

A person is shown from the side, holding a smartphone. The background is a warm, orange-toned image with a network of white dots and lines overlaid on it. The text is positioned on a dark grey rectangular background.

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?

In this article, we will outline the status of these schemes around the globe, with a particular focus on Europe given the imminent implementation 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. ■

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



Michèle Zaquine
Payment Advisory Europe

Michèle investigates instant payment trends around the globe and how these are shaping the future of payments.

The current INSTANT PAYMENT landscape

There are more than 18 existing instant payment schemes around the globe – and more being implemented. 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.

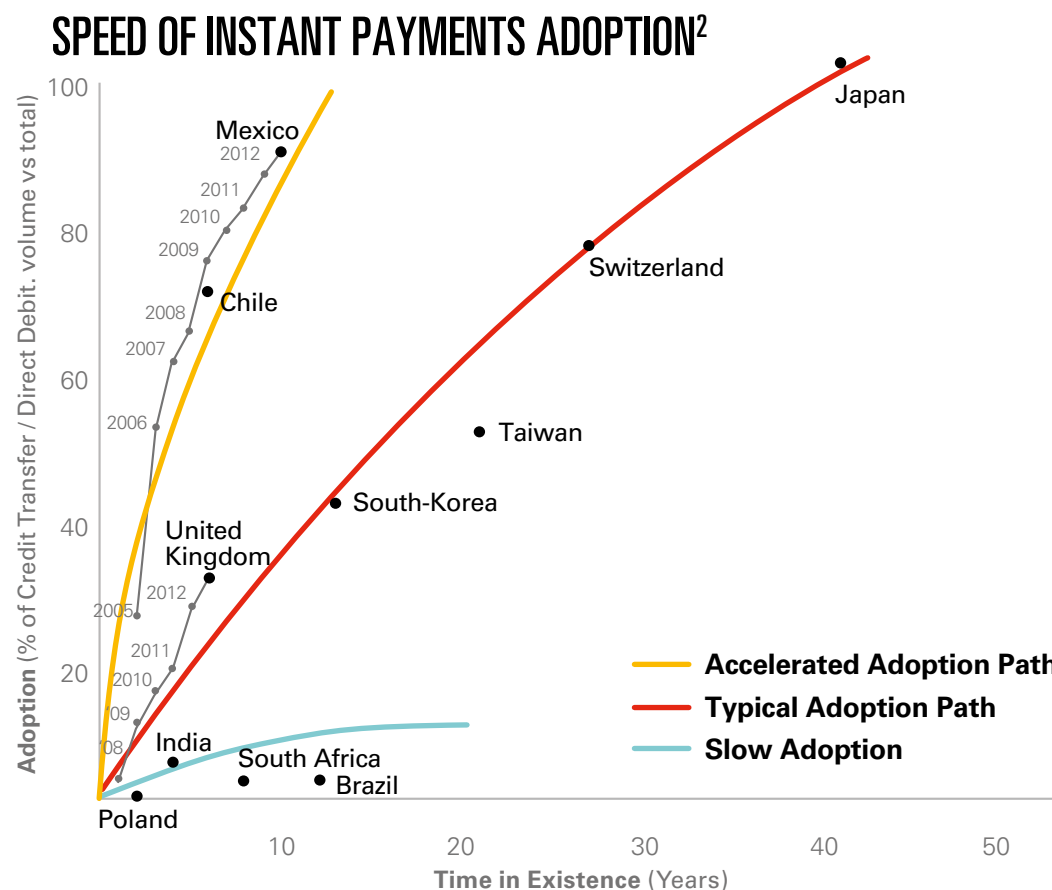
Whilst all current instant payment schemes are domestic, SCTInst¹ when launched will work across the 34 SEPA countries, delivering the first cross-border instant payment service.

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 ecommerce marketplaces and the evolution of instant payment schemes, will lead to further momentum in the growth of instant payments. ■

¹ Implementation November 2017 ² Swift 2015
White Paper – The Global Adoption of Real-Time Retail Payments Systems (RT-RPS)

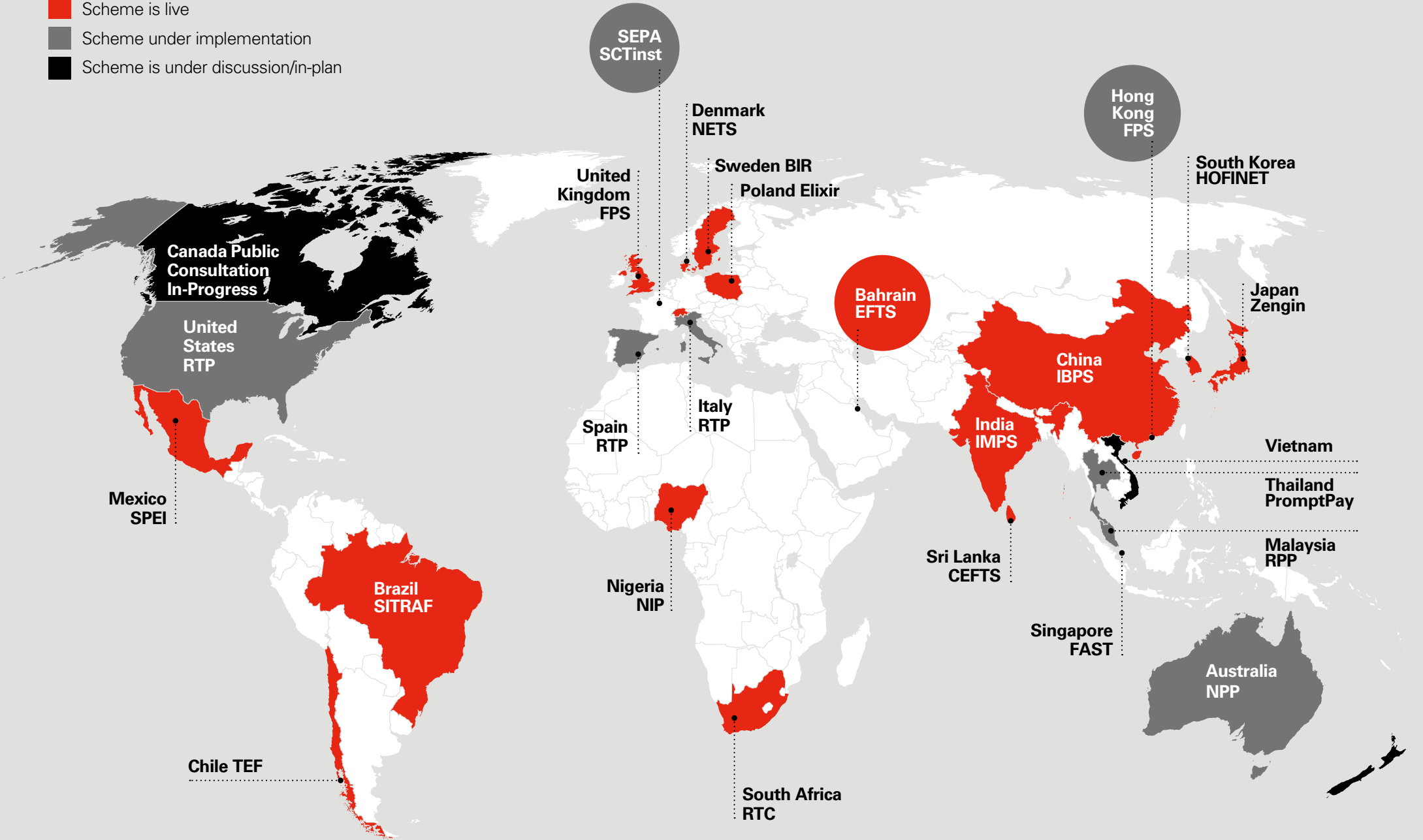


TYPICAL CHARACTERISTICS OF INSTANT PAYMENTS:

- Instant and irrevocable debits and credits to customer accounts
 - Service availability 24/7/365
 - ISO20022 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,

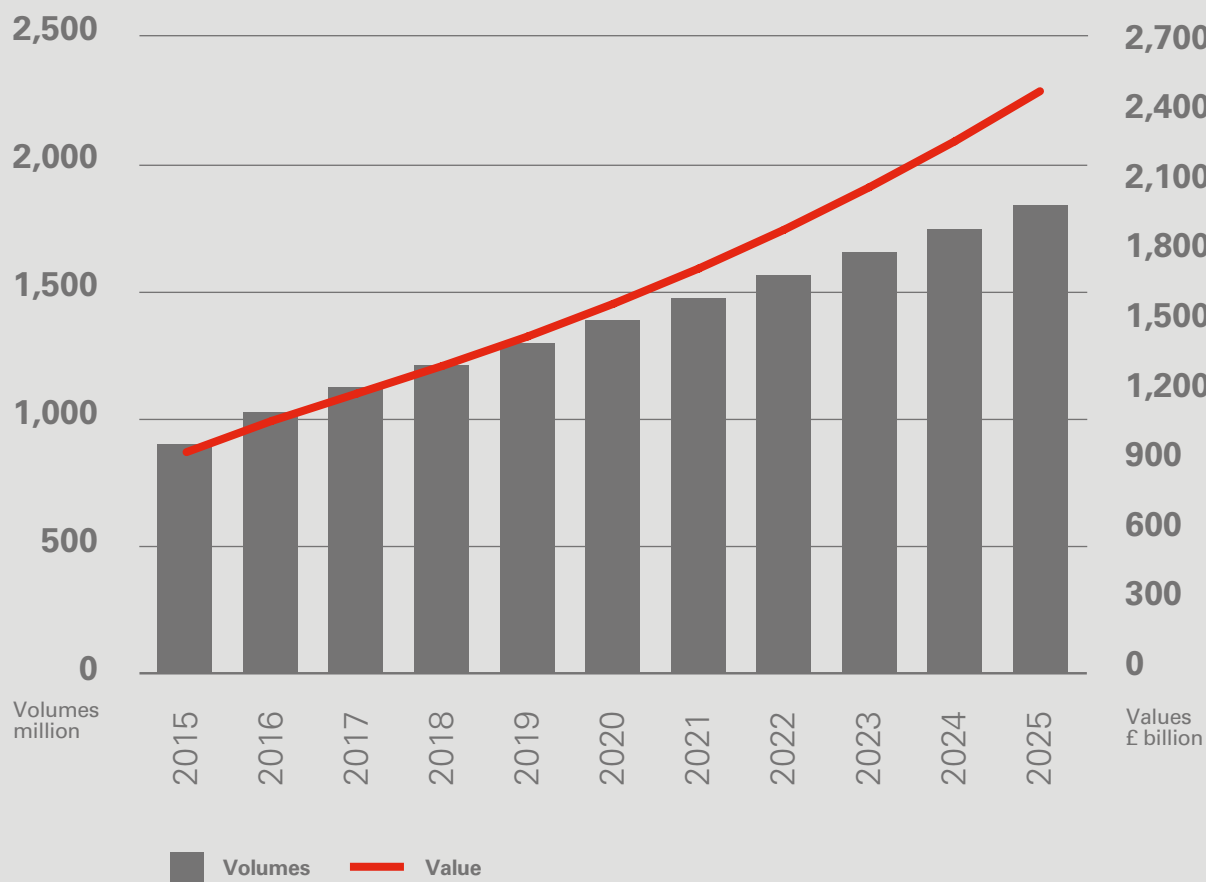
South Korea, Chile, United Kingdom, Mexico and, more recently, India. HSBC recognises the importance of these payments and has a global programme for implementation in a number of future schemes including the SCTInst scheme in Europe.

- Scheme is live
- Scheme under implementation
- Scheme is under discussion/in-plan



The UK's **FASTER PAYMENT SERVICE:** an **interesting** test bed

FASTER PAYMENT SERVICE VOLUMES AND VALUES FORECASTS³



In the UK, the Faster Payment 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 segment⁴. Between 2008 and 2015, the volumes of FPS transactions increased from 82 million to 1.2 billion illustrating the importance of this payment type³.

Volumes are only expected to grow, with forecasts predicting more than 1.8 billion FPS transactions by 2025³.

In terms of users, HSBC's experience, together with statistics published by Payments UK, show that while corporate usage is

³Payments UK – 2016 UK Automated Payments
⁴www.fasterpayments.org.uk/about-us/transaction-limits

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.

This format decision was taken almost a decade ago, prior to ISO 20022 XML gaining global traction. However, it means that limited information is provided for reconciliation, with no return transaction codes, and these are so important in the B2B workflow.

“Volumes are only expected to grow, with forecasts predicting more than 1.8 billion FPS transactions by 2025³.”

Consumer transactions represent the bulk of faster payments in the UK. In 2015, of the 903 million one-off transactions initiated by FPS, only 379 million were initiated by businesses.

Currently, FPS usage by corporates tends to be for ad hoc payments. Payroll payments are under discussion, however, this will likely be for smaller payrolls, as corporates are used to sending such payments through BACS – which is not only cheaper but their employees are also used to having visibility of their incoming salary (e.g. on internet banking) the day before.

In the P2P sphere, the most tangible use case of FPS in the market today is the Paym scheme, launched in spring 2014, which uses a mobile phone number to direct the faster payment to the beneficiary. ■



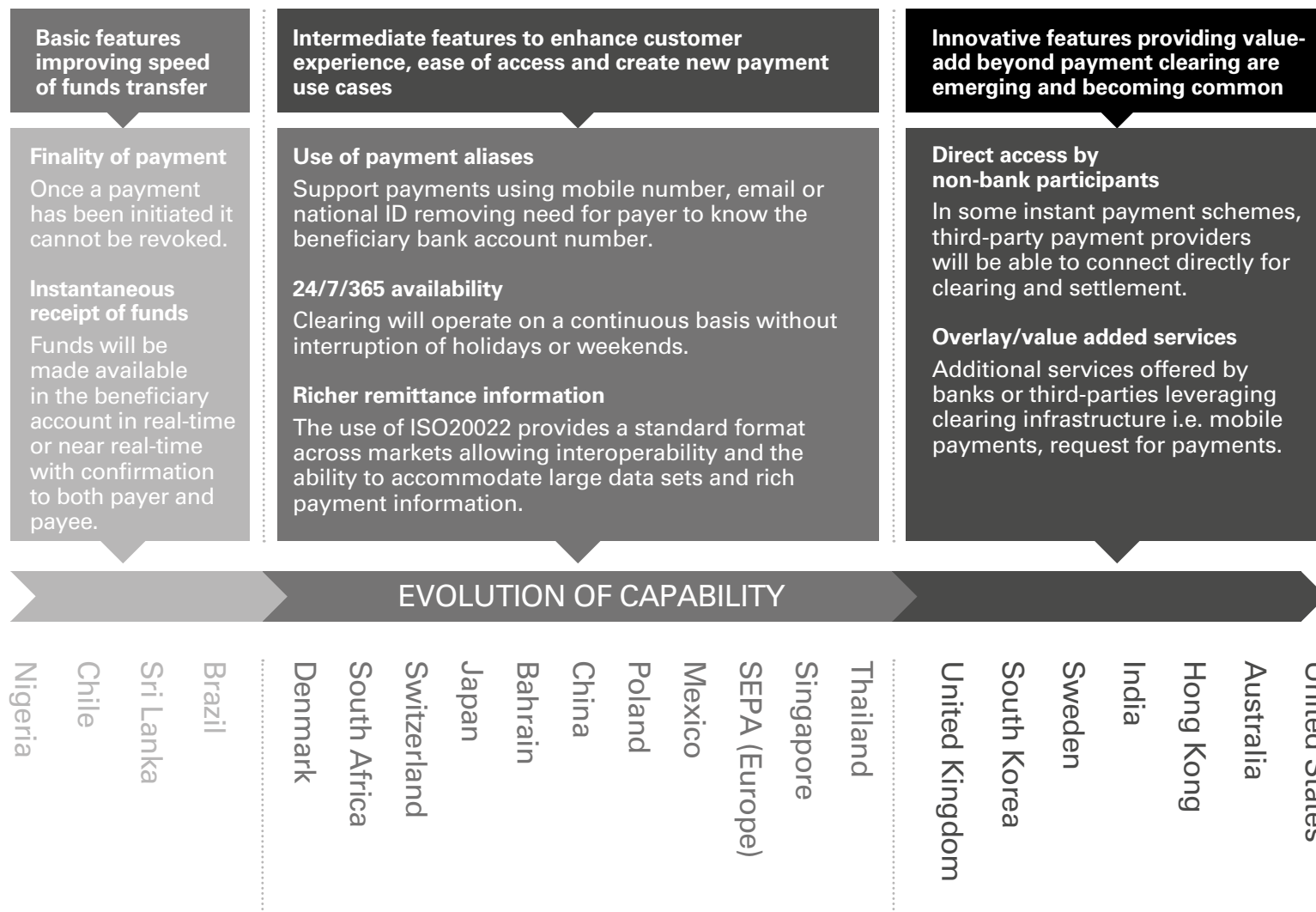
Why the buzz around **INSTANT PAYMENTS?**

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 expected to echo consumer experiences. The exponential growth of mobile has further nurtured this expectation.

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 imminent implementation of the revised payments directive (PSD2) in



“ The SCTInst scheme is the electronic retail payment solutions 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.”⁵

January 2018, alongside the launch of SCTInst, will provide a strong impetus to opening up and regulating the digital economy in Europe.

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

⁵ 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.

Use cases for INSTANT PAYMENTS

Once an instant payment infrastructure is in place, the real debate lies in the solutions and use cases that are 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 comparable to cash, without the need for the payer to know the account number of the beneficiary. Costs must be competitive, and the solution secure.

Even if all of these factors are met, 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 that 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 to developing business models, or entering new markets to further strengthen customer relationships.

For corporates to adopt solutions built on instant payment platforms, however, organisational changes must also take place to provide the 24/7/365 service expected by the end-user. This is not just a system change that is plug and play.

One of the most significant benefits of many of the instant payment schemes is arguably the use of the ISO20022 XML format. This provides data standards and richer remittance information to streamline and automate reconciliation.

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, 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 customer and corporate requirements 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. ■



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.

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 ISO20022 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 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 – the ISO20022 XML format supports this, and established schemes using older formats are considering how to migrate
- Immediate availability of funds – payments are settled immediately, avoiding delays associated with traditional forms of payments
- Marketing tools – efficient use of payment data to define selling strategies.

The HSBC story on INSTANT PAYMENTS: mobile collections in India

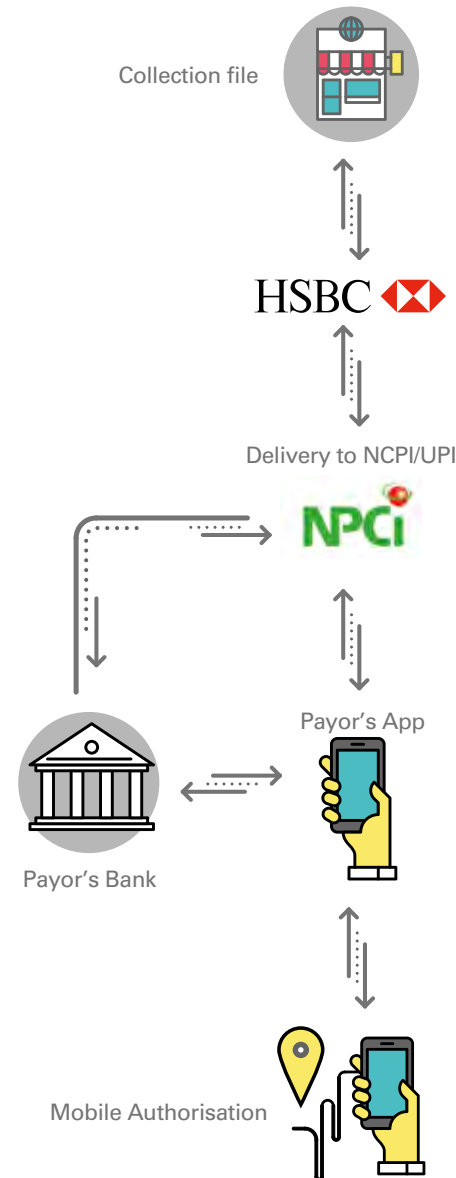
Recent changes in the payments landscape in India illustrate the potential of an instant payment scheme. HSBC is one of the first foreign banks to provide a mobile collection solution in the country using the mobile phone – leveraging a mobile app that can be bank agnostic.

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 80% mobile penetration. In 2015, there were 1.05 billion mobile phones and 220 million smartphones in use^{6,7}. 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 is implementing multiple initiatives to ease access to bank accounts for the wider population and enhance the digital flow of transactions and communication. Some of the recent steps focus on digital modes of payments as opposed to cash, which has traditionally seen very high usage.

REMOTE MOBILE PAYMENTS / REQUEST TO PAY



ONLINE MOBILE PAYMENTS / POINT OF SALE



Leverages the ubiquity of smartphones (India currently has 1.05b mobile phones and 220m smartphones)^{6,7}

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

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

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

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, high cost acceptance)

CONNECTED

REAL-TIME

SECURE

HOW IT WORKS

Unified Payment Interface (UPI) is a next-generation payments platform, which 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.

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 disclosing actual account details and it operates 24/7/365. The platform 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 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, payer's bank and payee's bank happens through NPCI instantaneously. ■

⁶Ericsson Mobility Report, November 2016
⁷www.statista.com

INDIAN GOVERNMENT REFORMS HAVE FOCUSED ON:

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

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 can enable a QR-code screening feature for in-store* payments, eliminating the need for manual updates
- HSBC's App can provide a QR-code for consumers to use in-store*

*Solutions under discussion and development.

REAL-TIME WITH API

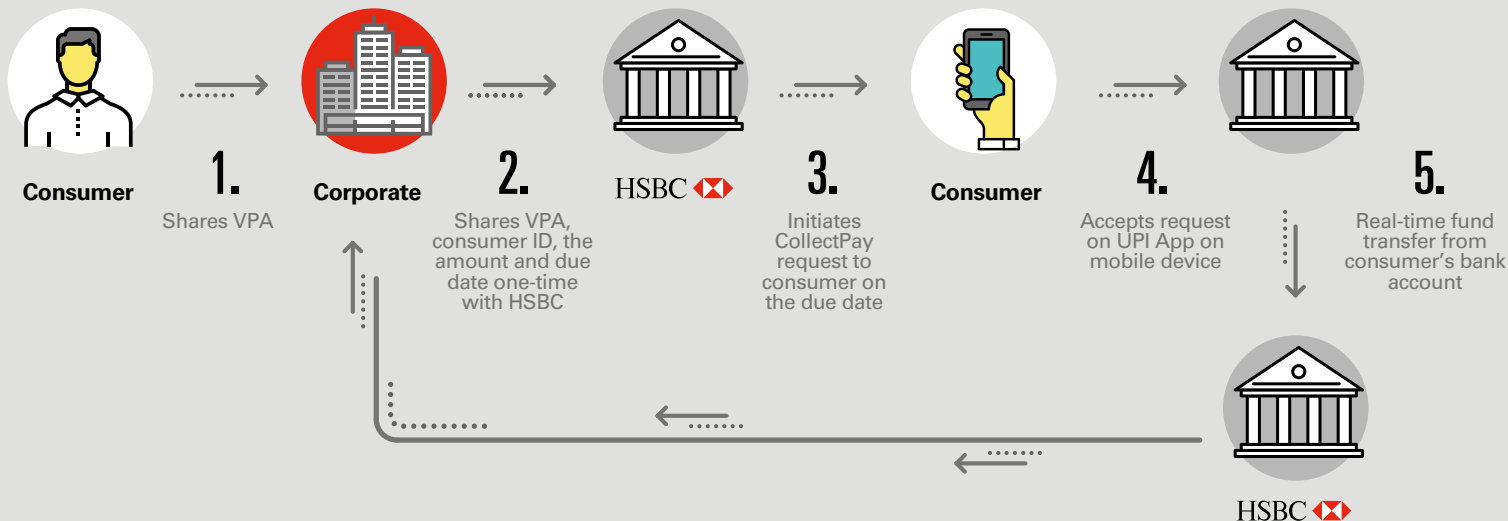
- HSBC will enable real-time connectivity via API for immediate Collect/Pay and information sharing.

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 soon, 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*

* Solutions under discussion and development

