# Instant Payments Ascending

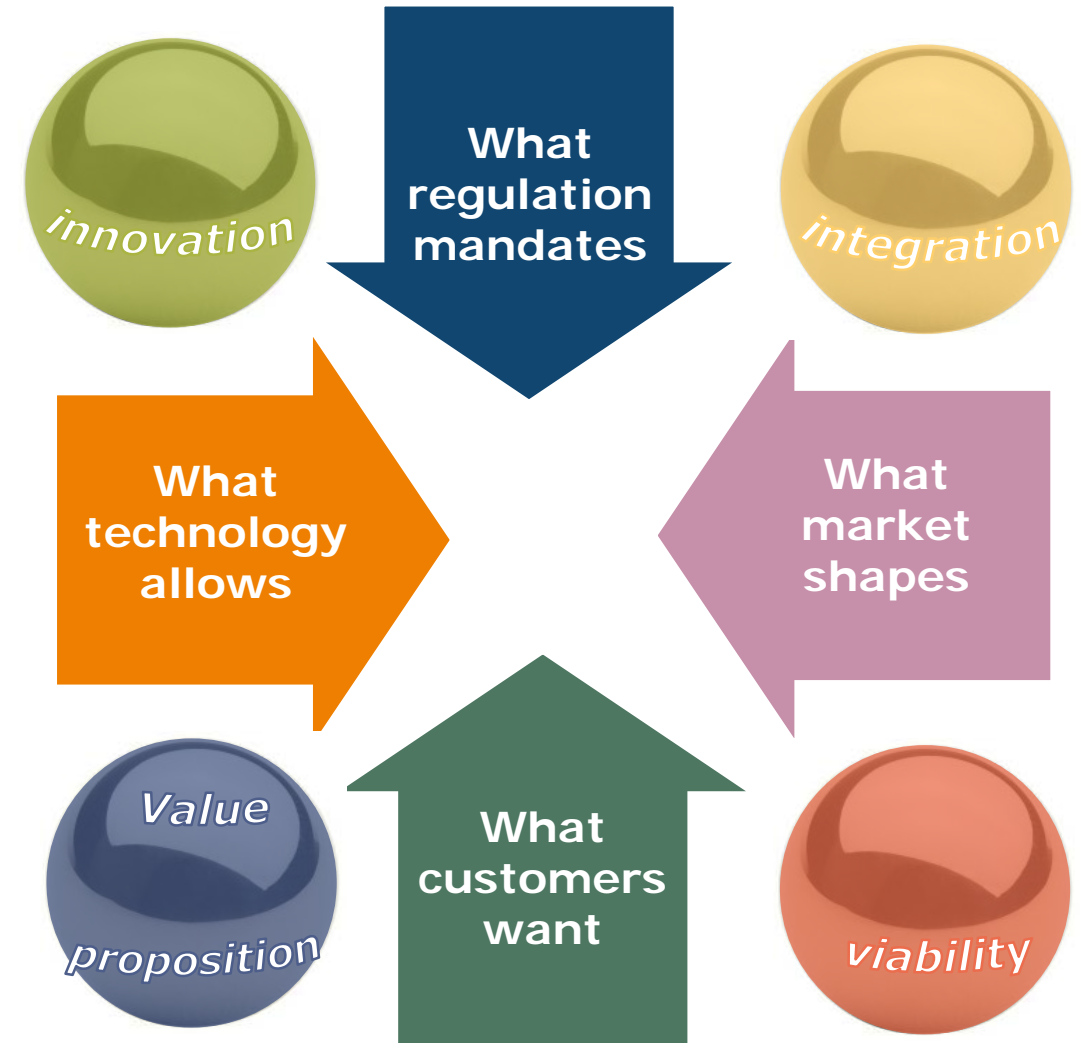How the EPC supports payment innovation in Europe and contributes to the ERPB

14 November 2018 - Utrecht

# Key "tectonic forces" driving change in European payments and four "musts"

- *By 2020, **digital transactions** are expected to make up 20% of all transactions.*

  Global Payments 2017 - BCG

- *McKinsey expects that volume growth, driven by international marketplaces such as Alibaba and Amazon, will create new **revenue opportunities** for focused players, both banks and specialists.*

  Global Payments 2017 - McKinsey

- *The growth and adoption of next-generation payments, mostly through **technology innovation**, is likely to be driven by retail customers, with central **authorities** expected to play a key role in enabling a level playing field through key initiatives.*
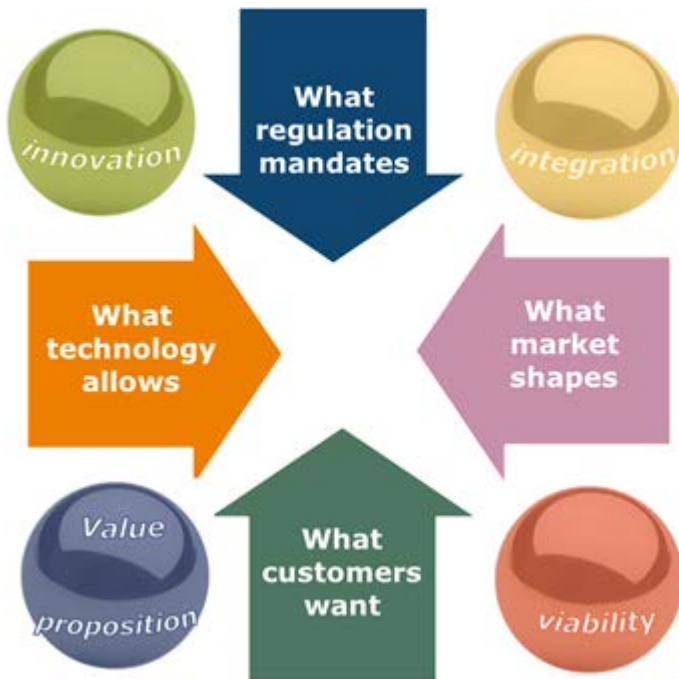
  World Payments Report 2017 - Capgemini



innovation

integration

What regulation mandates

What technology allows

What market shapes

Value proposition

What customers want

viability

# Overall context

- Customer comes first
- Technology enables
- Regulation frames
- Business models drive change
- Infrastructure supports



- For end-users, payment is not an end but a **means**
- Payment is often only a small but vital part of a much **larger value chain**
- Information/**data** is the 'name of the (new) game'
- Incumbents have legacy systems and **infrastructures** in place reliably supporting the current payment landscape
- Technological progress and **innovation** will continue to impact payments
- It is not what exists now that will necessarily determine **how customers will pay** in future
- **Payments will change** even if PSPs do not change what they offer
- **TRUST** - hence security - will remain key
- **SEPA facilitates** but cannot alone achieve the EU's objective of a full (Digital) Single Market

# Payments and movies: learning without pain

# Customers
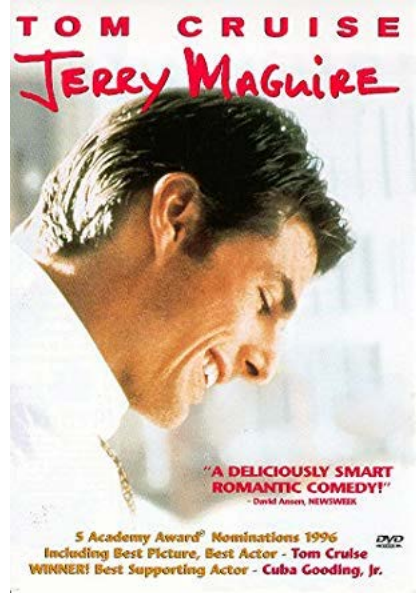
*Jerry Maguire*, 1996 – Cameron Crowe

*Online retail has continued **its double-digit growth**, with European e-commerce turnover increasing by 11% to €534 billion in 2017 and forecasted to grow by 13% to €602 billion in 2018.*

*The number of **e-commerce** users in Europe is expected to **increase** from 324.1 million in 2017 to 383.9 million in 2022.*

***79%** of consumers find it frustrating having a company market the **same offer again and again***

*Companies increasingly want banks to act as **advisors and partners** in solving their problems*

***Consumerisation**: Companies demand fast, flexible, convenient and ubiquitous solutions*

*"Corporate treasurers are looking for the ability **to grow business** in a slow demand environment"*

# Changing customer behaviour – consumers

- All is about '**my money**'
    - **Control** (especially in a more challenging economic environment)
    - **Reliability**
    - **Security**
- But to be properly balanced with
    - **Convenience**
    - **Speed**
    - **Anywhere, anytime and from any device** (e.g. mobile)
    - At no or a reasonable (visible) **cost**
- Increasing confidence in peer-to-peer social platforms and technology resulting in a **shift of loyalty** away from 'traditional institutions' (e.g. banks) towards peers and new technology/platforms/brands (e.g. Apple, Google, Facebook, Samsung) - but this may change
- **Cash still «king»** for retail payments in a large number of countries in particuliar for some use cases / consumer segments
- Specific segments with **specific needs** - e.g. un/under-banked, 'millennials', 'seniors' ('inclusion')

**40% of financial transactions will be generated by Generation Y in 2 years**

Digital Roadmap – Marketforce & Tata Consultancy Services - 2013

# Changing customer behaviour – corporates

- 'SEPA promise' creates an expectation of **full harmonisation**
- **Seamless end-to-end STP** incorporated into the overall 'supply finance' value chain
- **Greater control** of payment flows and related processes thereby lowering corporates' dependency towards one single PSP (hence the call for further standardisation)
- **Data** (primarily for reconciliation, customer intelligence and risk management purposes)
- Benefits of **new technologies** and players
- Speed (**real time**) without compromising reliability or cost-effectiveness
- **Specific needs** of SMEs/ 'micro-enterprises' (which represent the overwhelming majority of businesses in Europe), not-for-profit organisations and public administrations

# Regulation

*A night at the Opera*, 1935 – Sam Wood & Edmund Goulding

- Some of the recent regulatory changes need to be implemented and absorbed by the market

- There should be a thorough reflection whether anything else is really necessary after the legislative deluge.
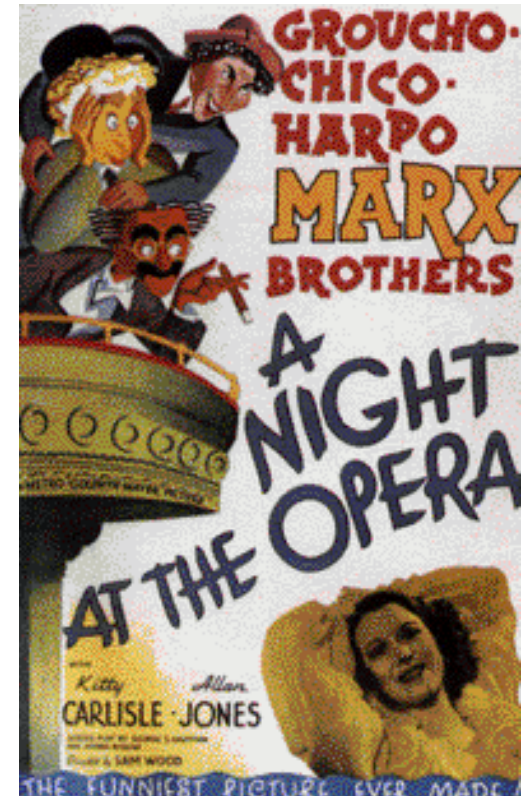
# Regulation: "...and two hard boiled eggs!"

**Regulatory pressure - 2 possible scenarios**

- '**Pause**' (no major initiative, implementation of existing legislation) - **unlikely**
- ''**Continued active intervention**' (new major initiatives) - **most likely**

*A night at the Opera*, 1935 –
Sam Wood & Edmund Goulding

https://www.youtube.com/watch?v=cC8PAQQIoCM

# The current two hard boiled eggs: PSD2 implementation

- **ERPB Working Group on PIS**
  - **Final report** in November 2017
  - **Follow-up assignment** for delivery in June 2018 focusing on identification and incident/dispute resolution
- **API Evaluation Group**
  - Created by the European Commission
  - ASPSP, TPPs and PSUs
  - EC and EBA as observers (ECB until September 2018)
  - Objective: **to evaluate standardised API specifications** in order to help ensure that those standards are compliant with the requirements of PSD2 (including RTS) and meet the needs of all market participants
  - **5 API standardisation initiatives** in scope
  - Work underway
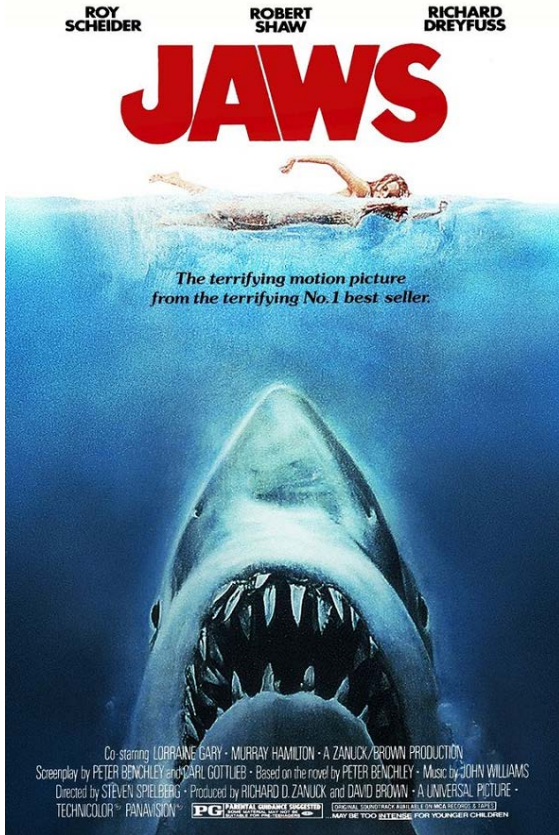  - EPC supports by assuming the role of secretariat

# Integration
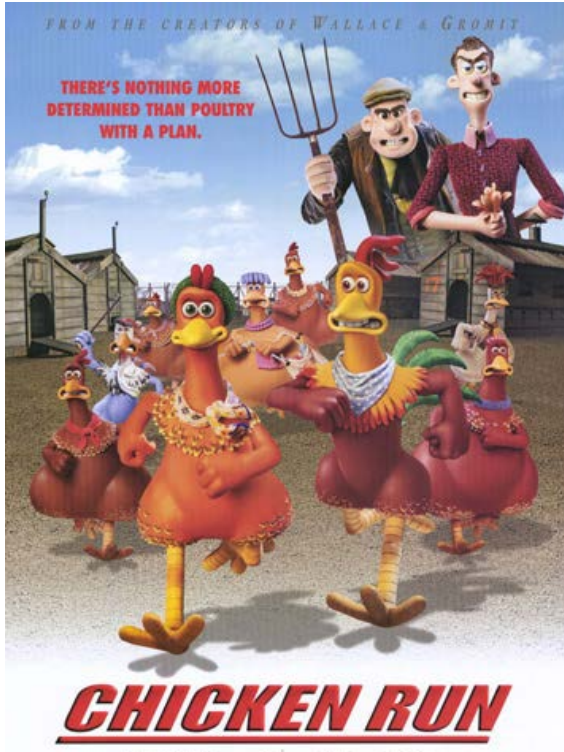


*Chicken Run*, 2000 – Peter Lord & Nick Park

*They don't plot, they don't scheme, they are not organised* – replied Mrs Tweedy

# Technology

*Jaws*, 1975 – Steven Spielberg

*"You're gonna need a bigger boat"*,
suggested Chief Brody

https://www.youtube.com/watch?v=QT9BeGNnCqw
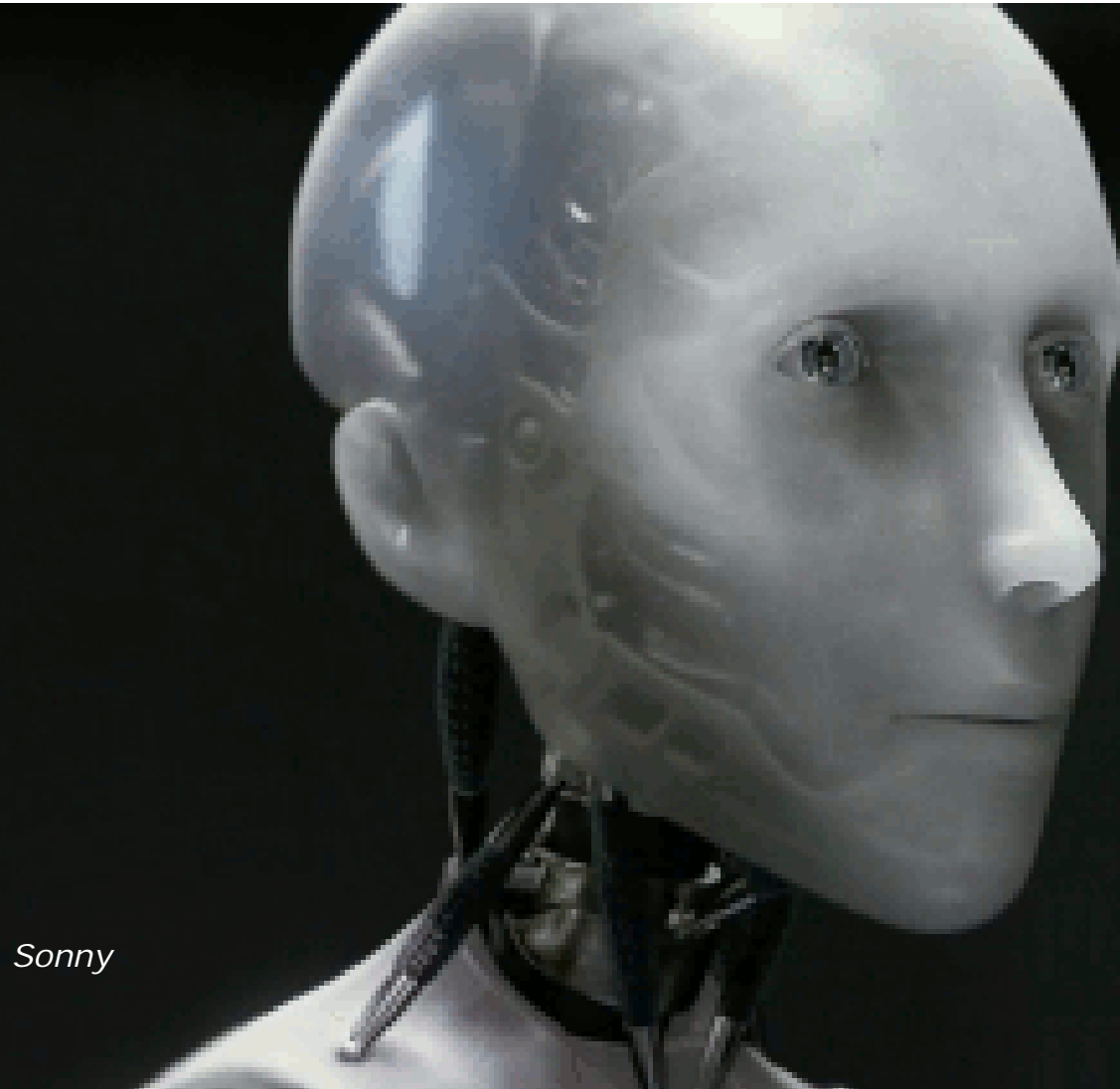
# Technology has changed in the past five years more than in the five past decades

- Blockchain/DLT
- Cloud computing
- Big data
- High speed communication networks
- Quantum computing
- AI/machine learning
- Real time
- Digital identity, authentication, biometrics
- Tokenization
- Mobile and wearable devices
- Internet of Things/connected devices
- APIs, digital customer experience
- Apps
- Cyber-security threats
- Contactless technologies
- And more to come...

*Sonny*

# In the next five years it will change even more

# Changes in the security landscape

- More intervening parties
- More channels
- More devices
- Multiple 'points of vulnerability'
- Open environment (e.g. Internet, APIs)
- Speed + real time + 365/24/7
- Liability

# Viability, or how to operate sustainably

*The Adventures of Tintin,* 2011 –
Steven Spielberg

"There's something you need to know about failure, Tintin.
You can never let it defeat you."
Captain Haddock

https://www.youtube.com/watch?v=tJOT0klBgDw

# Walls to push through

- **Concentration** in European banking sector
- "**New players**"
- **Central banks' digital currencies**
- **Central banks' retail payments clearing and settlement** (e.g. TIPS + ancillary services)
- **Private crypto-currencies**/assets
- **Blockchain/DLT**: a "game changer" for retail payments?
- Could "traditional" **PSPs** be **caught** between
  - **central banks' retail payment plans?**
  - **new commercial initiatives/players** (either payment-focused or with payment as a "by-product" or as a "means to an end")?
- "Invisibility" of payments as part of a **broader user experience** provided by "non-traditional players"?
  - risk of "commoditisation" of retail payments
  - need for new focus/broader scope
- **Europe and/or Global**?

# The market: grass is always greener on the other side of the fence

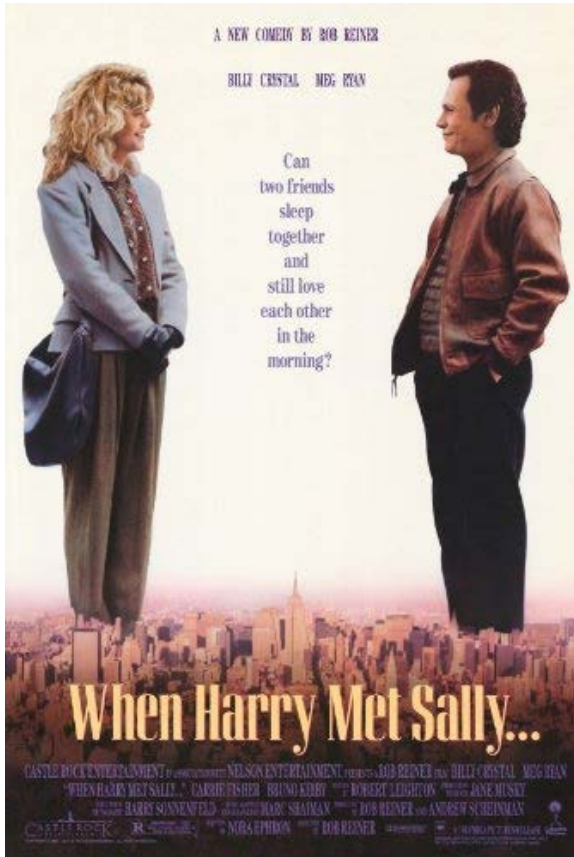*"I'll have what she is having"*, orders the Woman in Diner

**People are never satisfied with their own situation; they always think others have it better**
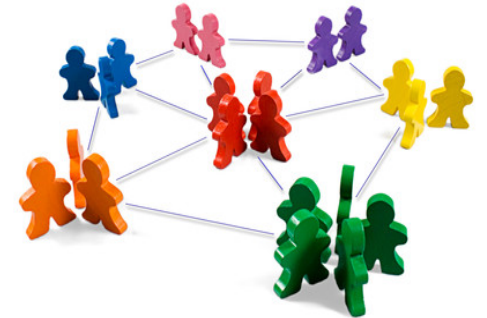
https://www.youtube.com/watch?v=D-jGDF_4p7M

# From processing to innovation based on knowledge

*When Harry Met Sally*, 1989 –
Rob Reiner

Flawless operation of existing, "legacy" payments whilst moving to "new payments" landscape

# New paradox in payments:
## more complex ecosystem expected to produce simpler, faster and cheaper payments
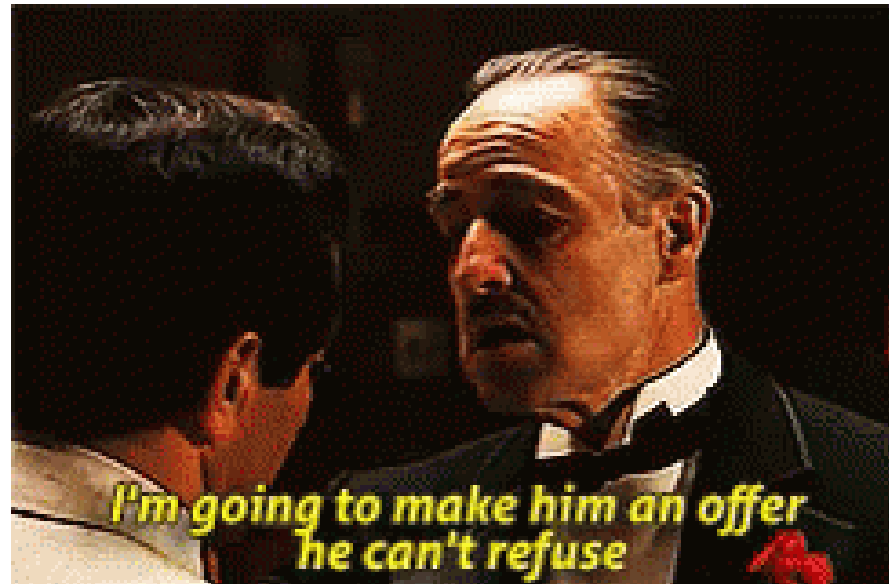
- More **players**

- More fragmented **value chain**

- More **technology**

- Payments **part** of a "bigger game"

- **Globalisation**

- More **regulation**
  - Harmonisation (Single Market – e.g. SEPA)
  - Consumer protection
  - Introduction of new (regulated) players to stimulate competition
  - Price regulation
  - Integrity and continuity

- Call for more **convenience** and more **security**
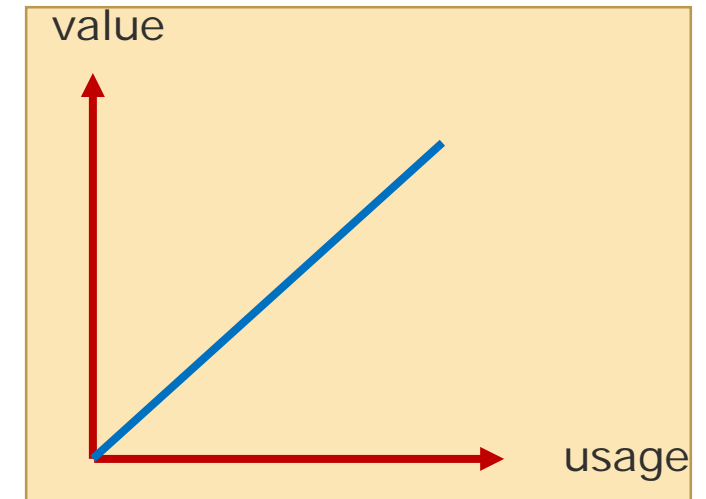
# Value proposition

*The Godfather*, 1972 – Francis Ford Coppola



https://www.youtube.com/watch?v=SeldwfOwuL8

# Value composition



Direct customer

Social

Strategic

Operational

Financial



value

usage
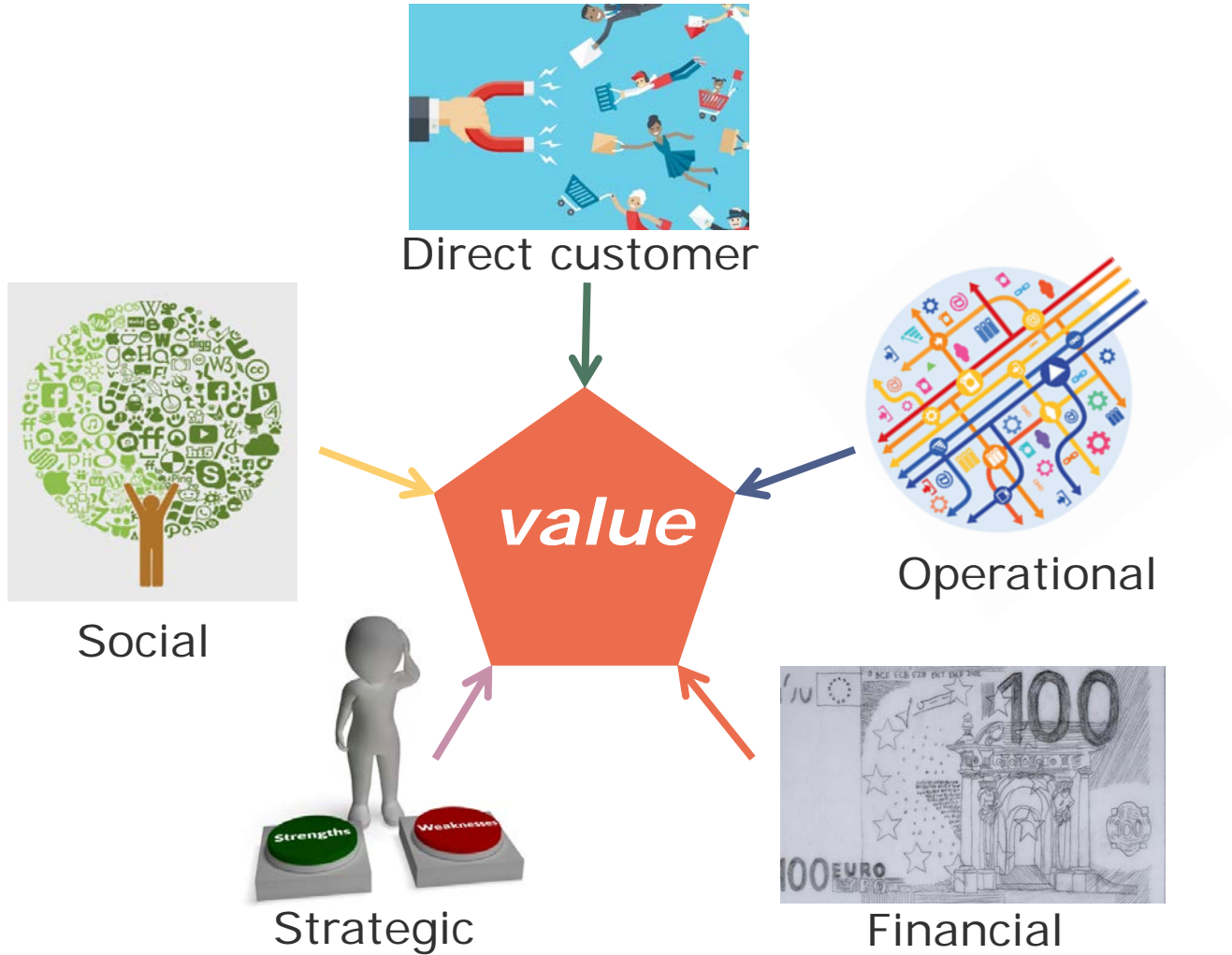
- **Effectiveness**: sound strategy

- **Efficiency**: economics
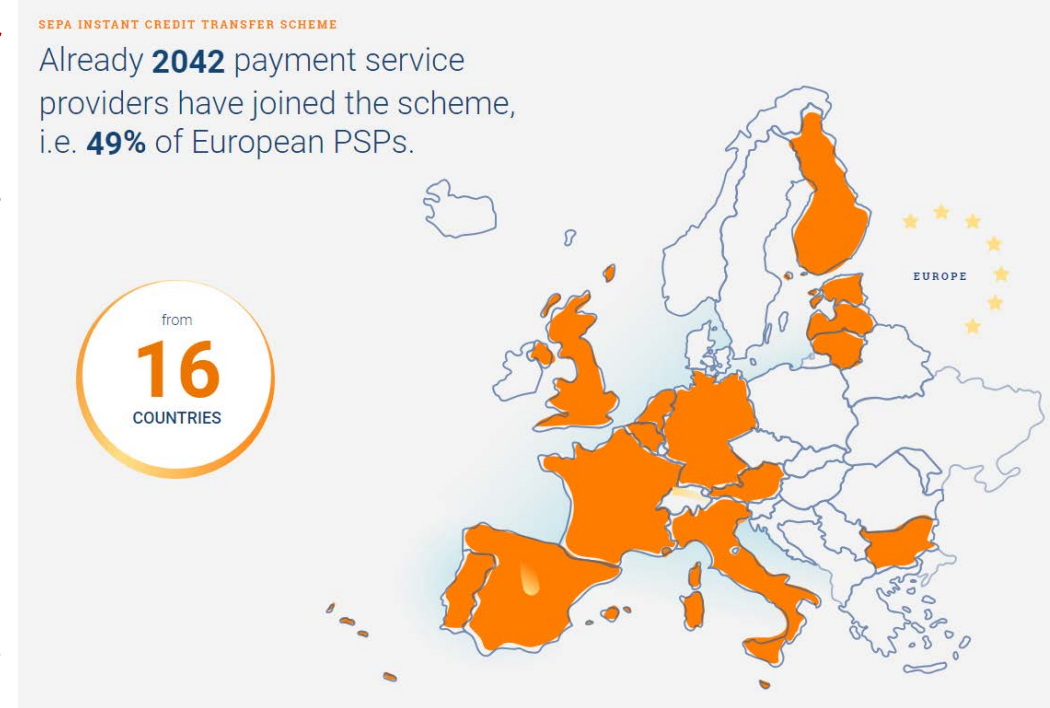
- **Agility**: response to changes

# SCT Inst services: where are we now?

- October 2018 Register data (November effective date): **2,042 scheme participants** from **16 countries** or a 49 % coverage (based on SCT data) after only one year

- "**Critical mass**" of scheme participants still expected to be reached **by 2020** in line with SEPA Regulation requirements

- **Repayment** functionality facilitated by the SCT and SCT Inst schemes as from the 2019 rulebook/C2B IGs (effective in November 2019)

- **Mobile initiated SCT (Inst) multi-stakeholder group** in place since May 2018: interoperability document for public consultation around end Q1- Q2 2019.

**SEPA INSTANT CREDIT TRANSFER SCHEME**

Already **2042** payment service providers have joined the scheme, i.e. **49%** of European PSPs.

from **16** COUNTRIES

EUROPE

# Critical success factors

create reachability → prove value for money → deploy new solutions

PSP take-up

Reach

Use cases

Availability of convenient customer solutions

Reliability / performance

Maximum amount

Value Proposition

# Instant payments help PSPs better serve customers

**The closest sustitute to cash**

**24/7 availability of funds can improve cash-flow management**

**A springboard for PSPs to develop other 24/7/365 financial services and products**

## Challenges

Scheme features and limitations for business

Risk assessment and management

Technical and operational approach

IT investments

Decisions in the clearing and settlement layers

# Mobile initiated SCT payments (MSCTs)

- **New ad-hoc multi-stakeholder group** on Mobile initiated SCT payments (MSG MSCTs), including SCT Instant, established in May 2018.

- The MSG MSCTs held **2 meetings** on 25 May and 7 September 2018.

- These meetings have been devoted to get a common understanding on the scope and deliverable "**Interoperability** implementation Guidelines (IIGs) – (building on the SCT and SCT Instant rule books, while taking into account the SPL (SEPA Proxy Lookup) service and the EIPP (Electronic Invoice Presentment and Payment) work).

- The MSG agreed to create **two work-streams** to speed-up the work that are meeting approx. monthly:

  - Work-stream MSCT Use Cases
  - Work-stream Risk & Security

- Current plan to develop the **draft MSCT IIGs** for a 3-months public consultation by end **Q1/ Q2 2019**.

- The **MPWG** is represented in this group and closely reviews and contributes to its work. Coordination with the **SEM WG** representatives is ensured.
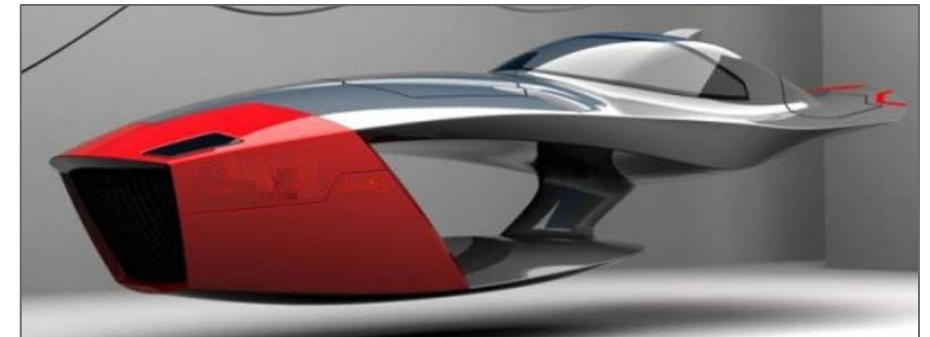
# Innovation



*Blade Runner*, 1982 – Ridley Scott

*(based on "Do androids dream of electric sheep?", by Philip K. Dick, 1968)*

"If I had asked people what they wanted, they would have said faster horses."

**HENRY FORD**

# Beware of the excess of imagination

- By 2019, flying cars are not the reality that was thought of in 1982

# Beware of the lack of imagination

- Telecommunications are far better now than it was thought in 1982 they would be

# Looking into the future…

- **Real time** payments will happen

- **Blurring** of payment instruments and experiences

- Towards "**invisible** payments"

- **Customer experience** is key

- Battle for **data and customer relationship**

- Unknowns in **future technology** evolutions

- **(Cyber)security** as a key priority

- **How fast and how far** will SCT Inst develop?

- Will SCT Inst become the **new normal** in Europe, like it is happening in NL?

- Will **critical mass** be achieved on time?

- Will **amount limit** go up? How fast and how far?

- **PSD2 + SCT Inst** = ?

- **What comes next** for SCT Inst?

- Are there **security** concerns?