



Instant Payments: The Next Step Towards a Harmonised Europe

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Following the ECB's 2014 white paper calling for a standardised European system for instant payments, banks in Europe are now working to provide their clients with real-time payment facilities available all day, the whole year. It's a move that's set to bring greater levels of liquidity and efficiency to clients, while ensuring continued harmony throughout the European payments landscape.



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Following on from the final implementation of the Single Euro Payments Area (SEPA) in 2014, Europe is now set for another payments overhaul, as banks work to answer the ECB's call for a standardised pan-European instant payments system by November 2017.

With developments such as straight-through processing facilitating drastically faster and more efficient transactions, instant payments promise to bring Europe's payments landscape in line with both the enhanced capabilities of modern digital technology and the growing expectations of consumers – executing all eligible transactions in real time, regardless of when they are initiated.

This marks an important step towards the goal of 'cashless cash' – bringing a number of benefits, including increased cash flow transparency, greater liquidity, and faster transitions between payment authorisation and service provision.



Interest in instant payments is high around the world, with Mexico and Singapore already running operational schemes, and Australia scheduled to go live with its own in the second half 2017. Of course,

Europe has its early adopters too, with real-time payments already live in both Sweden and Denmark.

Yet while this goes some way to illustrate the demand for instant payments, it also poses a problem. If European countries continue to develop instant payment schemes independently, the continent risks finding itself saddled

with a host of different payment standards and formats – undoing much of the harmonising work of SEPA.

The implementation of a standardised European instant payments system is therefore a vital undertaking – ensuring that the continent's payments landscape is not fragmented anew.

Overcoming the challenges

This will be no small challenge for banks. Aside from the difficulties of co-ordinating efforts across Europe, instant payments will require real-time or near-real-time booking – a substantial change from the status quo. Currently, standard practice is for banks to book all a given account's activities in bulk at the end of the day. Once instant payments are implemented, however, banks will not only have to process transactions on an individual basis, but also to do so within seconds of the payment being initiated.

What's more, instant payments will also be available on weekends and other non-business days, when staff will not always be around to oversee the booking process.

Solving these problems will be no easy matter, but banks have already taken to the challenge and a number of promising solutions are under discussion. For instance, there is potential for instant payments to be provided at weekends by executing transactions immediately, but delaying inter-bank settlement until the next working day. While this would expose banks to settlement risk for the duration of the delay, it may be possible to mitigate this with the help of central-bank funds.

Instant payments in practice

Yet while the switch to instant payments represents a fresh overhaul for banks, the hope is that it will require relatively little preparation from their clients. There will be no need, for instance, for retailers to invest in new hardware to process in-shop payments. Rather, the plan is simply to create a simple, intuitive application which can be



integrated seamlessly into companies' existing payment systems – accepting both card and mobile payments.

When it comes to e-commerce, instant payments will accelerate the processes. Both the seller and the consumer will receive confirmation about the execution of an instant payment within seconds – meaning subsequent processes, such as the preparation and delivery of goods, can be initiated at once.

As with banks, however, some businesses may need to adjust to receiving payments on non-business days. For example, online retailers may be expected to process and ship goods immediately upon receipt of funds – requiring greater logistical efficiency and added coverage on weekends. Certainly, corporates will need to assess the potential effects of instant payments on their business – and the need to deal with funds coming in on non-working days will be an important consideration.

Reaping the benefits of cashless cash

Nevertheless, this preparation will make way for a number of benefits. On a social level, it represents an important step towards cashless payments – promoting greater accountability in the cash flow, and countering terrorist and other criminal activities that rely on cash to hide their financial dealings.

On a company level, instant payments facilitate greater efficiency and liquidity. In e-commerce, for instance, they all but eliminate the time gap between consumer authorisation of a transaction and payment confirmation from the bank. This removes

any risk of non-payment, meaning the merchant can begin preparing the goods for delivery immediately.

There are many benefits from instant payments. Many business-to-business deliveries, for example, require payment to be completed before lorries can unload their goods. This can slow down the process even when the goods have already arrived at the destination. Yet with instant payments, there is no such delay, and goods can be unloaded immediately upon arrival.

There are also advantages in the field of business-to-consumer payments, where firms can provide customers with immediate refunds, and use real-time salary payments for employees on short-term contracts.

In addition to benefits such as these, banks can also provide supplementary services to generate further value for clients. Perhaps the most compelling of these is the possibility of initiating payments to a recipient using only their mobile phone number. This can be done by simply creating a database of mobile phone numbers linked to IBANs, and referring all payments made to a phone number to the associated IBAN.

The outlook for market adoption

Certainly, there are numerous incentives for adoption – as demonstrated by the fact that instant payments are widely used in countries where they are already available, such as Sweden and Denmark.

The experience of these countries also emphasises the importance of simplicity and convenience in fostering uptake –

with ease of use and availability cited as key drivers for adoption.

Much, however, also depends on habits. In countries such as Germany, for example, SEPA direct debit (SDD) is the predominant means of payment, with SEPA credit transfers (SCTs) far less common. Since instant payments will only be available for the SCT format, adoption will at first, only affect normal and urgent credit transfers.

There will also be a maximum amount associated with instant payments when they are first rolled out – meaning that not all transactions will be eligible. This, along with the need to change payment habits in certain countries, is likely to mean adoption will be gradual at first.

However, while the maximum amount will be in place for at least the first year, it could be raised as early as November 2018 – opening the door to many more eligible payments. And though it is too early to make any precise predictions in this regard, from this point we are likely to see market adoption gather speed.

The evidence of similar initiatives suggests that instant payments will eventually become common in Europe. And with work under way to establish a unified pan-European system, we can look forward to the combined benefits of instant payments and continued harmonisation in Europe. □



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