Instant Payments and gpi

A Story of Interoperability

The payments sector has made huge strides in recent years. In Europe, the introduction of instant domestic payment services such as SCT Inst and TIPS has stoked demand for faster payments beyond Europe's borders. While SWIFT gpi has moved us closer to meeting this demand, there is still work to be done – starting with the integration of gpi and the continent's instant payments schemes, argues Cédric Derras, UniCredit's Global Head of Cash Management.

By **Cédric Derras**, Global Head of Cash Management, UniCredit

Faster, more transparent cross-border settlement has long held a place near the top of European treasurers' wish lists – and, slowly but surely, that wish is becoming reality. Recent improvements – most notably, the introduction and continued refinement of SWIFT's global payments innovation (gpi) – have helped break down barriers to more seamless international payments, but there remains work to be done, with disparate time zones and limited clearing hours often delaying settlement.

The answer lies in combining the capabilities of gpi with domestic instant payments systems. Spearheaded by two robust instant clearing and settlement services, the real-time paradigm has taken off in Europe and, by harmonising these payments systems with gpi, there is scope to extend such service levels beyond European borders.

The rise of domestic instant payments

Perhaps the most talked about domestic instant payment system to emerge in Europe is the SEPA Instant Credit Transfer (SCT Inst). Devised by the European Payments Council (EPC), SCT Inst guarantees delivery of funds to any account within SEPA in under ten seconds. At the beginning of the year, SCT Inst had already been adopted by upwards of 2,000 payments service providers (PSPs) in more than 16 countries and is expected to reach critical mass by 2020.[1]

To ensure this goal is met, the Scheme Management Board (SMB) is now assessing the viability of increasing the maximum amount that can be sent via SCT Inst – which currently stands at EUR€15,000. The EPC will also, by November 2019, introduce a repayment function that gives payees the ability to send payments back to the payer if the necessary data is not received.

For all this progress on the continent, however, European corporates must still contend with a somewhat fragmented ecosystem when transacting across borders.

SWIFT's global payments innovation

SWIFT gpi is stepping to fill this void. A next generation service for executing cross-border payments with unprecedented transparency, gpi has drastically improved the speed at which international payments are settled. Today, more than 52% of gpi transactions are credited in under 30 minutes, with many processed in just a few seconds – making gpi an almost real-time payments service for many corporates.

This is already a vast improvement for treasurers. Without gpi, a large number of cross-border payments are still manually transferred via a series of correspondent banks, with each bank in the chain contributing its own fees and checks. This process can take days to complete and, to make matters worse, recipients often do not receive the full amount, since the service charges of several banks have been deducted along the way. The lack of visibility over what fees have been applied and by whom can make cross-border payments a frustrating exercise for both buyers and suppliers.

SWIFT gpi reduces this administrative burden, using a Unique End-to-End Transaction Reference (UETR) that enables banks to trace payments in real time – with detailed information on which banks have been involved, how the payment has been processed, and what charges, if any, have been levied.

The strengths of the gpi service are also on show when it comes to business activities that can only commence when triggered by a payment. A boat that is shipping goods to a buyer, for instance, may not be authorised to leave the port until a payment is received. To avoid

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this kind of impasse, gpi's inbound tracking feature gives suppliers proof of payment notifications – meaning the activity can proceed in a more timely and efficient manner. This is especially useful if the value of the goods is expected to decrease with time.

To further augment gpi's offering, SWIFT began piloting a new service in February 2018 – gpi for corporates (g4C) –enabling businesses to initiate and track all gpi payments, directly from their own enterprise resource planning (ERP) and treasury management systems. This initiative is now live and has been adopted by almost all the 22 banks and corporates that participated in the pilot, with many more to follow.

By the end of last year, SWIFT announced that gpi had been adopted by more than 3,550 financial institutions (FIs), including 550 banks across the world. Today, the service covers at least 150 currencies in more than 200 countries, creating 1,300 country corridors. Last year, a total of USD$40tr. was sent using the service. By 2020, SWIFT predicts that all 10,000 banks on its network will be able to offer same-day payment delivery.

While these developments are good news for European corporates and FIs, the rapid settlement experienced by the fastest gpi transactions cannot yet be replicated across the board. To achieve this, a higher level of harmonisation is required across different payment systems.

Uniting the payments landscape

It is an aspirational goal, but the necessary infrastructure is already in place to make a start on uniting the world's various payments systems.

Moving SCT Inst and SWIFT gpi towards interoperability, for instance, would significantly reduce the number of correspondent banks needed to effect a cross-border payment. It would also enable transactions to be settled the same day they are initiated, regardless of clashes between time zones with different business hours. Yet, if this vision is to become a reality, an industry-wide consensus will need to be reached on how the tracking references for SCT Inst and SWIFT gpi can be standardised.

Alongside a number of banks, UniCredit is already working to integrate SWIFT gpi's UETR into SCT Inst's pacs.008 format. Should these trials prove successful, a cross-border payment could be initiated at any time in Asia, for example, and settled instantly once it reaches the recipient bank in Europe – a significant step towards globalising cross-border payments.

These efforts follow hot on the heels of a successful proof of concept conducted by 17 correspondent banks from Australia, Canada, China, Luxembourg, the Netherlands, Singapore and Thailand, which combined SWIFT gpi with Singapore's Fast And Secure Transfers (FAST) service. The trials, which proved a runaway success, saw originator banks execute cross-border transactions into Singapore via gpi – with all payments cleared within 25 seconds by FAST. The fastest transaction into Asia Pacific from Europe took just 15 seconds, from end to end.[2]

If connections like these were to become more widespread, correspondent banking channels could be streamlined significantly – reducing the number of banks needed in transaction chains. Likewise, by upscaling the traceability and speed of international transfers, a harmonised SCT Inst-gpi process would also help corporates limit enquiry costs, thereby freeing up working capital and optimising liquidity.

Looking to the future

The results of the FAST case study bode well for an analogous integration with SCT Inst. Clearly, the European payments landscape is at a stage of rapid innovation – and the dream of fast and even instant cross-border transactions is edging ever closer to reality.

Notes

1 *https://www.bankingtech.com/2018/11/sct-inst-gaining-traction-one-year-on/*
2 *https://www.swift.com/news-events/press-releases/swift-sees-success-with-global-instant-cross-border-payments-with-singapore_s-fast*