Three advantages of instant payments for banks and why they should modernise as soon as possible

by Mark Munne

Instant payments have become a reality now that the European Payments Council has released the rulebooks for an instant credit transfer scheme. These rulebooks (approved in November 2016) aim to bring real time money transfers in the SEPA zone by November 2017. Instant payments are the next big change in the payments industry, expected to have even more impact than the transition to SEPA. Mark Munne, Senior Product Marketing Manager at equensWorldline, explains in this article why banks should embrace this evolution in payments.

Munne: "The use cases of instant payments are very interesting. Splitting a restaurant bill. Paying for the loaded cargo on a ship waiting in the harbour on Sunday. Buying a used car without carrying an envelope full of cash. Or paying your plumber for an emergency repair in the house late at night."

Being able to transact instantly and on a 24/7 basis is expected today and the ability to execute a payment instantly offers great value to all parties in the value chain. Consumers benefit from the increased convenience, corporates benefit from the increased liquidity and reduced risk and banks are able to position the bank account back in the centre of payments and design new products tailored to the fast moving markets of today and the future. Instant payments offer a perfect fit to the commerce of today.

In order to achieve these benefits however, banks will need to update their systems because the whole chain needs to support the instantaneousness of payments. The transition to SEPA made that banks updated their systems to new standards, but the pace of payments didn't make the next step. Munne: "The step to instant payments is the catch-up effort to modernize the payment industry in line with the rest of the digital world. It is safe to assume significant investments are needed to make instant payments possible, compared to or even higher than the investments needed to migrate to SEPA."

This amount of investment can only be made when banks can profit from it too. The transition to instant payments have three main benefits for banks.

1. Modernisation of the systems

Munne: "Even though updating the backend of the banks may be a matter of compliance due to the upcoming EPC rulebooks, banks can take this opportunity to develop new services for customers. The platform to facilitate instant payments has to be made, why not take the next step and develop innovative overlay services? The availability of an instant payments platform offers banks an enticing opportunity to achieve the transaction speed consumers expect of their banking experience and increase the customer satisfaction, while providing the required financial return."

2. Lower Cost

Munne: "With instant payments, more transactions will be

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made digitally instead of in cash, which means that payments will become less expensive and more user friendly. It is important that, when we move to instant payments as an industry, we do so while maintaining the high security, low risk and low fraud that we have today and keep earning the trust that we have from the customer. It is also important that the instant payments system is able to grow, both in scale – as we have seen massive growth in the communities already operating a real-time system, as well as in scope, to reap the cost benefits of an up to date and state of the art system."

3. New Services

Munne: "In recent years, we have seen a spur of innovation coming from non-traditional players. The challenge for the banks now lies in keeping the bank account in the centre of payments and building on the harmonized payments landscape created by SEPA. I believe Instant will become the new normal. Not right away, not from the start, but once the benefits become visible, we will see a full migration from the existing systems onto Instant. Banks are well positioned to benefit from this migration by expanding and combining their instant capabilities with their solutions in e- and m-commerce and identity into an innovative portfolio of services."

Several countries are already underway with their instant payments projects, such as the Netherlands, France, Spain, Finland, Italy and Belgium. This raises the issue of interoperability because the scheme needs to facilitate instant payments between the various consumers/merchants, banks and countries. Banking customers should be allowed to transfer money to a bank in another country in seconds. Munne: "Can banks achieve this technically? The answer is yes, because it happens with (debit) card transactions every day. The EACHA innovation Group has written the EACHA Instant Payments Interoperability Framework, which adds the elements necessary to connect the various processors across SEPA, allowing for pan-EU reach in Instant Payments with the ease of one ACH connection. Thomas Feiler has explained this very well in his recent blog."

"We need to make smart choices on the basic infrastructure level to make sure interoperability can be achieved. Choosing a standard message definition, like ISO20022 which is now being developed for Instant Payments on a global scale, makes sure we all speak the same language. And the EPC EU-wide rulebooks make sure the user experience is harmonized, while still leaving enough room to innovate and implement local requirements on top," says Munne.

The next steps are being taken, but this does not mean that the move to instant payments will be realised easily. Munne warns that the operation is really intrusive, because many banks in Europe need to modernise their infrastructure. "My advice is that they work together on a shared solution, rather than reinventing the wheel themselves. By sharing the development and running of a payment engine, banks can have the benefits of increased scale and lower TCO. It is a waste of money and effort if they proceed with their own solution. Those resources are spent more wisely to invent services that are really new and add value."

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