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Instant Payments Are Coming to Europe: How Are Banks and Corporates Coping?

A wave of innovation in instant payments is hitting the shores of Europe. Cédric Derras, Global Head of Cash Management at UniCredit, explains how banks and corporates are preparing for the change.

The introduction of instant payments is fast approaching the European market. So what must banks and corporates do to ensure they are ready for this transition and can profit from its opportunities? Despite the myriad benefits on offer, banks will have to adjust and update several back-office operations, and wider adoption will need a considered approach. Meeting growing customer demands for faster, more secure and more efficient payments is nevertheless the prize that is now within reach.

Instant payments are set to be introduced across 34 European countries by November 2017. Designed to enable individuals, businesses and administrations to make instant euro credit transfers, it will bring cash-flow transparency, greater liquidity, and faster transitions between payment authorisation and service provision for all stakeholders.

But independent instant payments schemes are, in fact, already up and running in European countries such as Denmark, Sweden and the UK. The European Central Bank (ECB) is aware, however, that such an assortment of different payment standards and formats could undo the unifying effect of the Single Euro Payments Area (SEPA), introduced in 2014. The implementation of a standardised European instant payments system is therefore seen as crucial to ensuring that Europe's payments landscape does not become fragmented.

Benefits across the board

Such a system will provide corporates with access to greater liquidity, faster transitions between payment authorisation and service provision, and cash flows that are more transparent. Ecommerce, in particular, stands to benefit as faster payments remove the time delay between consumers authorising a transaction and confirmation of payment from the bank.

Moreover, there are other use cases for instant payments in the business-to-business (B2B) and business-to-consumer (B2C) space. For instance, B2B deliveries that must wait for completed payment before goods can be unloaded – even when already at the destination – will no longer suffer from delays. In B2C payments, firms will be able to refund customers immediately and use instant salary payments for employees on short-term contracts. Similarly, corporates operating in a B2C environment on the collections side will enjoy real-time visibility of their collections, rather than having access to this data limited to traditional banking hours.

Retailers offering instant payments will also improve their customer experience, allowing them to order services, pay bills and get final confirmation all via a single online interaction. At the same time, payments will be final at the moment of execution, eliminating the need for credit screening and credit recovery, while back-office operations will also be simplified, thanks to the removal of time delays between order and final settlement, technical returns, partial settlements and other obstacles.

A tall order for banks

For banks responsible for providing these instant payment facilities there are, however, considerable challenges. Instant payments will require moving from batches of credit transfers to a system where a single instant credit transfer has to be received, accepted, validated, compliance-checked, processed by the clearing and settlement mechanism, sent to the beneficiary bank, and processed and posted to the beneficiary's account – all in a matter of seconds. This is a major difference from current standard practice, in which banks book all an account's activities in bulk at the end of the day. Furthermore, all this processing has to be done 24 hours a day, seven days a week, with no down time.

Financial institutions will thus have the task of transitioning from an environment in which they had hours, if not days, to process payments and manage exceptions, to a new reality where payments need completing within seconds. ➔

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About Cédric Derras: Cédric Derras is Global Head of Cash Management at UniCredit. Before taking up his current position, Cédric was responsible for Cash Management Sales Italy. Prior to that he held several senior positions at Deutsche Bank, Société Générale in Italy and France.

About UniCredit: UniCredit is a strong Pan-European Group with a simple commercial banking model and a fully plugged in Corporate & Investment Bank, delivering its unique Western, Central and Eastern European network to its extensive 25 million strong client franchise. UniCredit offers local expertise as well as international reach and accompanies and supports its clients globally, providing clients with unparalleled access to leading banks in its 14 core markets as well as another 18 countries worldwide. UniCredit's European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Turkey.

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→ UniCredit and other banks are rising to the challenge, working with partners such as EBA Clearing – the pan-European payment infrastructure solutions provider – to develop and implement a simple and efficient clearing and settlement system for instant payments.

For banks' corporate clients, significantly less preparation is expected. Yet, corporates will still need to consider the potential impacts of instant payments on their business. For example, online retailers are already expected to process and ship goods 24/7 – and the usage of instant payments will only increase this expectation both from consumers, and, in some cases, from other corporates as well – requiring more efficient logistics and extra weekend coverage.

Achieving critical mass

The experiences of early movers such as Denmark and Sweden have served as useful case studies that highlight the types of challenges instant payments will face. One important lesson is that simplicity and convenience are essential for fostering uptake – with ease of use and availability cited as key drivers for adoption.

There will also be a maximum payment limit of EUR 15,000 (although this could be raised as early as November 2018) when the scheme is first rolled out, which means many transactions will not be eligible. This, along with the need to change "sticky" payments habits in certain countries, means adoption among corporates will, at first, be gradual.

Of course, it is only a matter of time before instant payments become the norm in Europe. Although banks have to be mindful of the challenges ahead, embracing innovations such as instant payments will be a crucial factor in meeting customers' growing expectations for faster, more secure and more efficient payments.