

“...and now, where is the demand side?”

A deep-dive into corporate use cases, priorities and requirements around instant payments

Meeting summary of the Open Forum on Pan-European Instant Payments of 17 April 2018

3,500 hours – that’s how long EBA CLEARING’s pan-European instant payment service RT1 has been continuously online, as Wolfgang Ehrmann, Chairman of the Euro Banking Association (EBA), informed the participants in the 9th Open Forum on Pan-European Instant Payments during his opening speech.

Just three years after the European Retail Payments Board (ERPB) had called for at least one pan-European instant payment solution, the European Payments Council’s (EPC) SCT Inst Scheme was launched on 21 November 2017. On the same day, EBA CLEARING’s RT1 Service went live. Quite impressive, considering the number of institutions and stakeholders involved, but the scheme and the first pan-European system are only the first milestones on the journey towards euro instant payments. As the ECB had announced in its November 2014 paper for the ERPB, euro instant payments should become the “next deliverable” after SEPA migration, the expectation being that there should be safe and efficient instant payment solutions delivered to end-users across Europe in the short term.

Five months after the accomplishment of the first significant milestones on the supply side, representatives from banks, associations and corporates met in Frankfurt on 17 April 2018 to get an update on the perspective and preparations of the demand side. Under the headline “... and now, where is the demand side?”, speakers from corporates and organisations supporting corporates in the payments space shared their views on key corporate priorities, use cases, requirements and expectations related to instant payments.

From efficiency gains to strategic considerations

After a short introduction by Wolfgang Ehrmann, the first presentation was given by Boris Jendruschewitz, Vice President for Corporate Finance at Otto Group. Otto is a major international player in the retail business in particular, with 120 companies in more than 30 countries providing mail order, logistics, travel and financial services.

* Disclaimer: This summary proposed by the EBA is not a complete and exhaustive transcript of the discussions / presentations. This document constitutes an effort to capture and highlight key elements of the discussions / presentations in an abbreviated format. Every effort has been made to fairly transcript the discussions / presentations and to avoid any mischaracterisation.

With the support of a multinational bank, Otto Group is in the process of pioneering the use of SCT Inst transactions for the pre-payment option offered to poorly-rated customers shopping online. Boris Jendruschewitz explained that this use case had been identified as a perfect test case because all key processes involved are covered through in-house applications.

The potential increases in payment certainty, speed and efficiency are also at the heart of other use cases that were high up on Mr Jendruschewitz's priority list for instant payments: the advantages of 'IP on delivery' replacing 'cash on delivery' are pretty obvious, especially if one takes into consideration that Otto Group's logistics service Hermes is experimenting with robotic delivery. The use of the new payment instrument in the debt collection process may be of interest too, since a payment could be initiated by the debtor while he or she is still on the phone with the collection agent.

Mr Jendruschewitz further mentioned that instant payments also hold a great potential for enhancing service levels for customers. One example he gave was that online retailers may offer to recredit a customer's account via SCT Inst the moment after the customer has submitted a return package.

He also provided an outlook beyond these short- or mid-term use cases stressing that new technologies are bound to create completely new business ideas. He underlined this statement by explaining how the advent of e-readers had given rise to a whole self-publishing industry leading to a proliferation of new business models, such as dedicated creative writing courses targeted at this booming sector. Mr Jendruschewitz therefore recommended that corporates look into SCT Inst at an early stage and with a cross-functional approach, because of the potential of this new payment instrument to generate new business models, changing customer behaviour or even entire new industries.

Mr Jendruschewitz concluded his contribution by making a strong case for the use of a "Request for Payment" as a trigger for the customer's payment; a request for payment is a message generated by the merchant containing all relevant payment details which can be processed by the customer's payment application. He emphasised that, in combination with instant payment technology, requests for payment have the potential to become an efficient and secure payment method, and added that Otto Group is planning to implement this approach with the support of a payment initiation service provider as a later step on its IP deployment path.

Bringing payments up to speed with the rest of the business

Norbert Hambloch, Head of Treasury at STRABAG PFS Group, took a different approach from Mr Jendruschewitz: he started his presentation with a deep dive into the complicated and cumbersome processes and workarounds that the limitations of the SCT and SDD instruments are practically imposing on corporate treasurers at present. While the introduction of the SEPA instruments has already immensely improved

financial processes at Strabag, a multinational provider in facility management, real estate and rental businesses, he still saw much room for further simplification and acceleration of end-to-end payment processes.

Mr Hambloch took the audience on a quick tour d'horizon highlighting how digitalisation is disrupting the industry Strabag is operating in with artificial intelligence, robotic process automation (RPA) and digital, robot-assisted surveying. Thus, the Internet of Things (IoT) is opening the door for “predictive maintenance”; and distributed ledger technology has the potential to revolutionise document filing and the notarial sector. And while Strabag's ERP system is running in real time, corporate treasurers like Mr Hambloch still have to struggle with traditional batch processing cycles and related cut-offs, a myriad of national holiday calendars and the D+1 delivery of SEPA transactions – provided D and D+1 are business days in the countries of the banks involved in the transaction.

Against this background, instant payments sound like the perfect solution for just-in-time payment initiation of transactions with highly critical deadlines, such as salary payments, tax payments or payments securing discounts that suppliers offered for early payment before a given date.

In order to perfectly meet key requirements, however, the instant payment instrument at this stage is still lacking several must-have features, according to Mr Hambloch: obligatory notification of payment execution, no value limit, implementation of bulk transactions enabling the timing rather than just the dating of payments, implementation of a recall possibility and, most importantly, Europe-wide reach.

Increasing customer choice

The third speaker zoomed in on the potential for instant payments at the point of sale (POS). As a project manager at IKEA, Pascal Spittler has been responsible for the introduction of SEPA. He emphasised that IKEA's motto, “To offer affordable products with the best possible customer experience”, is not that easy to fulfil when it comes to the payment experience. The options for optimising this experience are somewhat limited by different factors, including regulations and market fragmentation.

Looking at examples in other markets, instant payments look like a very attractive additional alternative to cards and cash: in India, real-time payments are omnipresent following the introduction of the Unified Payments Interface (UPI) in 2016. In Sweden, banks started “Swish” in 2012 as a platform for P2P transactions – easy to use, instant and free of charge. Now it is used by over 50 percent of the population for everyday micro-transactions and continuously growing with 100,000 new users per month.

Mr Spittler pointed out that payments directly from the payment account are rather popular since many customers appreciate them as a means of better managing their budget. The use of SCT Inst might even come with discounts, as some merchants may



want to encourage the use of this payment option, which many expect to generate less cost for merchants.

At the same time, he still saw a number of challenges that might prevent the new instrument from being an instant success: he stressed that discrepancies in the online and offline customer journey should be avoided and that there is a need for fast and secure authentication if IP is to succeed at the POS. In this context, Mr Spittler raised concerns around customer journeys involving a redirect to the payment account, which is considered too cumbersome, and around the challenges posed by secure customer authentication requirements. Other key obstacles he mentioned were the fragmentation risk in the definition and implementation of application programming interfaces (API) standards and the general lack of reach of the IP scheme. In order for instant payments to become a viable option for mass usage at the POS or via the IKEA app for example, the new instrument obviously still has a lot of ground to cover.

Raising many question marks for some

The second part of the meeting was opened by Lars Tebrügge from the European Association of Payment Service Providers for Merchants (EPSM) describing the situation from its membership's viewpoint based on a small survey that was carried out shortly before the session. The association comprises PSPs, acquirers, network providers, payment schemes, processors and other parties. They generally perceive the instant payment market as difficult to predict, as it still includes many unknowns.

Many of the service providers wait for a decisive signal while being quite aware of the general importance and the scope of the new instrument itself. Some of them are still in the phase of getting a better idea of the cost and business impacts on service providers and merchants which are seen as a prerequisite for them to offer solutions to the customers – the merchants. The providers also found it very challenging to assess the width and speed of instant payment take-up around Europe. Considering the established contractual relationships in providing a large scale of different payment solutions for merchants already, many of the EPSM members see themselves in a good position to offer Instant Payment services.

Supporting standardisation

General standardisation in value-added chains is the speciality of Ercan Kilic, Head of Mobile Commerce and Financial Services at GS1. Responsible for the development of the omnipresent barcode, GS1's viewpoint carried quite some weight. And Kilic had good news: as confirmed by a GS1 survey, carried out in July / August 2017, companies and retailers associated with GS1 watch the developments closely and expect instant payments to replace direct debit and cash-on-delivery within the next few years.

The introduction of credit and debit cards marked a turning point in the way we pay. For many years now, cash and cashless systems have coexisted – each with its own advantages. SCT Inst has the potential to unify the two, by combining the best of both worlds. Recognising the need for standardisation, GS1 is driving an initiative called “HIPPOS” to make existing P2P and other solutions interoperable. The respective framework is due in 2019 and designed to cover all aspects of necessary data transfers between mobile device and bank, business and bank, and customer and business. The resulting solution is compatible with all kinds of transmission, such as NFC, QR or Bluetooth, and initiates an end-to-end payment, without IBAN or other personal data involved.

Aside from the need to onboard corporates and consumers, additional collective action is required

If any payment service provider was uncertain in what direction the upcoming developments were heading, the Q&A session involving all speakers made that clear. Instant payments are not expected to mainly take on credit or debit cards – the target is to reach the finality, the security and the convenience of cash. All involved confirmed that this is a high bar, but considered it possible, given the versatility of mobile payment initiation and the stability and acceptance of SCT Inst.

While the direction seems clear, the way forward is not: real-time payments will fundamentally change financial transactions in the near future, but will they be based on bank-driven schemes and systems (such as SCT Inst) or will one or more solutions offered by major tech giants end up dominating the market? The advantage should be on the side of the financial institutions, but it would not be the first time for the likes of Apple or Google to shake up a market and occupy crucial space.

There was agreement among the speakers though that SEPA and most notably SCT Inst stand a fair chance, provided that the financial industry puts a major effort into building the necessary reach for instant payments and that must-have functionality for corporates such as bulk SCT Inst formats and ‘request for payment’ see the light soon.

Aside from paving the way for broad corporate adoption, payment service providers, however, will also need to place a major focus on retail customers, since it is their verdict that will make or break the success of instant payments. At the POS and elsewhere, the goal must be to find the sweet spot between speed, convenience and security. SCT Inst delivers speed, consumers mostly flock to convenient solutions while PSPs are mainly focused on security. The ultimate objective as confirmed by the speakers is to achieve a “seamless customer experience” – a convergence of online and offline shopping – without jeopardising security or speed. It will not be easy to find the right balance here, but the payment constitutes the vital interaction with the customer (certainly from the seller’s point of view) and thus a smooth customer experience is crucial for success.



The main message everybody took home was that there remains a need for collective action on a number of fronts, ranging from API standardisation to the development of supporting functionality at infrastructure level, since fragmentation remains a major hurdle to pan-European reach and friction-less end-to-end processes. So there remains a lot to do to take instant payments to the next level and beyond – both on the supply and on the demand side.