Instant payments: understanding the use cases

As the growth of instant payments continues around the world, where are the most interesting use cases, and what do treasurers need to think about when tapping into instant? Citi's Elena Gomez and Declan Hourihan share their views.

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The area of instant payments is developing at a fast pace with adoption growing exponentially across all regions. Elena Gomez, Global Head of Domestic Payments, TTS at Citi, notes that over 60 countries are already live around the world. "It's not just the creation of these high speed and 24/7 payment rails that is important, we're also seeing a lot of innovation around value-add solutions that are arriving on top of these schemes," she adds

While some of these innovations may have started in Asia, other regions are following suit: in Latin America, Brazil has recently introduced the new PIX instant payments solution, which has already started processing over one billion transactions a month. "This is a spectacular ramp-up, and is due to them pushing very good value-add solutions such as QR codes, with compelling use cases that allow the digitisation of many flows and the creation of true frictionless payment experiences", says Gomez.

Turning to developments in EMEA, Declan Hourihan, EMEA Head of Domestic Payments at Citi says there is considerable variety in terms of the maturity of the instant payments landscape, but a clear pattern of growth in real time payment schemes. "The UK's scheme has been in place for 14 years, but there are now multiple schemes across the region – and with SEPA, we have the ability to reach 36 markets." He notes that around one in ten payments in the SEPA zone is now made using instant payments.

In the Middle East and Africa, Hourihan explains that instant payments are acting as a vehicle for financial inclusion. "Traditionally it has been a C2C play, but we are now seeing the adoption of B2C and C2B grow and we expect this to continue to grow exponentially", he says. "We've gone live this year with Jordan and we continue to see new schemes emerge across our network including in Egypt, South Africa and in Morocco."

As development continues – Pay.UK, for example, recently increased the transaction limit from £250,000 to £1m in the United Kingdom – Hourihan predicts that the use of instant payments will change from effectively being a B2C and C2B instrument to something that will become more interesting to treasury teams. "As larger amounts become possible, they can be used for sending supplier payments – obviously not those big treasury payments just yet, but this will really impact B2B and other types of flows as those limits go up," he says.

Innovation and use cases

As more schemes are introduced, and as existing schemes mature, new use cases are arising. Gomez notes that a lot of value-add features are increasingly being rolled out in many markets – and are even being included as part of the launch solution in markets where new schemes are being introduced.

In particular, she cites the importance of QR codes and Request to Pay or instant direct debit functionalities. "And also alias-based payments – this is where you can make payments using an email address or phone number, instead of having to use a bank account," she adds. "These additional features are really enabling a new set of use cases, particularly for consumer-to-business and business-to-consumer payments."

For example, Gomez says that QR codes and Request to Pay present an alternative to online or in-person card and cash payments. "In Asia, the QR code is becoming really prevalent," she says. "Between QR codes and Request to Pay, there's a very significant adoption now of instant payments in these use cases." As an example, merchants are now adding Instant collections as an option during the online checkout process. Some other interesting use cases include digitising cash upon delivery of goods – for example, to pay for food on delivery or custom charges on a package on arrival to your door, 'eliminating the use of cash in these instances is a powerful use case that brings significant value and convenience to corporates and consumers.'

In addition, she argues that many of these use cases are very transferrable to business-to-business payments. "Specifically, I would say that Request to Pay has the ability to solve existing challenges in B2B collections," says Gomez. "It enables the collector to send a request to the payer, the payer retains control to approve/reject this request and upon approval an instant payment is made, meaning that the collector can receive that payment instantly. But it's not just about the speed of that collection – it's the fact that the message you send with a request, and the payment and the confirmation that you receive, all have the same reference end-to-end, which enables straight-through reconciliation with a direct link between the payment and the open receivable."

This, says Gomez, is one of the key use cases which is transferable from C2B and C2C flows into business-to-business payments. Alias-based payments, meanwhile, solve a significant risk, which is the issue of 'fat finger' errors when collecting the information needed to make a payment. "It's much easier for somebody to give their email address or phone number correctly, compared to a credit card number or full IBAN," she points out.

Innovation in EMEA

In EMEA, specifically, Hourihan says some of the most significant areas of innovation include the use of instant payment rails to facilitate digital collections. "The first generation of instant payments was really about making outgoing payments, but now the focus is turning to collections," he says, noting that digital collections are being developed in the UK and Poland, as well as in the SEPA scheme.

Another key trend, says Hourihan, is the growing focus on how to leverage the benefits of instant payments in the cross-border space. "There is certainly regulatory interest in simplifying and streamlining the cross-border payments process," he says.

As such, various industry initiatives are currently underway in this area. Of particular interest is a joint initiative to establish a cross-border channel, which is being developed by SWIFT, EBA Clearing and The Clearing House in the US, together with a number of banks. "At Citi, we use our global network to offer cross-border instant payments in six currency corridors," adds Hourihan.

As Gomez points out, as innovation continues, the focus needs to be squarely on understanding the real-life problems that need to be solved. "A few years ago, it was difficult to imagine being able to make a cross-border payment in real-time," she says. "And today that is a possibility."

Impact for treasurers

So what does all this mean for treasurers? "From a treasury perspective, we've got to look at the future, where instant will be part of everything we do," says Gomez. "At present, one of the highest demand is in a world where the consumer is part of the flow – so businesses that are heavily involved in consumer flows are likely to already be involved in supporting instant payments to some extent, while most digital natives are already leveraging instant payments to create best in class experiences for their clients."

Increasingly, though, instant payments will become a feature of business-to-business payments – "and we are already seeing some indications of this in relation to payments to some smaller-sized businesses," says Gomez. She notes that the benefits for treasurers are significant: as well as the prospect of 24/7 availability, instant payments come with a unique identifier which travels end-to-end with the payment, greatly expediting reconciliation.

"Another thing to remember is that all of these also provide real access to liquidity, compared to other methods of collection, such as credit cards", Gomez adds. "This is a differentiator: as you are looking at outgoing payments, you only have to disperse your liquidity at the moment that the payment is being made. And where collections are concerned, you have real access to liquidity at the moment that that the transaction is received, which will become increasingly important as corporates adopt real time payments". Instant Payments also offer the flexibility, as well as the ability to track important payments on an end-to-end basis.

Getting the most out of instant payments

When it comes to taking advantage of instant payments, Gomez cites liquidity management and automation as two key areas that treasurers need to look at closely. Where liquidity is concerned, treasurers need to adapt to a world in which there are no cut-offs and 24/7 availability, which may have implications for how treasurers manage liquidity. "Now that there isn't a real end of day, and they may need to have liquidity available for transactions to be processed outside traditional business hours, that's a very important consideration," she observes.

Likewise, companies need to have efficient processes if they are to maximise the value of instant payments. "For example, when we're looking at payments on demand, the end-to-end process needs to be frictionless so that it can happen in real-time," says Gomez. "This is very different from how batch payments are approached. And as payments become smaller and more frequent, any manual intervention will be difficult to sustain from an operational perspective and will interfere in the client experience."

So where should companies start? Hourihan suggests starting with one use case in one market in the first instance, and focusing on realising the benefits available. "For example, we've got a large client that has decided to use instant payments to digitise their dividend framework – shareholders are receiving funds quicker, and it's saved them a large overhead, while creating a positive buzz in the market."

On another note, Hourihan says that companies should not overlook the importance of technical integration with the bank – but this doesn't mean that the use of APIs is essential. "Some companies say they are not ready to do APIs, so they're not ready for instant," he comments. "If you have a very integrated instant use case, where you want somebody to touch an app and make a payment, API is certainly one way to go – but it's not the only way to go."

As Hourihan explains, using instant payments can still bring multiple benefits without using APIs, including data enrichment and the ability to receive funds quickly. "File based instant payments can deliver significant benefits and can be a good starting point for an established treasury looking to move into 'real-time'." ■