How to Unlock the Potential for Instant Payments?

Central Infrastructure, **Financial Institutions**, **Banking**

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On May 5, I attended the CEPS ECRI event on "How to unlock the potential for instant payments?" which covered the European Commission plans to create an integrated retail payment system for Europe. The first panel was composed of Somya Patnaik, Principal Product Manager, Real-Time & Digital Payments, ACI Worldwide; Fernando Rodríguez Ferrer, Business Development Director, Bizum and Lajos Bartha, Executive Director for Financial Infrastructures and Banking Operations, Central Bank of Hungary. The second panel was composed of Steve Ryan, Policy Officer, European Commission; Martina Weimert, CEO, EPI; Hays Littlejohn, CEO, EBA Clearing and Gerhard Huemer, Director Economic & Fiscal Policy, SMEunited. Discussions were moderated by Mr. Willem Pieter de Groen, CEPS ECRI.

Following are some notable highlights from this interesting debate:

Somya Patnaik, ACI Worldwide, presented the third edition of ACI's 2022 *Prime Time for Real-Time* report, which looks at the growth and impact of instant payments worldwide. She explained that the report tracks growth and instant payment volumes across 53 countries – and for the first time provides the most comprehensive economic impact study of real-time payments to date – highlighting a clear correlation between instant payments and economic growth across 30 key markets. The economic impact study was conducted by the Centre for Economics and Business Research. The Report explains that 118.3 billion real-time transactions were made globally in 2021, as measured by ACI partners at GlobalData, and 427.7 billion are expected by 2026 (which would be 25.6% of all global electronic payments), showing how instant payments usage is unstoppable. Instant payments helped generate an additional economic output of $78.4 billion in 2021 across 30 key markets. By 2026, this figure is set to rise to $173.0 billion across the same group of countries. Finally, Somya discussed the key learnings from the top real-time payment markets – India, Brazil and Malaysia.

Lajos Bartha, Central Bank of Hungary, explained that in Hungary a study on cash usage put together in 2010 showed that only 10 percent of payments were electronic at the time, which motivated the Central Bank of Hungary to take action to enhance the usage of electronic means of payment. Over time, the digitalisation of services as well as the needs of clients to transact at any time during the day and be able to pay instantly, have made the Hungarian Central Bank introduce a basic instant payments service for P2P payments in March 2020.

The Hungarian model is unique from the point of view that a central bank regulation made it mandatory for all payment services providers (PSPs) to join the instant payment scheme from the first day. This service was then extended in the third quarter of the same year with the inclusion of corporate batch and value dated credit transfers to increase usage. The maximum execution time for instant payments is 5 seconds in Hungary, but 96 percent of all transactions were executed in less than 2 seconds in the last year. Most of the instant payments systems are prefunded, but a collateralised liquidity line from the Central Bank account was added to the system to cover for adjustments that might take place over the weekend.

Currently, in Hungary they are implementing Phase 3 of the Instant Payments project, which includes: 1. reaching the full coverage of QR code payments and "request to pay" payments, making it mandatory by law for all mobile applications to be able to read the QR code and the messages from retailers and billing companies; 2. ensuring full interoperability via refining current QR standards and guidelines for "request to pay" payments; 3. increasing the current threshold for instant payments in Hungary; 4. educating consumers, corporates and retailers on the existing instant payments brand via a rulebook.

Steve Ryan, Policy Officer, European Commission (EC), explained that the take up of instant payments is quite slow in Europe, as it is also clearly explained by ACI's *Prime Time for Real-Time*, which shows that some Member States like Spain and Estonia are above the 11 percent average for instant payments in Europe, while others have non-existent levels for instant payments usage.

The EC has identified four drivers of low take up of instant payments, which are the following: 1. on the supply side, there is insufficient motivation for all PSPs to be able to both receive and issue instant payments, currently only two out of three PSPs in the EU can do so; 2. on the demand side, a premium price can deter the use of instant payments by consumers; 3. there is a security concern which is specific to instant payments for fraudulent payments or mis-directed payments, as instant payments go through within seconds; 4. The high level of "false hits" for instant payments in sanction screening, leading to failure of the payment.

In order to respond to such challenges, the EC is currently preparing a legislative initiative on instant payments, which is planned for Q3 of this year. The four pillars of this legislative initiative will correspond to the drivers described above. Among the various options under consideration are: 1. an obligation for each PSP that offers "next day" SCT transfers to send and receive instant payments; 2. clear rules on pricing for instant payments, as done in the past by the EC for the pricing of cross-border payments via the SEPA Regulation; 3. the introduction of a checking mechanism, maybe in the form of IBAN and a name checking service which alerts the payer before the finalisation of the payment of any detected discrepancy, in order to respond to the security concerns; 4. the introduction of a solution to reduce the number of false hits in sanction screening, while keeping the efficiency of the sanctions mechanism.

Martina Weimert, CEO, EPI, explained that the EPI project is trying to come up with a European solution for instant payments and is starting with France, Germany and Belgium. EPI is currently looking at covering all use cases, from "P2P" to "P2Pr" as well as e-commerce and m-commerce. The idea behind the EPI project is to bring more value to the consumer, offering new use cases, such as "P2Pro" and "scan-and-go," or offering subscriptions management to replace cash and normal transfers via a mobile wallet solution. Moreover, EPI is working on an additional layer of consumer protection and merchant dispute handling, and on a scheme rulebook for instant payments in commerce, for refunds, recharging, liability rules, etc. Finally, the EPI has been developing a new fraud prevention solution, which would be shared among the participating markets.

Gerhard Huemer, SMEunited, explained that small merchants are not investing enough in the payment infrastructure, so for them to be able to accept instant payments there is the need for a cheaper option than the current ones. Therefore, it is his view that the take up of instant payments will only occur once business models with adequate and reasonable pricing will be developed.

Following this fascinating debate, we now await the EC Instant Payments legislative initiative to be published in September 2022.

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