

Time is of the essence: how payments are becoming faster



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The UK was an early adopter of an immediate payments model with Faster Payments, and now immediate payments are spreading across the globe. Oonagh McGrane looks at the evolution of immediate payments and at what lies ahead.

Immediate payments in the UK

Over the past decade, the UK has seen the Faster Payments Service (FPS), the first true 24/7 immediate payments scheme in the world, evolve from its launch in May 2008 to become the core part of the UK payments infrastructure it is today.

The success of the payments scheme can be attributed to three key influences:

Individual participant membership and embedding – from an initial 13 participants there are now 21 directly connected participants. The volumes speak for themselves. In July 2018, Faster Payments processed 175.9 million payments, a 29% increase on the amount processed in July 2017¹. This amounted to a total of £151 billion for the month, a 26% increase on July 2017's total. In 2015, it had processed its five billionth transaction. In 2017, one billion single immediate payments were processed in one year.

Growth in remitter appetite – using the new scheme instead of traditional models such as cash or a three-day Bacs clearing cycle clearly has an appeal. The threshold has also increased from its original £10,000 to £100,000 and then to £250,000, which opened up the transaction type beyond retail into the commercial payments realm. We expect to see a further increase of this threshold in 2018 to £20 million.

Regulatory influence and support to enhance indirect and new entrant access to the scheme. The introduction of a new access model and access support for non-banks has seen participation – direct and indirect – grow, with the first non-bank joining the scheme in April 2018. In the UK we now have one new payments system operator overseeing our retail payments schemes and designing the ISO 20022 new payment architecture, bringing the UK's Bacs, Faster Payments service and cheque clearing under one authority.

Evolution of immediate payments worldwide

There has been a rapid growth in domestic immediate payments schemes across the globe since the inaugural launch in the UK. There were two big go-lives in 2018, with the Australian and US immediate schemes. Significantly, the launch of SEPA Instant Credit Transfers (SCT Inst) provides the potential to make an instant payment up to a value of €15,000 cross border to and from the 34 SEPA countries. However, it remains as yet the only cross-border solution. 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 as is available in the UK. Our solution at Lloyds Bank is a very simple MT 103 conversion into FPS, allowing our clients access to the scheme for payments originating overseas.



SWIFT Global Payments Initiative service – our tracker for international payments

Speed is also a key issue for international payments in general. The continued adoption of SWIFT gpi allows banks to provide more transparency in the lifecycle of an international payment than ever before and to reflect more on the time taken for payment completion. Historically, clients – both commercial and retail – have seen a debit to their account and have had to simply wait and see if a beneficiary claimed non-receipt. With SWIFT gpi, we now have a tool that will allow banks (and their customers) to track their payments as they move through the payment chain.

Once 'stop and recall' is implemented, we will also have the ability to request the cancellation of a payment that has been sent but has not yet reached its final destination, or a payment that has been fully settled within the last four months.

At Lloyds Bank we expect the initial client benefits to be immediate responses on transaction queries as well as a significant reduction in the volume of queries we receive. When we go live in May next year, we anticipate that 60% of our international transactions will flow to a bank that is a live SWIFT gpi member.

SWIFT statistics:

- 25% transactions cross border MT103s sent as gpi
- 120+ currencies
- 63 banks live
- More than \$100Bn being sent daily²

The great news from SWIFT gpi-live traffic now is that 50% of cross-border transactions are credited to end beneficiaries within 30 minutes³. But what of the other 50%? Our expectation is that SWIFT gpi will continue to focus our attention on the length of time it takes the banking community to process international payments, and to the FX rates and spreads applied.

Digitalisation and international payments

The age of digitisation is changing our clients' expectations and priorities. In a world where the digital experience we have every day is of immediate, real-time access to anything – from tracking a train or plane, to ordering and receiving a delivery on the same day – we and our clients expect to see the same capabilities in international payments as we have seen domestically.

PSD2 and the Open Banking initiatives in the UK both aim to enhance security, provide greater transparency, and encourage innovation and competition. This is resulting in a changing payments landscape centring on XML, ISO 20022 and APIs. This is happening without the limitations and restrictions of legacy infrastructure – as new entrants to the market are challenging the SWIFT infrastructure, challenging banks' pricing models and transparency and stepping into aggregator roles in a fast and agile manner.

Account Information Service Providers (AISPs) are stepping in to provide new services in the form of aggregation, credit assessment, quotations, and accountancy services.

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Payment Initiation Service Providers (PISPs) are providing clients with the ability to initiate payments from their bank account in both person-to-person and business-to-business remittances. In addition, we will continue to see non-bank developments such as ACH access, mobile payments, merchant platforms, commercial finance, payment and FX providers.

All this activity adds to the potential for payments to move faster and with enhanced means of reconciliation further adding to client expectations of what is the art of the possible.



What does the future hold for international payments?

As speed and, perhaps just as importantly, transparency become ever more important domestically, so too do the demands made for International Payments. Central to this will be data which remains a vital asset. The move to ISO 20022 gives us a standard data set that can not only enhance payment reconciliations and straight-through processing, but also help our clients understand their supply chain challenges.

Other evolving areas include:

- cross-border transaction methods – by tapping into new technologies, partnering with both fintechs and banks, we can offer more control to our clients over how international payments can be made
- upgrading legacy infrastructure – by ensuring our payments system can handle traditional and new channels, we can place ourselves at the centre of these exciting times

As financial service providers of all kinds move to reflect the increasing demands of clients, take advantage of the benefits of emerging technological advancements, and move beyond basic compliance with regulation, the landscape is evolving at speed taking us closer to true real-time international payments. Keeping pace and maintaining relevance and value in a fast changing market will be a challenge for all participants and leaves us all with the same question: are we ready?

 With SWIFT gpi, we now have a tool that will allow banks (and their customers) to track their payments as they move through the payment chain. 

Notes

¹ www.fasterpayments.org.uk/statistics

² SWIFT gpi – Quarterly Update – June 2018

³ SWIFT gpi – Quarterly Update – June 2018



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