



## **Developments in payment systems: TARGET Instant Payment Settlement**

**ECB MMCG**

Frankfurt 24<sup>th</sup> September 2019

# Instant Payments in the world



Instant Payments have a huge growth potential around the world. Many countries have already implemented real-time/instant payment schemes, and it is becoming the normal way to proceed for payments.

Among the first mover a couple of successful examples are Japan (1973) and UK (2008) that together with Brazil (2002), Mexico (2004), India (2010) and South Africa (2006) have implemented efficient instant payments systems during the last years. All around the world around 20 national schemes are already live and more than 40 schemes are under discussion.

The ECB Occasional Paper « Are instant payments becoming the new normal? » August 2019, shows the evolution in some countries outside the euro area:

## Driving Factors:

- Involvement of authorities
- Market Structure
- IT and telecommunications infrastructure
- Behavioural aspects
- Transaction speed
- Fees
- Complementary services

## Evolution of instant payments in the six country cases

(percentage of the total number of credit transfers)

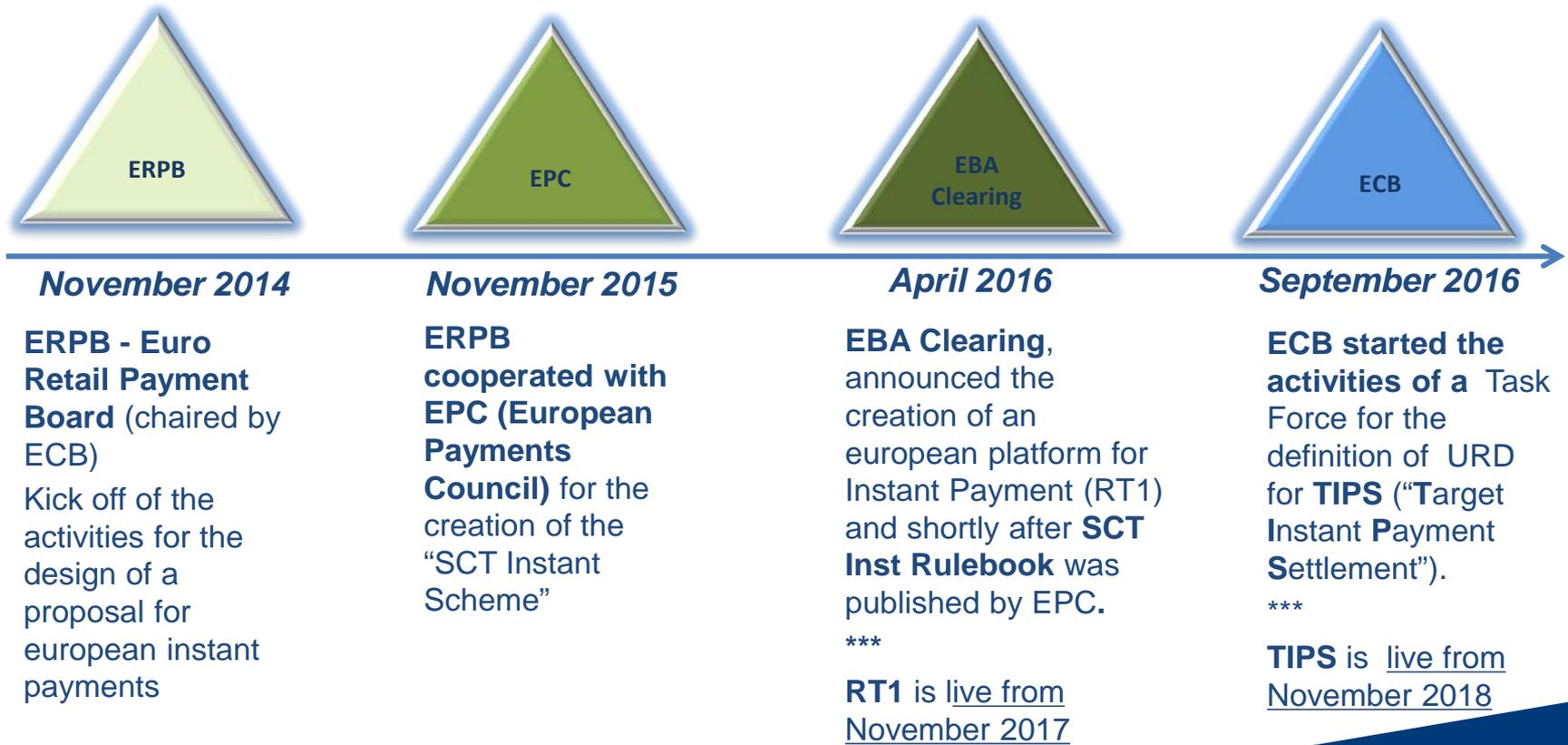


Sources: ECB, CPMI, Banco de México, Faster Payments, UK Cards Association, PaymentsUK, Bankgirot, Monetary Authority of Singapore, Danmarks Nationalbank.  
Notes: The data for the UK only refer to single immediate payments and the data for Mexico only refer to third-party payments. The data for Singapore refer to both credit transfers and direct debits.

# The European project: EPC Scheme

Several European countries 5-6 years ago started to plan their own solutions to compete with the of rapid payments evolution around the world.

The national schemes would have stopped at national borders, creating a fragmented European landscape and to avoid the slowing of a potential harmonisation, the payment community has been extremely quick to set up a new European scheme.



# Instant Payments in Europe (1/2)

According to the EPC, there are **more than 2000 European banks that have implemented the SCT Inst.** allowing the issuing and reception of Instant Payments for their customers.

Thanks also to **PSD2**, both the SEPA instant credit transfer scheme and TIPS, could furtherly increase the innovation in pan-European payment services with benefits for the retail payments market in Europe.

## SEPA zone



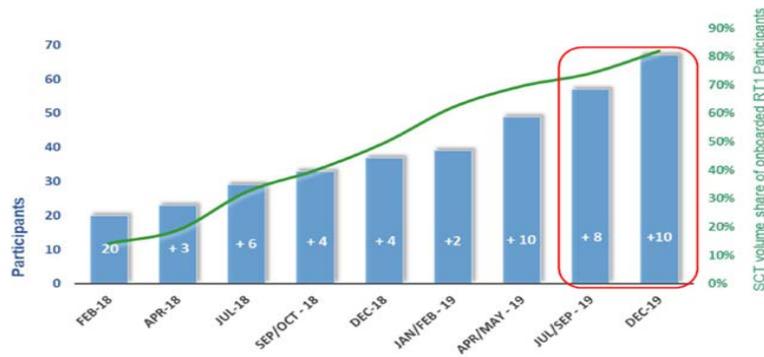
Name of the Instant Payment scheme: SCT Inst

Creation date: November 2017

Average speed: 10 seconds

Service availability: 24/7/365

Max amount allowed per transaction: 15,000€ . However, some countries can change this amount and increase it.



Source EBA Clearing - Jul 2019

## OVERVIEW SEPA SCHEME PARTICIPANTS Status as of 12 April 2019

(For information only)

Country	SCT Inst	SCT	Core SDD	B2B SDD
<b>Euro</b>	<b>2052</b>	<b>3489</b>	<b>3188</b>	<b>2793</b>
ANDORRA		5		
AUSTRIA	459	532	525	501
BELGIUM	14	45	33	24
CYPRUS	1	15	12	1
ESTONIA	4	10		
FINLAND	4	8	8	1
FRANCE	125	280	266	233
GERMANY	1299	1499	1490	1434
GREECE		23	14	12
IRELAND		209	147	5
ITALY	22	450	425	413
LATVIA	4	20	1	
LITHUANIA	8	53	6	1
LUXEMBOURG	1	65	28	17
MALTA	3	26	9	2
MONACO	1	14	14	4
NETHERLANDS	6	38	25	14
PORTUGAL	14	36	28	12
SAN MARINO		7	7	6
SLOVAKIA		18	15	7
SLOVENIA		16	16	9
SPAIN	87	120	119	97

## ➤ Valdis Dombrovskis

### Speech at the 3rd Annual Fintech Conference Brussels, 26 February 2019

Another area that will be transformed by new technology is payments. Thanks to mobile technology, and the advent of **instant payments, a new generation of payment services will soon be upon us**. Every citizen and every business makes payments many times a day, so we will all be affected by this.

In a few years, we want Europe to set new global standards for payments technology.

Our objective could be that within a few years, **citizens can use instant payments in Euro across borders like they use cash, bank transfers or cards today**. But of course, this requires **common standards, and a commitment by market operators to use them**.

The Commission has already put in place EU-level regulation, and supported infrastructure to allow pan-European payment solutions to emerge. It is now for the market to develop these solutions, and speed is of the essence. But the Commission can help, for example by supporting the **development of interoperability** standards among different Member State technologies.

## ➤ Christine Lagarde

### Opening Statement to the Economic and Monetary Affairs Committee of the European Parliament, 4 September 2019

In this environment, central banks and supervisors need to ensure the **safety of the financial sector**, but also to be open to the **opportunities provided by change**. In the case of new technologies – including digital currencies – that means being alert to risks in terms of financial stability, privacy or criminal activities, and ensuring appropriate regulation is in place to steer technology towards the public good. But it also means recognising the wider **social benefits from innovation and allowing them space to develop**.

# TIPS - pros for a further development



Participation with criteria similar to Target 2 and all the owners of a T2 account could open a TIPS account for SCT instant settlement



Settlement in central bank money



Availability 365/24/7 and expectation to shorten the time in which payments originating also far beyond Europe are processed



Full recovery cost principle and level playing field with other market initiatives



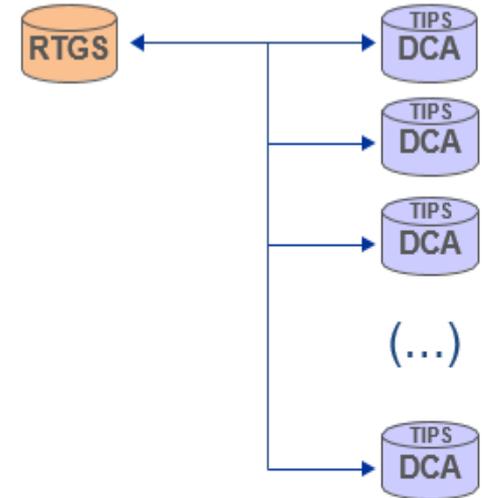
Compatibility with scheme ISO «SCT Instant» with data protection, anti-fraud, anti-money laundering



Multicurrency with the possibility to support participants to act in Swift's Global Payment Initiative (GPI) for international payments in foreign currencies

# TIPS - pros for treasury management

- The overnight balance on TIPS DCA is included in **reserve requirement** and in **standing facilities** calculation
- The **rate** applied to the balance is the same of the RTGS account
- No **credit risk** thanks to the **settlement in central bank money**
- Liquidity management done using **Liquidity Transfers**, the same process in use for T2S and well known by treasuries (no end of day cash sweeps)
- **New day start** immediatly after the 6pm cut off for interbank payments in T2S
- **TIPS Consultative Group** (TIPS-CG) allows to TIPS participants to play an active role in the evolution of the platform (e.g. collect input, evaluate business prioritisation)



# Instant Payments in Italy



TIPS is entirely developed and operated by Banca d'Italia on behalf of the Eurosystem.

The main Italian banks are already participants in RT1 scheme and is expected that some of them will adhere also to TIPS starting from 2020, in the environment of "Consolidation" Project.

Generally speaking Italy has made significant progress in electronic payments. After a long period during which the Italian growth trend was lower than the European one, starting from 2012 the situation has reversed with a growth around 7%, double than the European average .

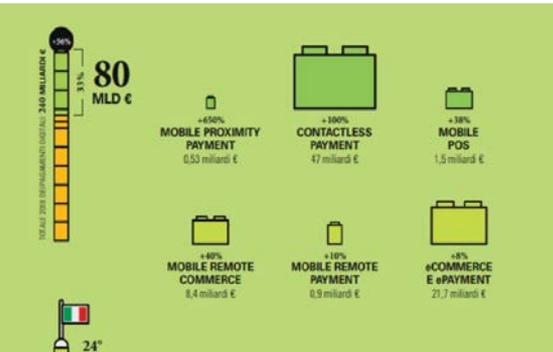
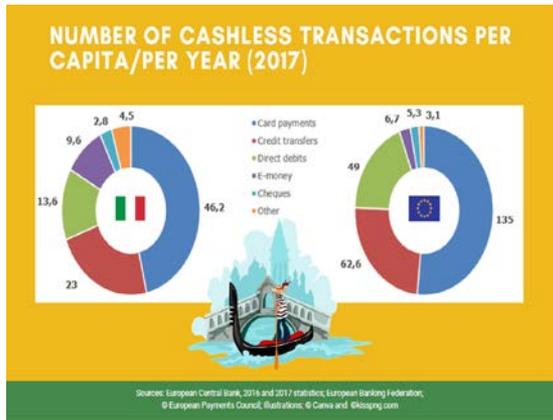
New digital payments in Italy are growing fast and according to the last research of Observatory Mobile Payment & Commerce (School of management of Milan Polytechnic University), in 2018 the **growth has been around 56%** for a total amount of 80 billions . In 2021 the expected amount is around 125 billions.

The reasons are mainly a direct consequence of:

- **Government initiatives** (e.g.salary must be paid only using electronic instruments, payments between individuals cannot exceed 3000 euro)
- **Italian Banking Association information campaigns** about the benefit of digital payments

Further developments not only in Italy but at the European level are expected thanks to:

- The improvement in **reachability** and **interoperability** at national and international level
- The **increase of maximum amount for the EPC scheme** (now € 15.000) with the related opportunity to extend the service also to corporates)
- A larger participation of banks in **TIPS**
- The development of a **"request to pay"** service
- The full **implementation of PSD2** (high security standards and data protection will encourage customers to be more confident in innovative solutions)



## Competition between fintech and banking system? New partnerships? New forms of concentrations?

*The main economic incentives for banks to bear their investments costs is to strengthen their competitive position against non-banks payment service providers and to introduce cost efficiencies by replacing existing payments instruments more costly , e.g cheques, while avoiding cannibalization of card payments*

...  
*A number of countries around the world have already started changing the legislation defining access to payments systems by non banks ad fintechs.*

*Source ECB Occasional Paper Series – Are instant payments becoming the new normal? August 2019*



Increase of **e-commerce** and payments from **mobile** phones – **instant payments** solutions with settlement in 10 seconds are a very good answer for the new needs .

*“With the launch of TIPS, the Eurosystem has laid the groundwork for innovative, customer-friendly retail payment solutions for the benefit of European citizens. European payment service providers must make use of the opportunities offered by Europe’s state-of-the-art market infrastructure rather than leaving the field to international players. This has nothing to do with protectionism”*

*Yves Mersch – TIPS launch event - nov 2018*

**Investments**, new **technologies**, **safer and cheaper** than in the past have allowed a fast **banking innovation** and a significant increase in the number of **Fintech**, mainly active in payments and credit.

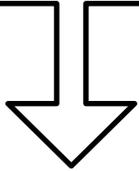
*The key messages of “KPMG Pulse of Fintech Report 2019”:*

*While payments continued to draw the most significant attention from fintech investors across most jurisdictions, H1’19 also saw the continued maturation of the fintech industry as a whole and the broadening of its definition. Areas like wealhtech, proptech and regtech also grew on the radar of investors.*

## Europe

- In H1’19 investment in fintech companies in Europe hit \$13.2 billion with 307 deals
- VC funding in fintech remains strong at \$3.3 billion and on pace to set new record annual high
- PE fintech investment passed \$1.2 billion with 11 deals in H1’19
- VC investment with CVC participation hit record mid-year high at \$1.16 billion in H1’19
- Top 2 deals found in Germany and France, fueled by US investors

...from telegraph to **Fintech**, what’s new in payments environment?



# Financial groups and big tech

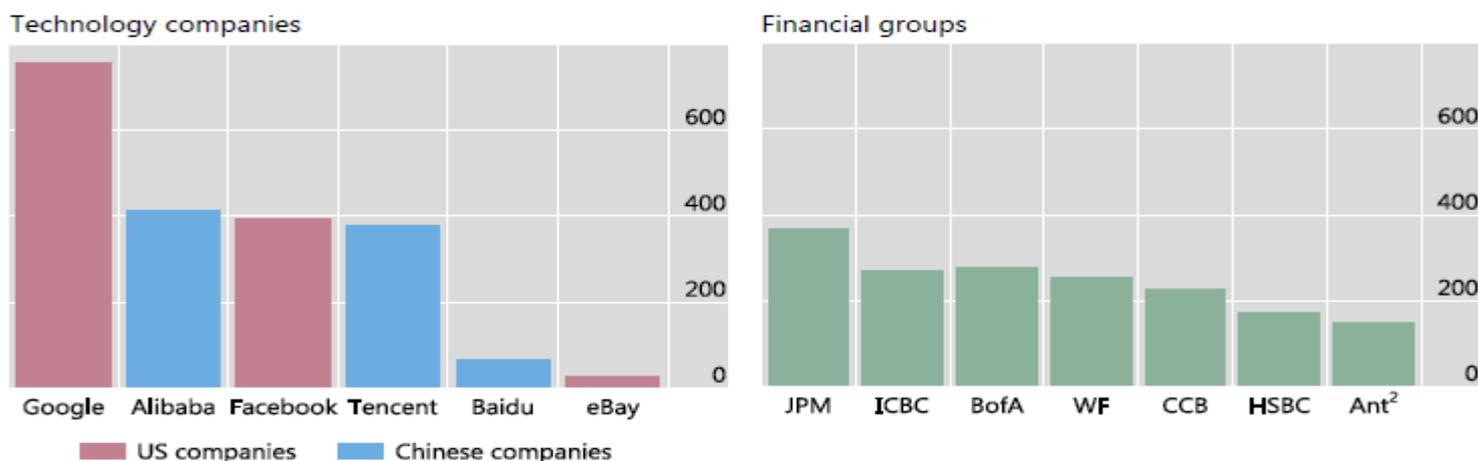
The involvement of **Big Tech** in the financial world started with payments, especially in China and the comparison of the current dimensions brings to questions related to new form of concentrations, market power, new kinds of system risk all over the world.

Additional questions are related to the role of **Credit Card Companies** – in an instant payment world the cardholder’s promise to the card issuer to pay seems “old fashion”. Credit cards network facilitate transactions among consumers, merchants, processor and banks and at the moment the business in Europe is still increasing for Visa, Mastercard, American Express, and Diners Club. General purpose credit, debit, and prepaid cards issued in Europe generated \$3.045 trillion in purchases of goods and services in 2018, up 14.9% over the prior year (Nilson Report 2019).

## Market capitalisation of major financial groups and big tech firms<sup>1</sup>

In billions of US dollars

Graph 1



Ant = Ant Financial; BofA = Bank of America; CCB = China Construction Bank; ICBC = Industrial and Commercial Bank of China; JPM = JPMorgan Chase; WF = Wells Fargo.

<sup>1</sup> Stock market capitalisation, 29 November 2018. <sup>2</sup> The estimated value of Ant Financial was derived from the amount raised in the company’s recent funding rounds times the stakes sold.

# New Technologies and new player: a business model change for banks?

