



WHITEPAPER - PAYMENTS



INSTANT PAYMENTS

The Future of the payments landscape



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INTRODUCTION

Smart phones and Tablets as the growing channel of E-Commerce encourage the development of an increasing number of different payment solutions. With such a multiplicity of different payment solutions banks, retailers and consumers have to find answers to the question, which payment procedure they consider as future proof (and affordable).

According to studies of A.T. Kearney, there will be no major change in the German payment landscape within the next years. Until 2020 a reduction of cash payments to a level of 60% is expected. SYRACOM supports this statement, since the whole E-commerce sales volume represents only 7.6% of all retail sales.

There is an exponential increase of mobile devices such as smartphones and tablets. Moreover, a good understanding of the evolution of the market requires a good view on which the next generation of consumers is.

The future consumers i.e. the younger generation experience instant availability of communication technologies as a normal and essential component of their day-to-day life. Other drivers such as social networks and shorter elapse times in every aspect of their lives emphasize this trend. This evolution is visible already today; however, there is lack of clarity which payment method will be economically viable.

Living in a society with increasing dynamics means faster processes and increasing speed of development but also reduced life-cycle of new methods. It can be best summarized with the statement: "Everybody wants everything now". Google provides instant information and communication. Amazon is on its way to provide nearly instant product delivery. Even execution of money transfers is demanded instantaneously. Therefore consumers have chosen available services provided by so called Fin Techs such as PayPal.

In other words: the ability of companies to serve future markets with new payment methods could become mission critical for their economic survival. Given the strong support from ECB, Instant Payment is very likely to be part of the future payment landscape in this space.

Looking at the payment ecosystems around the globe, a number of countries have moved forward already. EBA Clearing has observed in their Blueprint for a Pan-European Instant Payment Infrastructure: "As a result, various initiatives have been taken around the world with the aim of improving the efficiency and effectiveness of payment infrastructures, focusing mainly on enhanced speed, more transparency on the transaction status and convenience for the end-user as well as an extension to 24/7/365 availability, both at a domestic and at a cross-border/global level." The ECB via its European Retail Payment Board (ERPB) is (amongst other topics) investigating, how to move forward on a solution with their brand Instant Payment as soon as possible.

DEFINITION, EXPECTATIONS AND CURRENT STATUS

Definition of Instant Payments (ERPB Task Force)

Instant payments are defined by the ERPB as “as electronic retail payment solutions available 24/7/365 and resulting in the immediate or close-to-immediate interbank clearing of the transaction and crediting of the payee’s account, with confirmation to the payer (within seconds of payment initiation). This is irrespective of the underlying payment instrument used (credit transfer, direct debit or payment card) and of the underlying arrangements for clearing (whether bilateral interbank clearing or clearing via infrastructures) and settlement (e.g. with guarantees or in real time) that make this possible.”” (ERPB/2014/018 of 1st December 2014)

- Immediate: direct execution and immediate credit of the payee including a confirmation message for payer and payee
- Multichannel architecture: at the POS (point of sale) or in the e- and m-Commerce as well as for P2P or P2B payments
- Disposability/Availability: 24x7x365
- Safety/Security
- User-optimized/friendly: utilization via IBAN, E-mail or telephone. Access for everyone
- Reusability of existing infrastructures in the payment landscape
- Standardization (further details: see chapter “Instant Payments Solution/Possible Solutions/Approaches”)

Stakeholders’ Involvement (from the ERPB protocol 12. Nov 2014, p4/9)

- From the perspective of public authorities:
 - Instant Payments “can represent an instrument to enhance smooth, safe and efficient retail payments as well as financial integration and inclusion, e-government, competition between banks and non-banks, and competition in a broader sense of the benefit of the end-users”
- From the perspective of merchants and providers:
 - Boost growth
 - “possibly ensure revenue streams for payment service providers”
 - Strengthen relationship with clients
 - Based on the protocol of ERPB from June 2015:
 - It has to be cheap
 - It has to be accepted by the customer
 - it has to enhance higher revenues
- From consumer’s perspective:
 - ensure an experience of paying comparable to e-mail communication”
 - It has to be secure
 - No One should have access to my account → anonymous

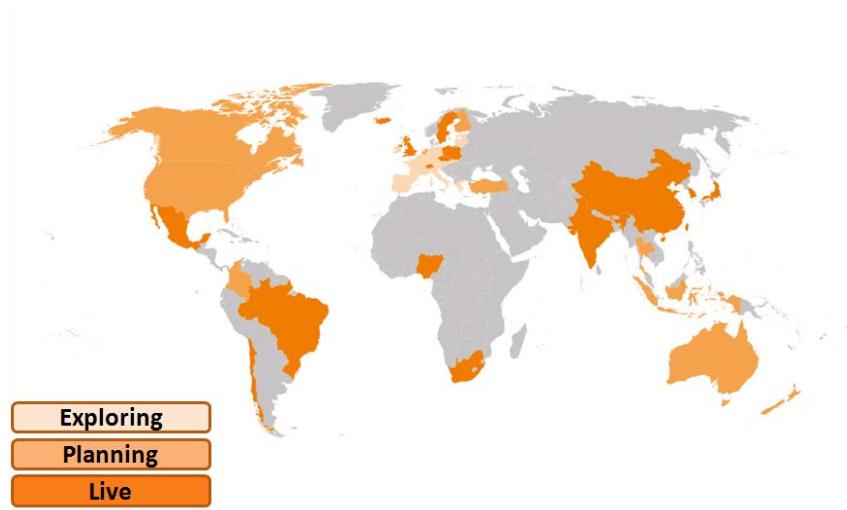
Current Status

There are a number of different points of view on the approach and its commercial viability, which range from 'no dramatic change of payment instruments within the next 10 years' proponents expecting 'dramatic changes in the payment landscape in the very near future'.

A number of payment providers and application vendors see Instant Payments as a natural answer to a growing demand, since some countries already implemented instant or faster payment solutions/procedures. Examples are: Australia, Denmark, South Africa, Poland, Sweden and others.

Other already mentioned circumstances point out why to expect a change towards Instant Payment:

- Increasing dynamics worldwide
- Instant methods for communication
- Even instant solutions in product delivery, e.g. Online Shops delivering the same day (DHL: Same Day Delivery,
- "Everybody wants everything now"
- Building up a taskforce the ERPB to provide an instant payment solution until 2018



(Showing the used live RT-RPS Systems, most are 24/7/365; some are e.g. only at specific times available or except the weekend)

OPPORTUNITIES

There are a number of potential providers for Instant Payments. A study of "ibi research from December 2014" analysed which service providers of contactless payments would be accepted by customers. The largest level of acceptance has been achieved by banks.

Which provider would you as a retailer wish for contactless payment solutions?

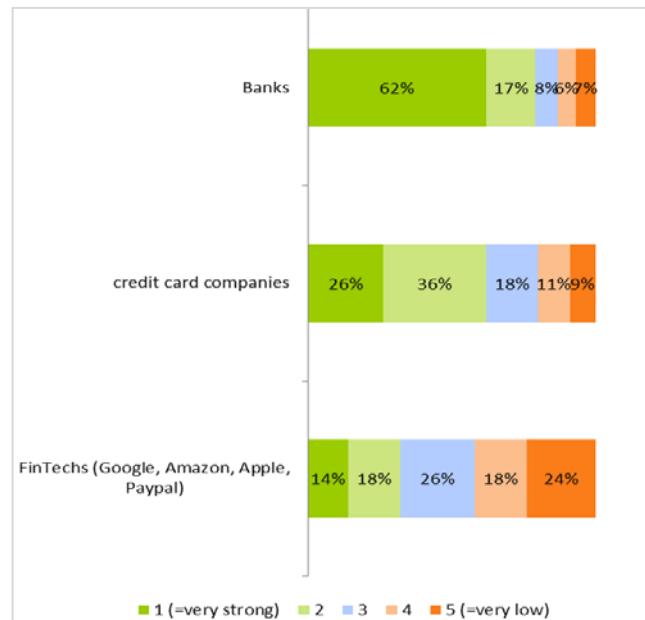


Illustration 1: (ibi research at University Regensburg GmbH, Dr. Ernst Stahl, May 2015)

The respondents though do not place the same level of trust on banks to establish a solution in reasonable time.

Which provider of contactless payment do you most expect to develop and establish such a solution?

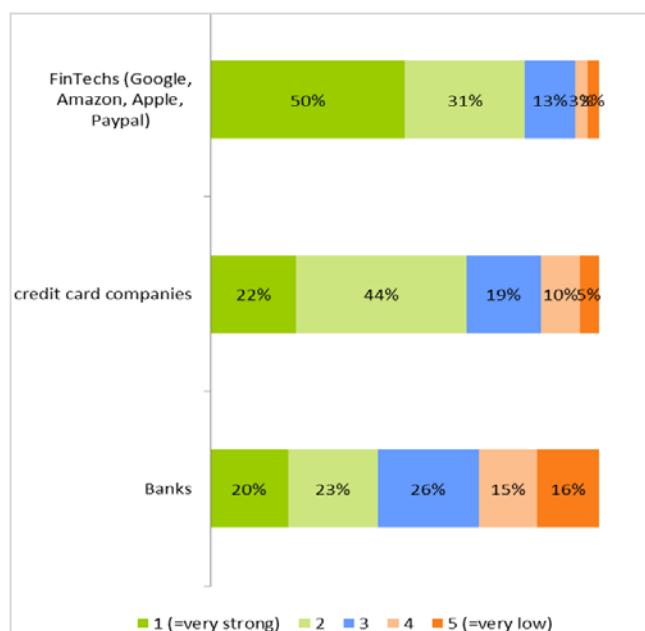


Illustration 2 : (ibi research at University Regensburg GmbH, Dr. Ernst Stahl, Mai 2015)

SYRACOM draws two major conclusions from those diagrams:

1. First and foremost banks are seen as trusted providers of payment solutions (given the level of trust at the level of security)
2. People do not consider banks to be as innovative as FinTechs or the ability to establish future technologies

The market will perceive banks with an instant payment solution as innovative organizations. Furthermore Instant Payments will increase the relevance of accounts with financial institutions, and therefore allow banks to strengthen the relationship to their customers.

Finally cross selling approaches will be facilitated, which further strengthen the relationship between customer and bank.

**FACTORS OF
SUCCESS****Time to market**

According to the assessment of EBA Clearing time-to-market is considered to be crucial for the launch of Instant Payments. The objective has been set to start the pilot and roll out of an Instant Payment infrastructure solution in 2017 and to be live in 2018. In case certain requirements could not be fulfilled with existing building blocks, a two-phased approach could be envisaged in which a phase 1 implementation would support the availability of a solution in 2017, while a phase 2 implementation would support also requirements not immediately possible in phase 1."

(EBAClearing_20150630_Blueprint_for_a_PanEuropean_Instant_Payment_Infrastructure)

P2P payments

Establishing Instant Payment in P2P (Person 2 Person) payments will support the success and the implementation of instant payment. Experiences in Denmark show that customers who accepted instant payment in P2P overtook this payment process for payments at the retailer or even in e-commerce.

System security

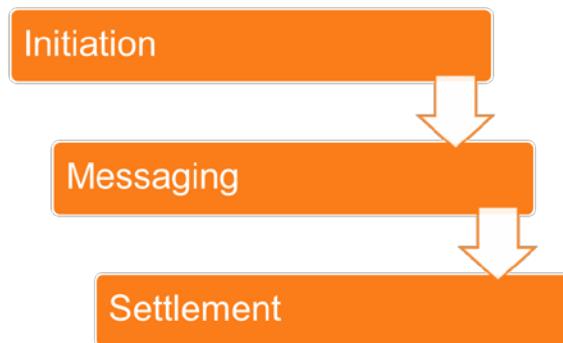
The System has to be secure, reliable and protective against:

- Fraud and misuse from the perspective of consumers
- Fraud and misuse from the perspective of payees

POSSIBLE SOLUTION / APPROACHES

The ERPB plans to execute a layered approach. In the protocol from 12th November 2014 they propose to develop a layered approach consisting of

- a) Scheme layer (type of transactions, end-user interfaces and payment instruments)
- b) Clearing layer (Clearing is defined as the process of transmitting, reconciling and, in some cases, confirming transfer orders prior to settlement, potentially including the netting of orders and the establishment of final positions for settlement)
- c) Settlement Layer



Description of potential layers and features of Instant Payment solutions

The Scheme layer deals with the initialization of the payment. The payee should be able to decide if he pays on an IBAN based payment with his mobile phone number or email address. After authorization a transaction is triggered using data structures and processes of the SEPA Credit Transfers and thus makes use of the ISO 20022 standard.

Looking beyond the technical approach, the scheme layer enables both a "person-present" and "person-not-present" transaction (of varying value and frequency).

As Instant Payments require instant clearing the completion of the clearing process only take seconds. The ERPB didn't decide yet if Instant Payment will rely on current or new automated clearing house (ACH) or not.

Independent of using ACHs, the ERPB defined that in the process payment information should be transferred immediately to a clearing platform, the payable amount charged back in real time and a confirmation of the execution send to both parties.

Settlement is foreseen to take place in commercial bank money or central bank money" (ERPB/2014/017 dd. November 12th, 2014).

Therefore, two main models could be considered:

- Deferred net settlement of instant payments
- Real-time gross settlement as individual transaction

The market, ultimately, will decide the preferential model.

SYRACOM

Given our strong track record in consultancy on all payment related topics SYRACOM can offer you consultancy and guidance on timing of an implement Instant Payments by sharing our market observations. SYRACOM can support or run your implementation projects for Instant Payments to enable you to meet deadlines as defined by ECB.

RESUME

Instant Payments are going to penetrate the markets. It is only a question of time. ECB is pushing early timelines of a solution via its ERPB.

Facing up the enormous changes in the environment, especially those that will occur because of Instant Payments, SYRACOM recommends payment service providers and banks to deal early with this topic and follow the developments within the ERPB.



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