

It's Now or Never

Keeping Pace with Real-Time Payments

Treasurers in business-to-business (B2B) sectors can no longer write off real-time payments as 'only fit for consumer industries'. Value limits are increasing and usage is trending upwards¹. What's more, innovation is bringing added value – ranging from request-to-pay to confirmation of payee services and embedded real-time foreign exchange solutions. Two experts from Barclays Corporate Banking explain how treasurers can take advantage of instant payment innovations across Europe, leading towards the broader trend of real-time treasury.

As of January 2021, there were 3.96 billion social media users across the world². That's roughly equivalent to half the global population. One of the main growth drivers of these platforms is their ability to connect people in real time, with follower numbers and instant reactions becoming similar to a new currency.

Similarly, music and television services have shifted to provide content on demand, 24/7/365. In this always-on consumer landscape, e-commerce is also having to keep pace with the immediacy of 'real time' demand. The world of finance is no different: online banking can be performed anytime, anywhere through apps and portals. And now payments are also starting to live up to this instant ideal.

Daniela Eder, Head of Payments & Cash Management Europe, Barclays Corporate Banking, comments: "With real-time payments, the ultimate vision is to connect all participants globally and to have one set of instant rails and a worldwide standard. That is a work in progress, but in the meantime, we're seeing huge leaps forward on a local level – with schemes coming online in countries from the US to Australia."

There has also been significant progress in Europe, says Eder, where corporates are becoming more used to the SEPA Instant Credit Transfer scheme (SCT Inst). "The latest figures from the European Central Bank show that 8.3% of all SCTs are now instant, or at least delivered in

A global aim with local roots

Today, more than 50 real-time payment (RTP) schemes are operational across the globe³, with many more in the pipeline.

By Eleanor Hill, Editor

under 10 seconds as per the scheme guidelines⁴. Considering that SCT Inst has only been live since November 2017⁵, and the value limit was increased from €15,000 to €100,000 just over 12 months ago [1 July 2020⁶], this is promising progress,” she believes.

Figures from the recently released TMI and Barclays’ European Corporate Treasury Survey 2021 paint an even more positive picture, with 31% of treasurers currently using instant payments and 40% planning to do so in the coming 12 months (see fig. 1).

Denis Merendet, Head of Europe Cash Management Product, Barclays Corporate Banking, says: “This is around the level of adoption that we would anticipate at this stage. The RTP infrastructure is not at an optimum level yet, as not all banks are offering this service.”

This remark points to one of the three main elements that Eder believes must come together in order to foster an environment of greater growth for RTPs:

1. Infrastructure development
2. User demand
3. Third-party services

NOT JUST A EUROPEAN CHALLENGE

The global RTP infrastructure is not quite there yet. Eder comments that SWIFT gpi has made huge strides in this space and 92% of end-to-end cross-border payments are completed within 24 hours while 40% of them are credited within only 30 minutes⁸. “Clearly this is a significant improvement on the days or weeks that we have seen international payments take in the past. But there is further to go until cross-border transfers are truly instant,” she says.

Challenges here include the fact that many countries are yet to roll out a real-time payments scheme, with the required investment proving challenging in numerous geographies. In addition, more financial institutions and corporates must still be onboarded to SWIFT gpi. On the positive side, the growing adoption of the ISO 20022 standard is expected to help the cause of creating a global, truly instant payments network.

Bringing infrastructure up to speed

Eder continues: “As Denis mentioned, SCT Inst is technically available in the market, but some banks and payment service providers [PSPs] are not yet offering it to clients. This is causing some large corporates to – incorrectly – view SCT Inst as a nascent proposition, and they would prefer to use it only when the landscape is comprehensive.”

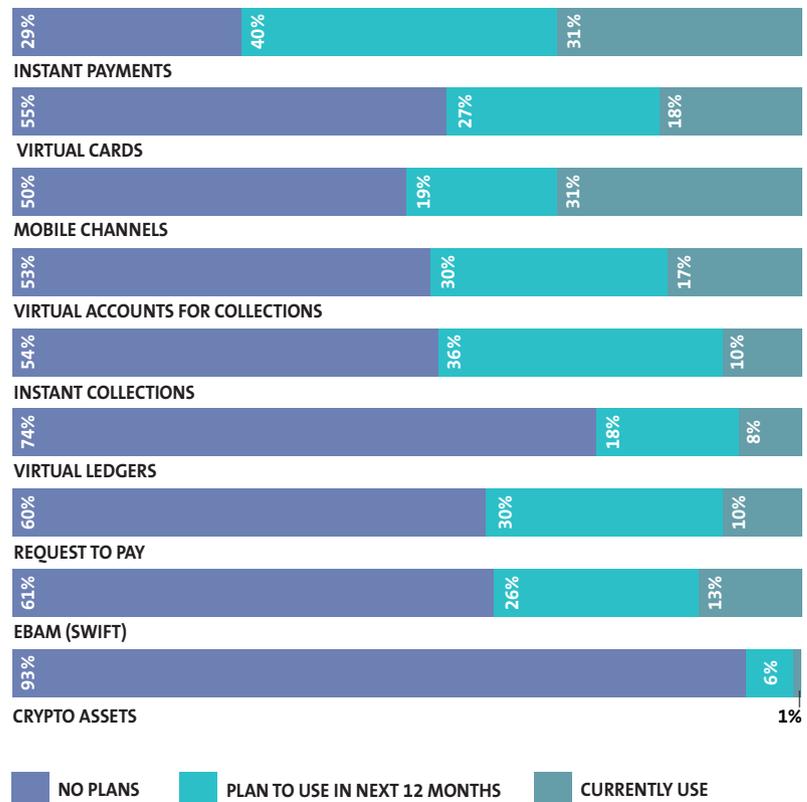
This attitude will hopefully shift, however, as the political clout behind SCT Inst continues to grow. The ECB’s Governing Council has moved to mandate the full deployment of instant payments across the Eurozone, requiring all banks to have instant payment capabilities by November 2021⁷. All PSPs adhering to SCT Inst that are reachable in TARGET2 will also need to become reachable in TARGET Instant Payments Settlement [TIPS], either as a participant or as a reachable party.

Similarly, all automated clearing houses [ACHs] offering instant payment services must also migrate their technical accounts from TARGET2 to TIPS, explains Eder. TARGET2 will then be switched off.

“This is a clear signal that real-time payments are the new normal, and that the financial services industry, and the infrastructure surrounding it, needs to adapt ASAP,” adds Merendet.

In addition to upgrading the plumbing and bringing as many PSPs as possible online, there is more development needed around the data infrastructure that supports RTPs, Eder notes. “ISO 20022 underlies many RTP schemes and brings with it the benefit of rich remittance data. This data, if handled correctly, will further improve the efficiency, speed and compliance of payments.” In turn, this should offer a better experience for corporate treasurers, and the ability for innovative new services to be delivered to clients (more on this later).

FIG 1 WHICH OF THE FOLLOWING DIGITAL TREASURY TOOLS DO YOU CURRENTLY USE OR PLAN TO START USING IN THE NEXT 12 MONTHS?



But the pipes that carry this data still require some upgrades, believes Eder. “In order to make the most of the real-time data that comes with instant payments, the technology needs to keep pace. Ultimately, from the treasurer’s perspective, this means banks investing in secure application programming interfaces [APIs] to deliver that data straight into their TMS or ERP, in real time. And at Barclays, we’ve already seen corporates leveraging our API capabilities to benefit their real-time set-up.”

Reasons to use RTPs

The findings of the European Corporate Treasury Survey 2021 show that some corporates are yet to realise the value case for real-time payments – with 29% having no plans to use them (see fig. 1). Eder elaborates: “Some corporates still believe that RTPs are not suitable for B2B flows, even though value limits have increased – and will likely continue to do so if the UK’s Faster Payments scheme is anything to go by.”

Other corporates, meanwhile, are struggling to understand where RTPs sit within an already complex payments landscape. “In reality however, instant payments can help to streamline complexity. They are a great way to minimise the use of expensive and environmentally damaging paper-based instruments, such as cheques and cash.

There are also instances where an instant payment makes more financial sense than using a card, although there are other aspects to consider with cards, of course,” Merendet notes.

In addition to cost and process efficiencies, instant payments can also be used as a customer engagement and satisfaction tool. The insurance sector is a prime example, says Eder. “We’ve just experienced terrible floods in Belgium, Germany, and other areas of Europe. People have lost their homes and even loved ones. The last thing they want to be worrying about is money. An insurance company could, for example, pay flood claims out instantly using RTPs, thereby enabling people in those disaster areas to pay for shelter and whatever they need to start rebuilding their lives as best they can.”

“In the retail sector, issuing refunds instantly can also significantly improve a company’s customer satisfaction proposition”, says Eder. And gig economy workers could be attracted by the possibility of instant payment from their employers too. “In fact, instant payments can become a competitive element of many modern businesses.” Treasurers could also potentially explore the concept of just-in-time payments, enabling them to hold on to and invest their liquidity for longer, while still meeting their payment obligations on time.

Flipping the script

For any treasurers still not seeing the full benefits of instant payments, real-time collections might be more enticing. “The flipside of RTPs is that funds can also be delivered into treasury’s coffers at speed. Not only does this have obvious cash flow benefits, but the data that comes with real-time collections can enable faster and more accurate treasury decision-making,” Eder comments.

Receipts via RTP are also irrevocable, meaning that treasury can have more certainty over cash balances. But of course, this works both ways – and irrevocability is often cited as one of the reasons why instant payments do not suit every organisation. “There are numerous considerations around instant payments and collections,” cautions Eder. “It’s important to step back and look at the bigger picture.”

Added-value services

To make the RTP business case even more compelling, banks and PSPs are building innovative services on top of transactional functionalities. Some of these solutions are being driven by regulators, such as the ‘confirmation of payee’ capability that is now mandatory in the UK and enables payers to check that the name of the payee matches the legal name on the destination bank account.

RTP CONSIDERATIONS FOR TREASURERS

First and foremost, treasury teams should assess whether there is a true business need for real-time transactions and data. “Most treasuries will want on-demand information, especially post-pandemic, but not all of them will – and that’s OK,” Eder comments. “For those that do want to leverage real-time, the next step is to identify where there is a business case to use it. Not every payment needs to be made as an RTP. Not every customer needs to be offered the opportunity to pay via instant means, either. There must be a business imperative – whether it be cost- or efficiency-related, or serving other commercial or sustainable purposes.”

Next, treasurers’ attention may need to turn to the impact of moving to a real-time environment, especially on the collections side. “How will the team deal with a receivable that arrives on a Saturday or at 11pm on a Tuesday, for example?” Eder questions. “Entire treasury workflows need to be reconsidered and automation built in where possible, including sweeps into short-term investments when cash exceeds pre-agreed limits. Systems and bank connectivity solutions will also likely require an upgrade, or reconfiguring with APIs, to enable

real-time data to be reported and analysed instantly.”

Another area deserving consideration is foreign exchange (FX). With receipts coming in at any time of day from across the globe, hedging positions may be impacted and currency limits within the treasury policy could potentially be breached. “Corporates wanting to make the most of the real-time environment will likely require a more time- and cost-effective approach to FX hedging, with automated solutions being desirable.”

Using automated solutions can also help to shore up the control environment. “In the real-time world, where money moves in a matter of seconds, treasury controls are arguably more important than ever,” adds Merendet. “Security is also critical, especially in an era of increased cybercrime – although APIs offer significant benefits here.”

In short, shifting towards a real-time environment requires adaptation to a new ecosystem. Eder notes: “When you transition to ‘instant’, everything is impacted – from reporting to reconciliation, liquidity and FX hedging. There can be significant benefits, but preparation is absolutely key.”

Another added-value service in the world of instant payments is request-to-pay, also sometimes confusingly abbreviated to RTP. This is growing in popularity in countries such as the UK and US (although it is referred to as 'request for payment' in the US). And in Europe, the SEPA Request-to-Pay (SRTP) scheme was launched on 15 June 2021⁹ as part of the European Payments Strategy.

In brief, request-to-pay enables any company or individual wishing to receive a payment to send an electronic request to the debtor account. The payer is then presented with choices such as paying in full, in part, or delaying the payment. "RTP is potentially a good alternative to a direct debit and enables more interaction with the payer, as well as the ability to send the full details of their purchase with the electronic request," says Eder.

There are potential benefits for both sides. For the collecting organisation, SRTP can enable increased visibility over the timing and amount of cash inflows – with funds coming in instantly or at an agreed date. "Certainty is also increased as SRTPs are irrevocable, so cannot be contested," comments Eder. Of course, there is also no need to send a separate paper invoice to the payer, which offers added efficiency and sustainability benefits.

From the payer's perspective, request-to-pay provides a more flexible way to make a purchase and can significantly improve the customer journey and overall experience. Payers also no longer have to be concerned about direct debits being rejected due to insufficient funds – they can check their balance before agreeing to the withdrawal.

Other added-value services being offered by leading banks include integrated solutions for screening of real-time payments against sanctions lists and in-

built FX conversion services. "Both have a clear and important role to play in the real-time ecosystem and we expect to see growing demand for such capabilities," comments Merendet.

Elsewhere, data analysis services are only likely to become more popular as ISO 20022-based real-time payments thrive. "AI-driven solutions for analysing cash flows and customer payment behaviours are in demand," he says. "While some corporates are able to perform such analysis themselves, many will be looking to their banks and vendors to step up with analytical tools to help them make the most of the real-time environment."

Building for the future

This, remarks Eder, is part of a larger change whereby banks are becoming more consultative when it comes to innovation. "We are in a great position to help treasurers fully leverage the benefits of real-time capabilities by empowering them to make timely, intelligent decisions around everything from their liquidity positions and FX exposures to their financial supply chain flows."

"Transaction banks," she says, "also have a responsibility to help corporates understand the full spectrum of functionalities that real-time payments bring, since this is undoubtedly the future of the industry."

"We're talking about much more than the basic functionalities of instant payments and collections. RTPs pave the way for process changes, efficiency improvements, deep data insights, competitive advantages, and even entire business model changes. And there is no better time than now to start embracing the benefits of this real-time ecosystem – they are there for the taking." ■



DANIELA EDER

Head of Payments & Cash Management Europe, Barclays Corporate Banking



DENIS MERENDET

Head of Europe Cash Management Product, Barclays Corporate Banking

Notes:

- <https://neweventsinsights.wearepay.uk/data-and-insights/faster-payment-system-statistics/> and <https://www.vocalink.com/news-insights/stories/real-time-payments-soar-2020/>
- <https://www.broadbandsearch.net/blog/social-media-facts-statistics>
- <https://www.aciworldwide.com/real-time-payments-for-the-us>
- https://www.ecb.europa.eu/paym/integration/retail/instant_payments/html/index.en.html
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- <https://www.redbridgegta.com/market-intelligence/the-sepa-request-to-pay-scheme-explained/>

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