Paving the Way Towards Instant and Frictionless Payments

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With SWIFT gpi bringing transparency and speed to the world of instant payments, it is pertinent to examine the difference in take-up between European and Asian banks. Also important is understanding what this level of 'instantaneity' means for the future of corporate treasury management.

Instant payments are a new reality in many countries and their adoption has accelerated over the past few years, particularly in Europe where SEPA Instant Credit Transfers (SCT Inst) already account for 8% of SEPA volumes. In 2020, RT1 recorded almost a doubling of the SCT Inst with an average transaction amount of €576.

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This growth is steady and analysts foresee that, within a couple of years, one in two payments in Europe could be instant, with the majority being in the retail environment. In Spain, they already account for about a third of all credit transfers, with 1m instant payments processed daily. Other leading countries in terms of volumes include Italy, Belgium, where SCT Inst represents almost 15% of volumes, and France, which has a monthly volume of 5m payments. In the Asia-Pacific region, where instant payment methods are also extremely popular, the numbers are even more striking. In India, for example, more than 1 billion instant payments are made a year.

But while adoption of domestic instant payments systems among individuals is increasing at an unprecedented rate, adoption by businesses is far slower and remains limited to specific use cases where employing this payment method is a differentiating factor for a new commercial service.

Reachability among banks, as well as the interoperability of the instant payment schemes, remain important issues, even if there are initiatives leaning towards further harmonisation in the payments landscape. The SCT Inst scheme was designed to be pan-European and many participating banks are now reachable from any SEPA country.

With the deployment of a SEPA Request-to-Pay messaging service in June 2021, standardisation of the SCT Inst is being leveraged. This means a request to pay for a service can be linked to an instant payment. In Nordic countries, Project 27 (P27) promises to be the world's first real-time cross-border payment infrastructure in multiple currencies. This multicurrency aspect is crucial, as capital markets are not open 24/7, making foreign exchange (FX) conversions still far from being instant. This is one of the obstacles that means instant international payments are still an ambitious dream.

For large corporates with a centralised treasury and a payment factory, international payments represent a significant share of their payment workload with the additional tasks of dealing with counterparties globally and managing cross-currency exposure.

Up until recently, international payments were renowned for their opacity and lack of traceability. Today, one can safely say that SWIFT has successfully made SWIFT gpi the 'new normal' for international payments. For a bank, being gpi compliant implies adherence to a set of common rules, which include: guaranteeing payment traceability, transparency on fees, unaltered transmission of remittance information, and same-day processing or crediting of the funds to the beneficiary.

Since November 2020, all banks on the SWIFT network, whether gpi compliant or not, have the obligation to confirm to the gpi tracker the final credit on the beneficiary account. On a global level, the adherence to this set of rules has already reached an impressive threshold of 90%. This new standard has rapidly been adopted by a large number of users and financial institutions around the globe – more than 4,000 banks have signed up to join the initiative, with more than 1,600 currently being live.

Adhering to the SWIFT gpi standards is a step in the right direction and a sound basis for making cross-border payments frictionless. Banks have started equipping their customers with interactive access to the gpi tracking data as part of their standard services for international payments, which has already resulted in halving the number of interbank investigations on payments.

On top of facilitating the execution and the tracking of cross-border payments, this fast-growing adherence to the SWIFT gpi initiative is creating a data goldmine that can be used to analyse the behaviour of international payment flows.

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Let's take the Europe-Asia corridor as an example. Commercial exchanges between Europe and Asia have intensified over the past few years. Although the volatility of the Asian market and its specific regulatory context can be a challenge for European banks moving funds across the region, digitisation has started to improve the process, and the number of transactions sent from Europe to Asia has increased by 15% over the past three years.

The gpi-compliancy data is also impressive: in France, 40 financial institutions are live on SWIFT gpi – a number that has doubled over the past year – and send 94% of their international payments through gpi. In terms of speed, 7% of these payments (SWIFT MT103 messages) are processed within 30 minutes, the majority (83%) being credited in 24 hours. The maturity level in China is even higher: 247 Chinese banks are fully gpi compliant and send 99% of their transactions through this system. As for their processing time frame, an astonishing 40% of SWIFT payment messages are processed within 30 minutes, and 98% under 24 hours.

This difference in terms of performance between the regions can be explained by two major factors: the time zone difference and the frequent complementary information or documentation requirements for payments heading towards Asia. By 2025, the migration from MT to MX format for interbank payments – also led by SWIFT – will bring about an enormous improvement to quality of data across the entire cross-border payment ecosystem. Being a much richer format, the implementation of SWIFT ISO 20022 as the new standard for payment infrastructures will enable the transmission of additional payment information, which in turn will help reduce the numbers of payments being blocked or rejected due to incomplete information as a result of lack of space or dedicated fields.

Financial institutions also intend to leverage the instant payment technology to improve the speed of international payments. The long-term aim is to be able to guarantee a valid instant processing for cross-border payments and a 24/7 availability to support trade and e-commerce worldwide. There are still important hurdles to overcome, notably being local regulatory compliance, which represents a major challenge for financial actors. At the interbank level, banks such as BNP Paribas collaborate to enable this attractive objective to be met.

The adoption of the ISO 20022 format will, of course, support this long-term aim by rendering the transmission of richer payment data consistent between payer and payee independently if the payment is issued via SWIFT and credited via the local instant clearing. Payments monitoring protocols are also quickly evolving due to technical advances in the adoption of cloud-based databases, adding machine intelligence and communicating on demand based on application programming interfaces (APIs). While APIs are now the norm for integrating real-time payment initiation and reporting for corporates, the multiple standards and limited interoperability between APIs are an obstacle for worldwide adoption.

The payments ecosystem is evolving rapidly on sound foundations and there is no doubt that this instant and frictionless revolution is well underway. However, this will require large investment and co-operation from both the banking community and non-bank payment players to reach a return on investments from developing the new payment rails of tomorrow.

BNP Paribas wants to inspire other banks and corporates to join this effort to create frictionless and efficient cross-border payments. The SWIFT gpi initiative, which BNP Paribas embraces, has shown to the payments community that simplicity and efficiency is possible.

Major investment has been made in the payments landscape in order to adopt new methods. From European instant payments to India, and from the Nordics to the Gulf, the number of new clearing instances continues to grow every year. At the same time, it is of great value for corporate treasury to be supported by fraud detection solutions at transaction level, self-service compliance inquiry modules and the creation of interactive connectivity to adopt the payments of tomorrow.

In this way, treasuries are equipped with a best-in-class payment rails infrastructure to serve their businesses in adapting their ability to pay and to be paid.

The next challenge is to spread this drive within the banking community globally. BNP Paribas has already connected other leading banks through working groups to review and address these barriers with a view to achieving a fast and frictionless reality.

Instantaneity will disrupt traditional corporate treasury management and each corporate treasurer will need to strike the right balance between dealing with the increase of control and efficiency and the ability to manage 24/7 treasury operations. ■

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