Immediate Payments adoption in the UK and internationally

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The UK was the first country to introduce an immediate payments scheme – more than a decade later Oonagh McGrane looks at the evolution of immediate payments in the UK and looks at the correlation between immediate payments and SWIFT gpi.

Last year saw Faster Payments break the record for the highest amount of payments processed in a single year. Over 2 billion payments with a value of £1.7 trillion were processed in 2018. This year the value and volume has grown again, looking at a run rate in excess of 2.4 billion with a value growth of nearly 20%. So what does this mean? The biggest growth has been in Single Immediate Payments – which we expect to grow further as an alternative to cheques and cash. Even though the average value is less than £1,000, we see payments being made for a wide range of commercial uses, in addition to the expected consumer-to-consumer flow. These include payments for immediate invoice settlements, insurance claim issuance, release of cash for lending, supply chain finance and even house purchases where the value is within the current scheme limit of £250,000.

Since the introduction of Faster Payments in the UK in 2008 – 45 new immediate payments schemes are now live, as well as 8 hybrid schemes, with a further 12 in-flight. Immediate payments schemes have a number of shared traits:

- They are new payments schemes differing in nature from RTGS and ACHs
- They are guaranteed and have immediacy in terms of clearing; that is, payment to a beneficiary account and access to funds is immediate, but interbank settlement of the schemes may happen multiple times a day
- Charges are not deducted from the transaction
- They are 24/7 (or close to)
- Newer schemes are using ISO 20022 which gives data richness
- Finality is given –whether the transaction can be effected or not is immediately confirmed
- They are also increasingly being created as a result of close cooperation between regulators and the financial industry – such as the Australia New Payments Platform (NPP) which was built as a result of collaboration between the Reserve Bank of Australia and Australia's financial institutions
- They are domestic in the nature of their scope

The uptake of Lloyds Bank's Immediate Payments proposition allowing cross-border access to Faster Payments has grown significantly, allowing international financial institutions to offer an enhanced GBP offering to their customers. This could range from an ex-pat solution to pay a credit card, or mortgage, or a commercial GBP immediate invoice settlement solution. Australia is looking to follow suit, allowing access for the domestic leg of an international transfer.

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Cross-border Immediate Payment challenges

Lack of standardisation between the multiple regional immediate payments schemes and variation of value limits can make it challenging to create international interoperability between each of the schemes. This is down to the fact that many have been designed with domestic use in mind rather than incorporating an international leg.

Value variances are also a factor. In the UK currently the value limit is £250,000, but investigations are in flight to see if that could go as high as £20,000,000. In Australia NPP limits are set by banks themselves and range from AUD$2,000-20,000. In Europe the maximum value for a € SEPA Instant Credit Transfer is €15,000; whilst Singapore's FAST (Fast and Secure Transfers) limit has just last year increased from SGD$50,000 to SGD$200,000.

Evolution of SWIFT gpi

The challenges historically with international payments were:

- The chain of banks involved;
- The interbank charging process; and
- The lack of visibility of what happened to the transaction once the initial remitter's account was debited.

It is the latter that was initially addressed with SWIFT gpi. For the first time, transparency is there; you can see each step in the transaction journey, at least between SWIFT gpi members.

There are a number of other immediate benefits we are already seeing:

- It is **driving better behaviours** – through visibility and the SWIFT KPI publication that specifically looks at
  - Transactions processed same day
  - Transaction traceability
  - Transparency of deductions
  - Unaltered remittance information
- Network Management – we have a much better view of our partners and **how efficiently and cost effectively** they manage flow they receive
- Client experience – is becoming much more enhanced in both the speed at which **transaction enquiries** can be resolved (without the need to send multiple messages to banks in the transaction chain) and the addition of enhanced services such as Stop and Recall
- The SWIFT **statistics** are evidencing the improved speed of end-to-end transaction delivery. The latest numbers show 40% of transactions are being credited to the beneficiary in less than 5 minutes, 50% in less than 30 minutes, 75% in less than 6 hours and almost 100% in less than 24 hours. At the time of publication 550+ banks are now live, Lloyds Bank included, with a value of USD $300 billion sent as SWIFT gpi every day.

The latest enhancements to the SWIFT gpi roadmap such as Stop and Recall, the inclusion of cover payments, pre-validation, embracing APIs (Application Programming Interfaces) and ISO 20022 compliance, will create a much better infrastructure. However, this is only as good as the performance of member banks. As RTGS and immediate schemes become SWIFT gpi-enabled, true visibility and interoperability become quasi-immediate.

Influencing trends

Moving away from Cash

The USA, Eurozone, China, Brazil and the UK have seen the biggest growth in non-cash transactions (source World Payments Report 2018), with future growth expected to be in Latin America, CEEMEA, and Asia.

In Australia, the NPP has already seen volumes grow in excess of cheque volumes. Interestingly, in Sweden the central bank has declared its intention for Sweden to be a cashless society by 2020. The bankgiro website even has a live ticker of transactions completed in the last 24 hours. In India, Immediate Payment Service (IMPS) saw significant uplift of volumes in excess of 50% following the Indian banknote demonetisation directive. These examples clearly show how immediate payments schemes, as well as regulatory directives, are assisting the migration away from the use of physical cash.

Consumer demand and changing expectations

The significant change to our clients' expectations has been brought about by digitisation. In a world where immediate real-time access to anything from train travel, news, shopping with same-day delivery becoming standard, traditional payment methods can appear slow and unwieldy. The availability of enhanced information also makes FX rates and spreads more readily available to all types of consumers and businesses. So in the domestic and international e-payments space, expectations for traceability, transparency and timeliness are increasing.

Competitive landscape

The range of non-bank, non-traditional payment service providers has grown exponentially over the last ten years. This includes platform providers such as Amazon and ApplePay, to the multiple domestic or proposition-driven payment solution providers like PayPal, Alipay, Transferwise, Worldpay, WorldRemit, Wirecard, and Trustly to name but a few. So are they driving banks out of international payments? Not necessarily, if banks continue to play a role in the provision of secure, safe transactions both directly to their customers and to those intermediaries who often rely on them to provide clearing access.

Changing Regulation and Technologies

The combined forces of Open Banking and PSD2, as well as rapid adoption of APIs in financial services, ensure that banks working alongside third-party providers, now provide greater choice, efficiencies and new propositions to traditional cash management practices. APIs in the UK were initially mandated upon the financial services industry by regulators in order to deliver Open Banking, but at Lloyds Bank we have found in a very short period of time, we are not only meeting these regulatory requirements but are in turn using our new-found expertise to open up access to services, create new digital experiences and upgrade existing journeys for our customers. ISO 20022 migration is upon us beginning November 2021 which is another opportunity to drive interoperability and the provision of enhanced services on the back of enriched data exchange.

At Lloyds Bank, the wider partner bank network we have is a traditional correspondent one. There are a few areas we are keen to explore to give the benefits of real time payments to our customers – immediacy, transparency and traceability. One is by our adoption of SWIFT gpi, which we are really excited about. It is a uniting force between banks and clearing systems. Interoperability is moving way beyond tracking and transparency, but creating the standards, performance and enhanced features that brings it closer to a number of the attributes of immediate payments schemes. We are also keen to see which immediate schemes open up to international cross border flow. Banks and payment service providers can, of course, look to leverage the benefits of these schemes by pushing for cross-border access to be the same level as that available in the UK.

Are our clients looking for an international immediate payments service, with all the attributes associated with it, or do they simply want to know when the beneficiary has been paid, for what value, and to anticipate any charges deducted? Our decisions will ultimately be led by client appetite.

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