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European Payments in 2018

A Landscape Charged with Possibilities

With SWIFT gpi, instant payments, and PSD2 all now part of the equation in the European payments market, **Cédric Derras, Global Head of Cash Management at UniCredit, explains how these initiatives add up for corporates, who stand to benefit from faster, more efficient, and more tailored services.**

As we move into 2018, we see European payments entering a distinct new era, where a number of pan-European initiatives and technologies finally either come into play or enter full maturation. Whether improving the speed, efficiency and transparency of cross-border payments through SWIFT gpi and instant payments, or fostering collaboration through the imminent arrival of open banking, European payments services are entering an exciting phase of growth and development.

A good year for SWIFT gpi

The transition began in 2017 with the successful implementation of SWIFT's global payments innovation (gpi) which

enjoyed a storming first year of operation. SWIFT gpi is successfully tackling the twin pain points of slow and opaque cross-border payments, making them faster (a payment between London and Singapore takes just one minute) and more transparent, while simultaneously offering the possibility of tracking each payment end-to-end.

Clients appreciate these benefits, of course, as well as the fact that banks bear the responsibility for implementing SWIFT gpi. Despite this latter point, take-up by banks has been similarly enthusiastic and swift. Although there are a number of other initiatives targeting cross-border payments, SWIFT gpi has the advantage of using an existing highway, with demonstrated

scalability and security, and now more than 120 leading transaction banks – accounting for over 75% of all SWIFT payments – are signed up.

UniCredit, for its part, has been live as a pilot bank since February 2017, already reaching 100,000 payments processed through the technology. We also recently joined a SWIFT gpi blockchain proof of concept which aims to validate whether banks can reconcile their international nostro accounts in real time through the technology. On a wider scale, SWIFT gpi surpassed two million payments made only in September 2017, and this year there are plans to push the service forward even further through new partnerships and projects – most notably API capabilities.

Instant payments go live

A real landmark for the European payments market came on 21 November 2017 with the go-live of the Single Euro Payments Area (SEPA) Instant Credit Transfer, also known as SCT Inst. UniCredit went live on the same day with an inaugural instant payment from Germany to Italy via EBA Clearing’s RT1 infrastructure. The transaction, which took just 2.5 seconds to complete, made UniCredit the first bank to launch instant payments in Germany, one of the first three to do so in Italy, and the first to carry out an internal cross-border instant payment between the two countries.

It’s a huge step forward. Previously, cross-border European payments were processed in batches and reached their destination only on the following day. With transactions now processed, cleared and settled in real time, the benefits are numerous. Take eCommerce, for example. Merchants receiving payment as soon as goods are purchased means orders can be prepared and dispatched immediately, dramatically speeding up delivery times. Real-time payments are particularly good news for corporate treasurers. A greater awareness of global cash positions will enable cash-pooling in real time. Instant payments also allow much more flexibility – for example by allowing corporates to practise intra-day liquidity optimisation and capture last-minute opportunities without being slowed by older processes. Furthermore, everyday processes are far less burdensome, thanks to faster and more

accurate payment reporting, simpler reconciliation, and greater predictability in terms of receivables and payables.

We will be steadily rolling out our instant payments solutions across the rest of our Eurozone network over the next couple of years, ensuring the service we provide remains simple and convenient to use – both essential for fostering uptake and adoption among corporates. UniCredit was the first bank to offer real-time payments in Germany and the first to use the format for a cross-border payment, but 16 other banks from eight countries connected to the platform on the go-live day in November, extending SCT Inst to more than 500 payments services providers across SEPA. Around 100 further banks are set to join during 2018, making this one of the largest collaborative initiatives in the payments market to date.

The amplifying effect of PSD2

For all the benefits SWIFT gpi and instant payments already offer, there is still further potential to be unlocked. As the implementation of PSD2 picks up, we will see further innovations with the rise of ‘open banking’.

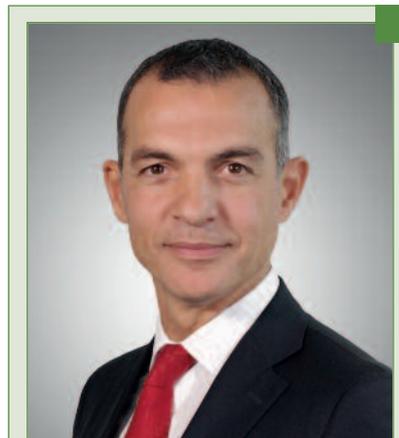
PSD2 will require banks in the EU to provide licensed third-party providers (TPPs) with straightforward access to their payment infrastructure and customer account information. To accommodate this, we are already seeing increased use of application programming interfaces (APIs), which enable different operating systems – those used by banks and fintechs, for instance – to interface and exchange data smoothly. The upshot from the corporate clients’ perspective is that they will be able to seamlessly plug in products from TPPs to complement their existing bank services.

This comes with its challenges. Whose responsibility is it to obtain consent for sharing data? And what are the proper procedures for doing so? These and other issues need to be ironed out before the movement can gather momentum. Likewise, corporate treasurers will need to assess their positions and make important strategic decisions to ensure they are prepared to reap the full benefits of these developments.

A close dialogue with partner banks will be crucial for corporates to ensure a smooth

transition into the era of open banking. This is something we are well aware of at UniCredit and we are in the process of implementing our own API strategy that will put our clients in the best position to prosper from the many possibilities of open banking.

It certainly warrants the preparation. The potential for innovation brought about by APIs and data-sharing is huge – and it will only amplify the benefits of other recent digital innovations, such as SWIFT gpi and instant payments. On the back of these developments, we can expect to see collaboration inspiring a host of new value-added solutions that can be easily tailored to the needs of each specific business. The payments landscape in 2018 and beyond offers many exciting possibilities. ■



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