



KEY PERSPECTIVES

What needs to be done to make real-time retail payments a reality?

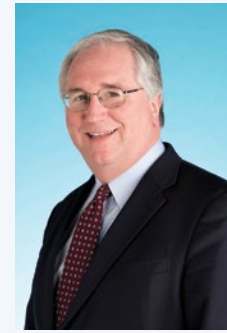
Perspectives:



Shuji Kobayakawa

Associate director general,
Bank of Japan

Real-time payments (RTP) can contribute to global economic growth. First, if real-time retail payment systems (RT-RTPS) link across borders, it will enhance the payment flows created by the cross-border exchange of goods and services. While such linkages are a challenge, they may have a higher chance of success between countries whose economic and financial systems are well-integrated. From that perspective, the success of the New Payments Platform (NPP) in Australia, and a possible link to its equivalent in New Zealand, might be an important precedent to assess the viability of such links. Secondly, RTP can be combined with other services to raise social welfare. The NPP initiative is leading the world through the provision of “overlay services.” Moreover, if remittance information can be added to payment messages, it will generate a potentially transformative evolution of electronic data interchange (EDI). EDI will benefit not only industries (which can cut costs by automating back offices), but banks (which can generate additional business by meeting new customer demands). Japan is taking steps to realize EDI as part of its growth strategy. Last but not least, nobody will use RTP unless they are confident of its security. Every payment system represents a trade-off between efficiency and risk, and the optimal balance between those factors changes as payment systems evolve. RTP inevitably adjusts that balance. Risk remains an issue which must be addressed by policymakers and other stakeholders. Mitigating that risk and enlarging the frontier on which the trade-off occurs are essential to sustain the global trend towards RTP.



Steve Ledford

Senior vice president,
product and strategy,
The Clearing House

Those organizations developing and deploying real-time payment systems around the world need to keep doing it. That RT-RPS is a necessary but not a sufficient condition for real-time payments (RPS). What will bring them to life is the creation of innovative and compelling products that consumers and businesses can use. Until that happens, we will have built infrastructure but not created new payment systems. Banks need to come up with propositions for consumers, such as person-to-person payments, or immediate payments for such things as taking part in market research and product promotions. For businesses, RT-RPS could bring electronic invoicing to life. It could make just-in-time supply chains possible even for the smallest businesses. Creative minds will invent products based on real-time that are impossible to predict. When he invented the Worldwide Web, Tim Berners-Lee was not thinking about transforming the taxi business, but the Internet did it all the same. Finally, someone has to go out and sell the products. The idea that you build it and they will come is not realistic. In the United States we had debit cards for years, but it took advertising to make them popular. There is a role for the networks, especially in emphasizing the importance of network effects, but success depends on financial institutions coming up with products that deliver value for them as well as their customers. That gives them the incentive to increase sales through advertising. If they get this right, banks have little to lose and everything to gain.



Chris Hamilton

Chief executive
officer, Australian
Payments Clearing
Association Limited

Contrary to what people say, speed is not the driver. Data and flexibility are. Accelerating the movement of value from one place to another is useful, but by itself it is not going to be useful for long. A real-time retail payments system (RT-RPS) that endures will be based on how it might be used in the future, not on how payments were made in the past. The key to making really useful retail payments is not moving value around really fast. It is moving value around fast in the context of data which is also fast. Modern, qualitative payment relationships are all about the flow of data. For example, a consumer buying a second-hand car would find it helpful if the check that the car was unencumbered, the re-registration of ownership, the road tax and the insurance were added to the payment transaction. What the consumer needs is a used car app, not just a payment, because every payment is always part of a much larger transaction. There are of course millions of different payment contexts, not all of which can be predicted in advance. A used car app is not much use to someone who wants to take out insurance, or pay an energy bill, or a phone bill. So the successful real-time retail payments infrastructure will be flexible enough to accommodate all contexts using a single set of basic components. In my view, the future is about re-intermediation, not disintermediation, as new and old players offer more data-driven services along the value chain. Banks have a fantastic opportunity to add value by adding data, context and flexibility to payments. If they do not, others certainly will.



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Perspectives:



Hays Littlejohn

Chief executive officer,
EBA CLEARING

It is easy to think of instances where real-time payments (RTP) will be useful to consumers. They can avoid late payment charges on bills. In house purchases, they can replace escrow arrangements requiring payments to be made days in advance. RTP will be useful to businesses too. They can optimize their cash management by settling bills just-in-time, and pay manufacturers to ship goods directly to their customers. But RTP will also create opportunities that we cannot even imagine today. So banks should be excited rather than fearful of RTP. Far from cannibalizing existing payments, they are likely to replace a wide range of pure cash transactions that banks do not currently intermediate, such as paying pocket money or the babysitter. That said, real-time processing will challenge all parties in the payment transaction chain. Most payment infrastructures would have to be enhanced in terms of speed and capacity. Nor can all banks yet make funds available, or handle Anti-Money Laundering (AML) Know Your Client (KYC) and sanctions screening checks, in real-time. A scheme, or set of rules that ensures both the payer and payee know exactly when funds will become available, also needs to be developed. Even the best technology cannot compensate for the lack of a rulebook to which all parties subscribe, especially in cross-border payments. Lastly, we need efficient mechanisms to mitigate the settlement risk of being open 24/7, 365 days a year. Setting credit limits and sticking to net settlement in Real-Time Gross Settlement Systems (RTGS) are the most obvious measures in this context.



Craig Tillotson

Chief executive officer,
Faster Payments
Scheme Ltd.

In the United Kingdom we are not at the start of the transition to real-time, but in the middle of it. Consumers, reared on pre-paid phones, already think of payments as real-time. Availability in their account is more important to them than real-time settlement at a central bank, but neither is as important as a 24/7 service. More than half the payments we process occur outside traditional banking hours. Ubiquity matters too. Consumers will not use a system that requires them to check whether they can pay someone in real-time or not. That means the system must encompass all retail banks and payment service providers (PSPs), not just large banks. That is why we invited FinTech companies as well as banks to aggregate payments on behalf of smaller providers. By sharing fixed costs, aggregators reduce overall costs. The pre-funding of settlement accounts we introduced in September also opens up participation for smaller banks and PSPs. Pre-funding has other advantages. It maintains the consumer assurance of irrevocable payment, while relieving banks of credit exposures prior to settlement. The alternative, of building a Real-Time Gross Settlement Systems (RTGS) that operates 24/7, would require failsafe links between two infrastructures and every bank and PSP, plus massive increments to capacity (at peak times Faster Payments processes 400 times as many payments as the RTGS system). Pre-funded net settlement is also systemically safer. It retains overnight and weekend breaks for the central bank, reducing the risk of destabilizing out-of-hours surges of liquidity between banks, while still being available to consumers 24/7.

“Come and discuss real-time payments with us...” at Sibos
Monday 12 October 2015
15:30-17:00 p.m.
Conference room 1

