirements, as deferred settlement might necessitate covering exposures with additional capital, liquidity and commensurate costs.

From a corporate customer perspective, new systems such as faster payments need to be integrated into ERP systems where certainty of cashflow, treasury operations and liquidity is paramount. Instant payments can be more challenging to handle especially when received over the weekend.

Is launching instant payments the end of the journey?

Delivering an instant payments scheme is a huge achievement, however to really optimise ROI, delivering the scheme is the start and not the end of the journey. Designing and implementing a platform that is scalable and can be used to launch further innovation is the prize.

[1] Payments UK's 2016 UK Payment Markets report

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