Instant Payment Schemes

The future of payments
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Introduction

In today’s fast-paced digital environment, instant payments are a hot topic.

Although some such schemes have been in existence for a number of years, momentum has picked up significantly since 2010 and the use cases for instant payments have become more tangible.

But what is driving increased interest in these payments, what has changed and what does this mean for consumers, merchants and corporates alike? Moreover, are instant payments a Peer-to-Peer (P2P) instrument, or could they be used in the Business-to-Business (B2B) sphere too?

“The term instant payments is often used interchangeably with immediate, real time, or near-real time payments.”

In this article, we will outline the status of these schemes around the globe, with a particular focus on Europe given the recent launch of SEPA Instant Payments (SCTInst)*. We will also share the latest on HSBC’s mobile collections solution in India, which facilitates the instant transfer of funds.

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*The EBA recently passed the one million transaction mark for their SCTInst offering (RT1).
The current instant payment landscape

There are approximately 50 Real Time Payment “RTP” schemes at different stages (live, in development) around the globe. The majority of these schemes are based on 24 / 7 / 365 availability and are real or near-real time. In the case of the UK’s Faster Payments Service, there is a maximum two-hour cycle, but in practice most payments are credited within seconds.

Whilst all current instant payment schemes are domestic, SCTInst¹ when launched will work across the 34 SEPA countries, delivering the first cross-border instant payment service.

Adoption rates in countries where local authorities and regulators have supported, such as Mexico, have seen accelerated adoption of instant payment schemes. Whereas in Brazil, for example, instant payments are still only moderately used, even after 10 years.

Looking ahead, the growth of digital and e-commerce marketplaces and the evolution of instant payment schemes will lead to further momentum in the growth of instant payments.

Typical characteristics of instant payments:
- Instant and irrevocable debits and credits to customer accounts
- Request for payments and QR codes
- Service availability 24 / 7 / 365
- ISO 20022 XML format used in many schemes supports additional remittance information
- Immediate confirmation to both payer and payee
- Participation in overlay or value added services.

HSBC is already connected to many of these schemes – Japan, South Korea, Chile, United Kingdom, Mexico and, more recently, India. HSBC recognises the importance of these payments and has a global programme for implementation in a number of future schemes, including the SCTInst scheme in Europe.

Speed of instant payments adoption²

The UK’s Faster Payments Service: an interesting test bed

In the UK, the Faster Payments Service (FPS) was launched in 2008, initially targeting consumers, but B2B transactions became an obvious next step. The initial transaction limit of £10,000 was pushed up to £100,000 to respond to the market demand, which resulted in a strong uptake. More recently, this limit has been further increased to £250,000 – although individual banks and building societies set their own limits, which vary according to payment and account type, as well as customer segment. Between 2008 and 2017, the volumes of FPS transactions increased from 82 million to 1.7 billion illustrating the importance of this payment type.

Volumes are only expected to grow, with forecasts predicting more than 2.3 billion FPS transactions by 2026.

In terms of users, HSBC’s experience, together with statistics published by Payments UK, show that while corporate usage is growing, consumers still initiate more FPS transactions than businesses. Reasons why business usage has not grown to a greater extent may include the cost of the service and the use of the ISO 8583 format, rather than ISO 20022 XML.

The introduction of New Payments Architecture (NPA), expected to be deployed from 2020 through to 2023, will provide simpler access, greater innovation, increased adaptability, improved competition and better security. This is expected to address perceived gaps in the faster payments service.

ISO 20022 XML will allow for richer payment information, enhance interoperability, improve user functionality and strengthen end-to-end risk management. Furthermore, a suite of new payment overlay services will be introduced to the UK market, including ‘request to pay’ allowing for greater control over receivables.

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Why the buzz around instant payments?

The digital economy and the rise of mobile banking for consumers and corporates has provided a strong platform for faster payments, with an expectation that decision-making should be able to be done on-the-go. Professional life is now assumed to echo consumer experiences. The exponential growth of mobiles has further nurtured this assumption.

This is not the only driver behind the rise of instant payments. Regulators are also pushing for these schemes to reduce the use of cash, as we have seen in India, and to help tackle financial crime and fraud. Equally, regulators are looking to provide greater access to payment services for underbanked or unbanked consumers, as a means of social inclusion.

Over time, the features of these schemes have matured and become increasingly connected to the digital economy.

In Europe, the revised Payment Services Directive “PSD2” (live since January 2018), along with SCTInst (live since November 2017), will provide a strong impetus for opening up and regulating the digital economy.

PSD2 provides the framework for Third Party Providers (TPPs) to enter the market and offer new services to consumers and corporates.

“The SCTInst scheme is available 24/7/365 and resulting in the immediate or close-to-immediate interbank clearing of the transaction and crediting of the payee’s account with confirmation.”

1 ERPB press release, 1 December 2014
The initial limit is fixed at **€15,000** with a 10 second time frame for the end-to-end transaction to take place. The service will be available 24/7/365 within the SEPA 34 countries.

These can either be Account Information Service Providers (AISP) or Payment Instruction Service Providers (PISP). These new actors are already operating today but, with the PSD2 regulation, banks, payment service providers (PSPs) and these new actors will be obliged to work together.

In the case of PISPs, these new actors will be able to initiate payments on behalf of their customers, penetrating the P2P, B2C and the B2B space.

The development of overlay services and direct access to non-bank participants is opening up the possibilities of using instant payment infrastructures in an economy where the end-user is looking for speed, certainty, convenience and security in their everyday transactions.

Buying habits are evolving and there is a drive by corporates to create ecosystems within which their customers will adhere and buy in to an ensemble of services.
Use cases for instantaneous payments

Once an instant payment infrastructure is in place, the real debate lies in the solutions and use cases, available in the market, and how to tailor the characteristics of these services to each customer segment.

For consumers, speed is not the only consideration. Users of instant payments will be looking for ease of use, compared to cash, without the need for the payer to know the account number of the beneficiary. In response, an increasing number of instant payment schemes are supporting common QR codes standards to create a seamless payment experience.

Despite the improved experience, instant payments are unlikely to be adopted by everyone – for example, whilst instant payments are a strong alternative to cheque usage, cheques will remain common in certain markets or consumer segments. Additionally, certain demographics are yet to become comfortable with electronic payments or the internet and prefer paper-based instruments.

Yet there is a real drive towards alternative payments for those who embrace innovation, and these behavioural trends will open the way to new ecosystems for payments.

For corporates, the priority is to provide options to customers in line with growing expectations, strengthening their brand and social image, while ensuring that – from a treasury perspective – instant payments are cost-effective and provide an alternative to existing models. Hence an opportunity for propositions and services, using instant payment schemes, to grow rapidly.

Elsewhere, the ISO 20022 XML format, available in some of the instant payment schemes, provides an added benefit for corporates from a data perspective. Artificial intelligence and efficient data mining are seen as the next step in developing business models or entering new markets to further strengthen customer relationships.

Moreover, security and fraud are already high on the treasurer’s agenda and their expectation is that these schemes will provide the right protocols to protect themselves and their customers.

In summary, instant payments have much to offer corporate customers. A combination of speed of credit, irrevocability, better reconciliation and ease and convenience of use, will provide a genuine alternative to established models.

The rise of instant payments will also accelerate the growth of solutions that respond to customers and corporates looking to pay within seconds and be informed about transactions simultaneously. Such solutions are not only coming from the banking sector, but also from new third party providers. HSBC is leading the way, leveraging instant payments to deliver new services in countries like India.

One of the most significant benefits of many of the instant payment schemes is, arguably, the use of the ISO 20022 XML format. This provides data standards and richer remittance information to streamline and automate reconciliation.
What are corporates looking for?

- Visibility and control over their cash position – instant payments allow for this with immediate notification of payments or collections. They allow for just-in-time management of stock and working capital optimisation.
- Straight through processing (STP) reconciliation and standardisation – the ISO 20022 XML format supports this, and established schemes using older formats are considering how to migrate.
- Immediate availability of funds – payments are settled instantly, avoiding delays associated with traditional forms of payments.
- Marketing tools – efficient use of payment data to define selling strategies.

What are merchants looking for?

- Irrevocability of the payment
- An instant payment at the point of sale to be an acceptable means of payment
- Protection against fraud
- Competitive banking fees, notably as an alternative to card transactions
- Latest technology and standards, which is expected with the ISO 20022 XML, used in 8 of the 18 current schemes and 5 in the planned schemes
- Omni-channel delivery to ensure convenience of payments by their customers.

What are consumers looking for?

- A user-friendly customer experience that must be simple, intuitive and fast. The use of an account alias will drive increased usage as it is much more straightforward than keying in an IBAN
- Convenience through multiple channels: mobile, tablet, desktop computer
- Security against fraud
- Large coverage by merchants
- Reduced or no fees, since there are no associated services like insurance with card payments
- An ecosystem providing additional services.
The HSBC story on instant payments

Mobile collections in India

Recent changes in the payments landscape in India illustrate the potential of an instant payment scheme. HSBC is one of the first foreign banks to provide a mobile collection solution in the country, using the mobile phone – leveraging a mobile app that can be bank-agnostic.

India has the right conditions to introduce mobile collections for a number of reasons. The domestic market is broken down into services (60%), manufacturing (16%) and agriculture (24%), with 65% of the population still in rural areas. The continued trend of the rural population migrating to the cities is driving consumption growth.

The telecoms sector has had real success, with 88% mobile penetration. In 2016, 19.01% of the population was using a smartphone. Meanwhile, access to the internet is equally strong, with consumers engaging with the internet and buying electronically. This has laid the foundations for consumer usage of mobile payments.

At the same time, the Indian government has implemented multiple initiatives to drive digital payments. India started with demonetization in 2016, cashback initiatives for consumers and merchants to incentivise the use of the UPI payments app, a pricing waiver to merchants for transactions up to INR 2000 supported by the Indian government and performance targets for banks to grow digital payments (the target for fiscal 2017-18 was 25 billion transactions).

Source: www.statista.com
Source: The Economic Times, 2018
The future of payments

How it works

Unified Payment Interface (UPI) is a next-generation payments platform, platform that facilitates the transfer of funds instantly between person-to-person and person-to-merchant, using a smartphone. UPI can be used to send and receive funds. This platform allows both payer and payee-initiated payments.

UPI was launched in April 2016. In the first 12 months, there were just under 18 million transactions (17.9m) and which grew to 737 million in the second year.

What makes this platform transformational is its ability to give the user a platform to access different bank accounts, by way of a virtual payment address (VPA). The user can avoid, on a platform that operates 24/7/365. It is simple, convenient and interoperable (a single app may be used to link multiple accounts across banks). The current transaction limits are 20 transactions per day, with a maximum value of INR 100,000 (€1275) per day.

UPI is centrally operated by National Payments Corporation of India (NPCI). Banks must participate in UPI in order to enable the services for their customers. UPI-enabled apps must follow certain protocols to enable customers to register for UPI. Messaging between apps, the payer’s bank and the payee’s bank happens through NPCI, instantaneously.

Indian government reforms have focused on:

- Making India a hub to generate foreign direct investment
- Easing government regulations and introducing eGovernance (admin services)
- The consumers’ ability and willingness to use mobile phones for payments
- Two main initiatives:
  - The use of mobile payment platform – new infrastructure, 24 hours, uninterrupted and real-time for INR 100,000 (approx €1,500)
  - A unique identification for each citizen

Connected

Leverages the ubiquity of smartphones (India currently has 1.05b mobile phones and 220m smartphones)\(^7\)

Optimised working capital management, including, control to pull funds, with real-time information and settlement

\(^7\) Ericsson Mobility Report, November 2016

Real-time

Supports direct-to-consumer transactions, providing real-time connectivity, 24/7/365 availability and consent driven payments

Real-time bank connectivity through APIs with the ability to push single or batch transactions

Secure

Reduces cash usage, the preferred method of payment for small-ticket transactions (12% of GDP is in cash)

Alternative mechanism to cards (restricted availability, delayed confirmation and high cost acceptance)
HSBC solutions

Operational efficiency
- HSBC can store the VPA linked to a customer, eliminating the need for the client to store the information.
- The client only shares the VPA and ID once.
- Regular payments for a fixed amount can be supported through a one-time instruction.

QR codes for convenience
- HSBC supports QR code payment solutions for in-store and bill payments, eliminating the need for manual capture of payment information.
  - QR code solutions have built-in reconciliation mechanisms, in order to identify the customer and purpose of the payment.
  - QR code is dynamic and unique to each bill or in-store purchase.

Real-time with API
- HSBC offers real-time connectivity via API, for immediate Collect/Pay and information sharing.

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1. **Consumer**
   - Shares VPA

2. **Corporate**
   - Shares VPA, consumer ID, and the amount and due date, one time, with HSBC

3. **HSBC**
   - Initiates Collect/Pay request to consumer on the due date

4. **Consumer**
   - Accepts request, using UPI app on mobile phone

5. **Real-time fund transfer from consumer’s bank account**
Our proposition suite is growing

The first use case that was implemented by HSBC India, in November 2016, was specifically for recurring B2C payments.

Since then, several other models have been implemented and although this is a young scheme, the market is very dynamic.

New solutions are being investigated, such as using APIs as an information channel for invoice details, customer identification and, shortly, cheque collection.

Applications in the B2B space are still in their infancy, but we are positive about its future and the potential benefits for businesses.

This solution is well adapted for a number of sectors:

- Financial institutions (fixed monthly payments for mutual fund subscriptions, SIPs and EMIs)
- Media (subscription fees for online digital and media entertainment)
- Retail and e-commerce (EMIs for products sold)
- Automotive (EMI receivables)

Other schemes implemented by HSBC:

- Periodic receivables with varying amounts
- Online receivables
- In-app receivables
- In-store using QR codes
- Bill payments
Instant Payment Schemes

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