INSTANT PAYMENTS OVER SWIFT

Instant payment services – which offer immediate availability of funds, 24/7/365 – are gathering momentum around the world, under pressure from consumers, corporates, retailers, competitors and regulators. As payments market infrastructures (PMIs) build the platforms to make instant payment possible, banks are being forced to restructure their business models. They not only have to provide payments around the clock to their existing domestic customers, but also work out how to inter-operate with multiple payments schemes around the world, combat the increased risk of fraud and develop new services to realise value for their shareholders. At Sibos in Toronto, one important question debated on the panel chaired by Diane Nolan, managing director, Accenture Financial Services, was what SWIFT could do to help institutions making the transition.

"The *raison d'etre* of SWIFT is to reduce the social cost of implementing a new business," said Elie Lasker, senior market manager, Instant Payments, at SWIFT. "It is particularly relevant in this context, given the uncertainties around the business case for instant payments." He explained that, in enhancing its current set of messaging services to support instant payments, SWIFT is maximising the re-use of infrastructure and processes that exist already. This minimises the cost of connecting to multiple clearing and settlement mechanisms (CSMs) and helps to avoid any developments that increase unnecessary costs in the future.

SWIFTNet Instant designed to help banks and PMIs transition to instant payment

SWIFT is also introducing a new payments and queries platform, SWIFTNet Instant, to connect banks and CSMs. The detailed specifications will be published at the end of January 2018, and the new service that will go live November next year, will - unlike FIN and SWIFTNet FileAct –be available 24/7. Importantly, SWIFTNet Instant will require no new investment in telecommunications links, and it will work with SWIFT's new Alliance Gateway Instant interface. CSMs and banks that use SWIFTNet Instant will be able to exchange reports over SWIFTNet FileAct and SWIFTNet Browse.

The first market to benefit will be the Eurozone, where the instant payments scheme developed by the European Payments Council (EPC) is scheduled to go live in November 2017, by which time EBA Clearing will be offering its instant payments service, RT1. The European Central Bank (ECB) plans to open an instant payments service, TIPS, in the final quarter of 2018. When the TARGET 2 and TARGET2-Securities (T2S) cash and securities settlement platforms are integrated by the ECB in 2020, Alliance Gateway Instant can still be used. But SWIFT is not focused solely on Europe; it intends to see its tools used globally. In fact, SWIFT is re-using in Europe many of the technical components it has developed over the last four years for the New Payments Platform (NPP) in Australia. The NPP started live transactions in November with a limited group of clients, with the aim of opening to the Australian public in February 2018.

NPP Australia pioneering instant retail payments

The NPP included from the outset some ambitious features. It offers line-by-line settlement, in which a central infrastructure tests each payment request submitted by a bank against the funds that bank has available at the central bank in real-time. If the test is successful, settlement occurs irrevocably and unconditionally.

The NPP allows just 15 seconds for payments to be cleared, settled and posted, with funds then made available. NPP also offers a PayID addressing service that enables consumers to link their bank accounts to easy-to-remember pieces of information, such as their mobile telephone number or email address. They can then share that information, rather than details of their bank account, with people or organisations they wish to receive payments from.

The Reserve Bank set an equally ambitious delivery date for NPP of October 2016. "SWIFT famously said, when they were pitching, that they could not meet that date and they thought that a more appropriate date would be September 2017," recalled Nigel Dobson, general manager, wholesale digital transformation at ANZ. "If anybody is a vendor, they will realise that it is like suicide to say you cannot meet the customer's dates. Ironically, however, it played very much in their favour. We felt they were being truthful, they displayed high integrity, and they displayed a tremendous knowledge of market infrastructure, and obviously have a significant track record." SWIFT secured the contract and, in the end, the NPP went live a mere two months late, in November 2017.

In retrospect, the longer timetable suited the Australian banks as well, since they could not have been ready in time to make use of the NPP in October 2016. "We look back with gratitude to SWIFT, for reminding us all of the complexity of actually setting this up," said Dobson. "The central infrastructure, of distributed gateways at the banks linked to a fast settlement serviced operated by the Reserve Bank of Australia, built and installed by SWIFT, has been an extremely well-run project. It has always been running green, while the banks have been typically running amber."

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According to Dobson, this reflected the complexity of adapting existing platforms and processes to the NPP. "For the banks, these are highly complex pieces of work that cover every aspect of their infrastructure, every division – consumer, small business and institutional – and all the channels and, to the extent they have got multiple accounting systems, all of those as well," he says. "It is by no means a trivial undertaking. In some cases, it was a motivator for a significant transformation of various parts of their payments stack."

NPP infrastructure creates opportunities for FinTechs as well as banks

The Australian banks now face the additional challenge of developing remunerative "overlay" services that can make use of the new instant payments infrastructure. Dobson argues that designing the NPP as a basic but highly resilient and secure service kept the costs and risks of the project down, while creating ample scope for innovation by FinTechs as well as traditional banks.

"They could be sectoral overlays, functional overlays or just data overlays, because the platform has a rich data carriage capability," he explained. "Our data carriage goes from a measly 18 characters in our current ACH direct entry system up to 280 characters. It is enough for reconciliation to happen in a corporate scenario, and for individuals to send meaningful messaging with their payments."

Dobson expects the request-to-pay feature to prove popular with small businesses and the self-employed, who can request payment as soon as they finish a piece of work. "Small businesses live and die by their cash flow, so giving them an attribute where they can receive payments instantly is extremely valuable," he says.

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For larger clients of the banks, NPP is more than just a banking initiative. As Dobson pointed out, customers that pay for a product or service on a Sunday afternoon will expect it to be delivered the same day. "We have been working very hard at ANZ to remind our corporate customers, not just that they will get money fast, but that there is a reciprocal expectation that services will be available," he said.

EBA Clearing RT1 instant payments service launches in November

NPP is not the only instant payments infrastructure going live. November also sees EBA Clearing – the operator of twin retail and high value payments services, which is owned by 52 European banks - launch its RT1 instant payments service for the euro area. In 2015 EBA Clearing, working with a group of 25 early-adopting banks, delivered a blueprint. The Request for Proposals (RFP) process that followed in 2016 led to the appointment of SIA as technology partner.

The launch of the service this month with 27 banks marked the beginning of a 12-month transition period which Hays Littlejohn, the CEO of EBA Clearing, expects to end with 91 banks making use of the new service. He says that, although this is a smaller number than

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the 140 banks which use the retail payment services already supplied by EBA Clearing, the 91 banks account for 80 per cent of European payments traffic intermediated by EBA Clearing. It therefore represents a significant commitment to instant payments across borders by the European banking industry.

The ECB TIPS service supports the drive to instant payments in Europe

This commitment has the backing and encouragement of regulators. In fact, the launch of the EBA Clearing plan to develop RT1 back in 2015 coincided with the issue of a mandate from the Euro Retail Payments Board (ERPB) of the ECB to the European Payments Council (EPC) to develop the SEPA Instant Credit Transfer (SCTinst) service, a scheme for pan-European instant payments. The rulebook for this scheme was delivered in November 2016. Although the obligation was not mandatory, payment service providers were encouraged to make instant payment solutions in euro available at a pan-European level from November 2017, when the scheme goes live.

The thinking of the ECB was informed by the global trend towards instant payments - indeed, the provision of instant services in general – but also by the risk that national solutions would fragment the euro area. “We have a single market and a single currency but not always single solutions,” explained Mehdi Manaa, head of market infrastructure development at the ECB. “Very often we have in Europe national solutions that have difficulty inter-operating efficiently, and delivering a solution at the European level.”

This is why the ECB has launched its own TARGET instant payment settlement (TIPS) service to enable European banks to offer final and irrevocable settlement of instant payments, round the clock, 365 days a year, in central bank money. In fact, TIPS will enjoy the same “reachability” across Europe as TARGET2, the real-time gross settlement (RTGS) system operated by the European system of central banks, which is connected to 40,000 separate Bank Identifier Codes (BICs). “We expect a large proportion of the 40,000 BICs – in fact, all of them – to also be in TIPS,” said Manaa.

His confidence about the rapid take-up of TIPS is based on the absence of an entry charge for TARGET2 participants, plus low transaction fees of one fifth of a eurocent per instant payment. “The final and most important benefit of TIPS is the fact that it relies on settlement in central bank money,” said Manaa. As he pointed out, instant payments are close in nature to payments intermediated by TARGET2. “Both do settlement, both are real-time, and both settle on a gross basis,” said Manaa. “Central bank money brings a lot of advantages in terms of risk management, safety, and liquidity management.”

In terms of timing, the ECB will publish the final technical specifications for TIPS at the end of March 2018, giving European banks time to prepare their systems for the service to go live in November next year - at the same time the SWIFTNet Instant service is launched. “TIPS will not be delivered by the Eurosystem alone,” said Manaa. “We are collaborating intensively and deeply with the industry. The Contact Group is meeting at least on a monthly basis.” He added that he is completely confident TIPS will be ready on time, and expects both payments market infrastructures (PMIs) and banks to be ready to make use of it as well.

Readiness includes, in the estimation of the ECB, the provision of user-friendly instant payment apps for both consumers and businesses to take advantage of TIPS. “It is very important that we have the full chain ready for an efficient instant payments solution,” said Manaa. To catalyse the development of such services the ECB is convening a one-day event on 6 February 2018, at which banks, payments market infrastructures and technology vendors are invited to share and present to the audience the instant payments

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- Mehdi Manaa, Departmental manager, European Central Bank (ECB)

Instant payments over SWIFT took place in the SWIFT Auditorium on Tuesday 17 October 2017

Moderator

Diane Nolan
Managing director, capital markets, Accenture

Panellists

Nigel Dobson
General manager, wholesale digital transformation, ANZ

Elie Lasker
Senior market manager, SWIFT

Mehdi Manaa
Departmental manager, European Central Bank (ECB)

Hays Littlejohn
Board member/CEO/CFO, EBA Group

apps they have developed or plan to develop for the launch of TIPS in November next year.

The impact of instant payment on the banks

As Diane Nolan observed, the range and imminence of the instant payments services available from PMIs such as NPP, EBA Clearing and TIPS means there is a lot of work for banks, if they are to get their services ready to take advantage of the new platforms. "Mehdi and I have to do a lot of work, and it is important, but the work the banks and the consumers have to do in terms of adoption rates is much more," agreed Hays Littlejohn. "We are building the infrastructure, but a lot lies in the banks' hands."

The banks will also face competition from unfamiliar quarters. As Nigel Dobson pointed out, NPP creates opportunities for non-banks to provide innovative payments services, especially any that take advantage of the increased availability of data. But he did point to one important upside of instant payments for the banks: the simplification of payments clearing channels. "The NPP is being set up so there is no limit on value," he said. "High value clearing system payments can quite rapidly move on to it. We are not going to force this, but over time we think we can simplify our clearing estate in the bank."

Nigel Dobson also thought instant PMI services will facilitate cross-border transactions. "With the appearance of more and more of these domestic real-time clearance structures, talking to other locations and other countries about how to connect our respective infrastructures to deliver an international real-time or near real-time experience for our customers is a realistic conversation to be having now," he said. "This could be part of the solution for reducing the friction that exists within the global payments value chain today."

The services provided by EBA Clearing and the ECB are of course cross-border by definition, but Hays Littlejohn thought the European banks will want to explore wider international links once they are confident the European instant payments services actually work. "Using the same ISO 20022 standard enables those discussions to happen, and when the banks are ready for that, the clearing systems stand ready to support them," he said.

Mehdi Manaa predicted the impact of instant payments would not be confined to banks. "Instant payment will be a game-changer for many different types of industry," he said. "We will see many more economic models emerge, thanks to instant payment. We cannot imagine what the effect will be for the business side to have not only confirmation of the payment in real-time, but to have the money in the account available for use in real-time. This will change everything. The way business is handled today is really dependent on how the payment is handled and processed. We see the advantage of cash, but also the drawback of cash. We see the advantage of electronic payments, but also see that it has certain drawbacks, especially the time gap between the payment and the confirmation that the funds have been received. Instant payments have the advantages of both cash and electronic payments without the drawbacks of either. I think this will open a lot of new perspectives and new economic models, so the impact is not limited to the payments industry."

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