EQUENSWORLDLINE PERSPECTIVE

Instant Payments combine cash and electronic payments

Michael Steinbach
CEO, equensWorldline

The introduction of Instant Payments in 2018 will have a tremendous impact on European banks, their infrastructures and their services to their customers. *Banking Automation Bulletin* had the opportunity to speak to Michael Steinbach, CEO of international payment processor equensWorldline, about the development of Instant Payments and why banks need to develop new business models.

Bulletin (B): What are the developments and why will they change the future of the banking industry?

Michael Steinbach (MS): The payments industry is currently an exciting place to be, with market-changing regulation such as PSD2 and a big push for Instant Payments happening at the same time. This definitely impacts the choices banks make. Both PSD2 and Instant Payments require banks to reconsider current strategies, but in different ways.

B: What are the differences between those two developments?

MS: PSD2 raises fundamental questions on the business model and positioning of a bank, like 'Which position will I take in the value chain?' Instant Payments, on the other hand, mainly create challenges in the operations and IT infrastructure. The impact of Instant Payments on banks' infrastructures and the related investments should not be underestimated.

Instant Payments requires real-time processing through the entire value chain, meaning throughout the whole IT application landscape

B: Can you give an estimate on the investments that are needed to facilitate Instant Payments?

MS: According to the *2017 SCT Inst scheme rulebook* of the European Payments Council, real-time payments must not exceed ten seconds. However, competition will exacerbate this, and there are plans to achieve a response time of five seconds. For this ambitiously short processing time, banks must make their IT infrastructure work in real time and switch from one-batch to one-transaction processing. This applies not only to applications for payment transactions, but to all processes and systems that receive and send payment information and transactions, such as accounting. Therefore, investment costs are estimated to be even higher than for the introduction of the euro or even SEPA.

B: Can you explain why the impact will be bigger?

MS: Instant Payments will have such a big impact because traditionally, payments have been operated in a batch-oriented environment, whereas Instant Payments requires real-time processing through the entire value chain, meaning throughout the whole IT application landscape. Also, arranging 24/7 support from both IT and operations is a key requirement. What is more, not only payment systems, but also adjacent and surrounding systems need to be adjusted for real-time and 24/7 capabilities, for instance account bookings and compliance checks. For all these challenges, banks are looking for cost-effective solution options to minimise the impact on their entire IT infrastructure.

B: Does each bank follow the same path to implement Instant Payments?

MS: In terms of solution options, ranging from own-build to fully outsourced services, we notice different strategies are applied for different parts of the value chain. For example, the client channel component is typically a bank's own build, often in co-operation with a fintech supplier. On the other hand, in core back-office processing – where it is not easy to differentiate – banks consider cost-efficient solutions like sourcing to a specialised service provider. Owing to the level of investment and complexity implementing an Instant Payments application landscape, not only smaller banks, but banks of every size are considering moving away from handling the development and maintenance of the back-office infrastructures themselves.

B: Are there any differences between countries when it comes to implementation?

MS: We see clear differences between countries. While bank communities in some places, like Belgium or the Netherlands, have expressed a clear timeline for country-wide implementation, in other countries individual banks work with their own implementation timeline. We expect that after the initial wave, when first mover banks start offering this service, the pressure will increase on remaining banks to follow quickly. Evidently, the implementation will be a step-by-step approach. However, at equensWorldline we are convinced that with Instant Payments we are ultimately moving towards a complete global instant payments world, independent of country and/or currency.

B: What are the challenges to facilitating Instant Payments?

MS: Low latency, 24/7 availability, connectivity and scalability. When it comes to processing Instant Payments, these are the four main challenges for banks and processors. This new and faster way to make payments has a lot of market potential, but the underlying infrastructures and processes need to be upgraded to facilitate Instant Payments.

B: The investment required seems high. What are the advantages of Instant Payments?

MS: Thinking about investments, we need to take into account real-time payments becoming 'the new normal', meaning commodities. They offer great advantages for consumers, merchants and companies. First, approved transactions are processed immediately, around the clock, 365 days a year. Second, consumers can, for example, pay a restaurant bill through an instant credit transfer and recharge their mobile phone credit immediately in the evening, at the weekend or on holidays. And third, companies can settle invoices immediately and with that optimise their cash flow; merchants benefit from the immediate credit to their accounts, which makes it like cash.

B: Is it safe to say that Instant Payments perfectly combines cash money and electronic payments?

MS: Yes, that is correct. The advantages of cash money – immediacy and irrevocability – combine perfectly with the use of electronic payments – security and convenience. Therefore, we should expect that in the foreseeable future global payments in real-time will be a reality regardless of currency and distance. The ISO standard 20022, which currently applies to SEPA payments within Europe, could become a worldwide standard for instant payments. Payment transactions will become global and instant. This means that transactions can be sent, processed and settled at any time in the same second, which makes them independent of time, space and currency.

B: What will be the result of this worldwide standard?

MS: In line with purchasing behaviour, particularly on the Internet, a 'Global Payments World' will develop, in which nationally limited systems will not survive. For banks, it will be key to already consider the fundamental ways in which they can deal with these structural changes. This requires new business and operating models, which take account of the fact that, as a result of global standardisation, in the future no more market shares are to be won with the processing of payment transactions.

B: What is the effect of Instant Payments on the services of banks?

MS: It is to be expected that the user, whether it is a private customer or a company, will no longer be willing to pay fees for the processing of Instant Payments. The competition for the benefit of customers is exclusively taking place on the product and client services side. The payment process is integrated into the value chain, where for example, buying is the main focus instead of paying. The entire process is increasingly being digitised, improved and simplified under the motto 'convenience'. The customer will no longer perceive the payment process with the awareness they do today, and banks should therefore seek new business models to strengthen the relationship with the customer.

B: Do you have an example of a new business model for banks?

MS: Some banks have recently developed or are on the way to developing a webshop where they offer their clients a variety of goods for purchase. The clients benefit from a slightly cheaper price and get the goods delivered to their homes the next day. Payment is embedded in the selection and buying process, with one-click clients paying out of their accounts or with loyalty points. In this context, banks are often teaming up with fintechs, who bring their agility and new methods for developing solutions.

This is also representative of how I see the future: instead of competition it is a collaboration between banks and fintechs, where both will benefit because they each need the other's specialised skills and capabilities. ■

With Instant Payments we are ultimately moving towards a complete global instant payments world

Users will no longer be willing to pay fees for the processing of Instant Payments

equensWorldline