Unlocking the potential of real-time payments

By Mariana Marques and Carl Strempel

The payments industry is fuelled by speed and innovation - exactly what real-time payments represent.

The growth of real-time payments has prompted consumers to favour speed above everything else.

Changing customer demand is paving the way for the mass adoption of instant payments and inducing banks and other financial institutions to adapt.

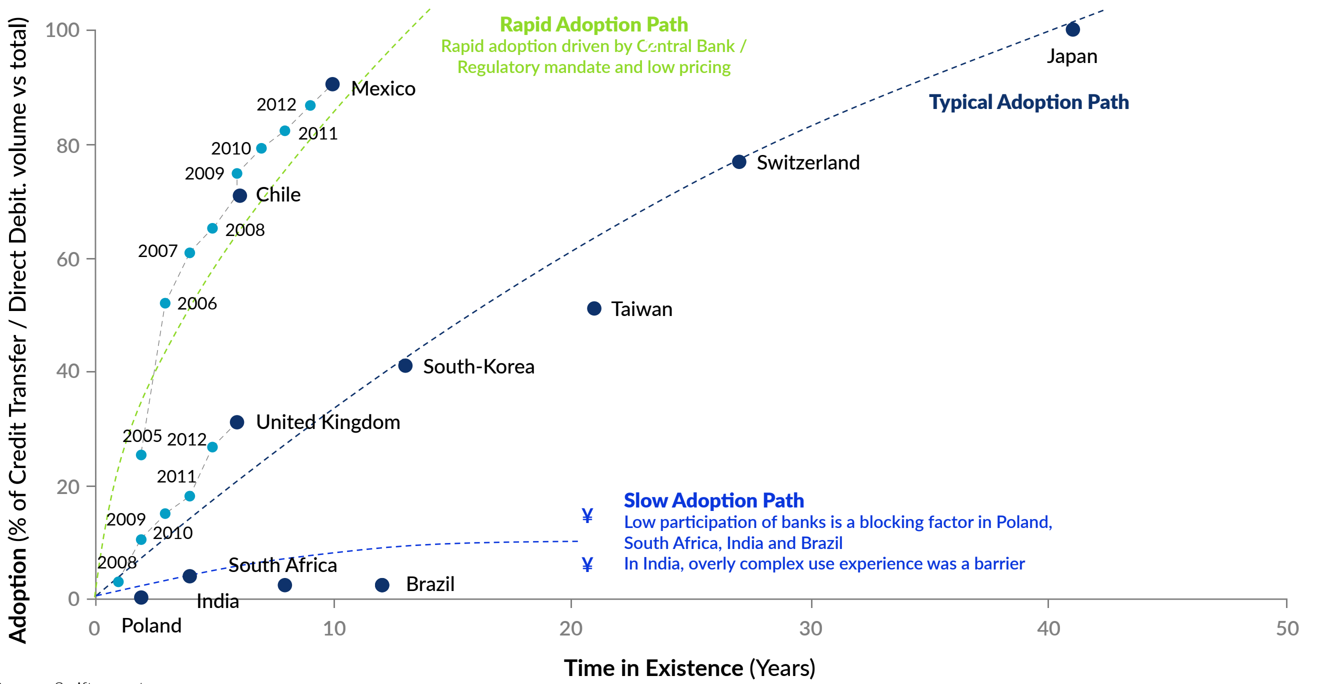
The adoption of RTP worldwide

Japan was the first country to adopt real-time payments (RTP) in 1973, with its Zengin System. 14 years later, Switzerland launched RTP through its national SIC (Swiss Interbank Clearing) System. Since then, many countries around the globe have integrated RTP as one of their national payments schemes. In the UK, British residents have access to Faster Payments since 2008.

Australia, Hong Kong and the Philippines were slightly late in the game, having launched their RTP schemes in only 2018.

Some regulators were keener on taking real-time payments on board, whilst others have showed reticence in participating- hence the slow RTP implementation in countries such as Poland, South Africa and Brazil. There are currently 56 countries with an up-and-running national instant payments system. It is fair to say there has been a slow, yet steady adoption of RTP.

The speed of RTP adoption across countries



Source: Swift report

RTP and the future of payments

The globalisation of RTP represents a remarkable shift in the payments industry, driven by many technological changes and disruptive trends. Mobile payments, for instance, has grown considerably in the last few years due to the popularisation of digital wallets such as Apple Pay and Google Pay. NFC contactless payments are now used by an average 48% of the European population (**Statista report**), actually reaching around 90% in countries like the Czech Republic, Poland and Georgia. The US has been a slow adopter, but now has 51% of the population using some form of contactless payments (**MasterCard report**).

Peer-to-Peer (P2P) transfers are also on the rise, fuelled by the increasing number of social platforms and digital currencies. A major change in consumer behaviour has prompted companies to use the latest technology in order to meet customer demand. Start-ups are coming up with the most innovative services tailored to their customers' needs, and traditional institutions are forced to be agile in order to adapt to industry changes.

Speed is now the key priority of any payment experience, and RTP offers exactly that. Unsurprisingly, RTP is expected to continue growing in popularity for years to come. In fact, 77% of merchants expect real-time payments to replace physical payment cards. The global RTP market was valued at $10.64 billion in 2020, and it is expected to grow at a compound annual growth rate (CAGR) of 33.0% from 2021 to 2028 (**Grand View Research Report**).

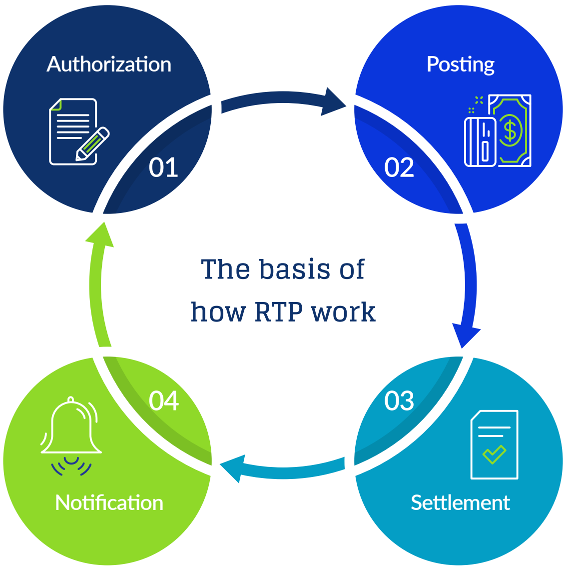
Real-Time Gross Settlement scheme vs. Net Settlement scheme

In a traditional net settlement scheme, banks collect payments throughout the day, and they are shared with a mediator (clearing house or central bank) at the end of the day. The clearing house processes and settles all of those payments at once, in a batch, rather than individually. Traditional bank transfers cleared through a net settlement scheme can be convenient for paying out higher amounts on a recurring basis, such as salaries.

They offer some benefits for financial institutions too, particularly when it comes to managing liquidity, as they enable banks to accumulate all credit and debit transactions during the day. Only at the end of each day, banks have to calculate how much they owe to other banks, and how much they have to receive. The responsibility to manage these exchanges of funds falls on the central bank.

Real-time Gross Settlement (RTGS) schemes work differently. Despite also being managed by a clearing house or central bank, real-time payments are processed instantly through specific networks. In the US, payments can be settled in real-time through the RTP Network, which is operated by The Clearing House. In the UK, real-time payments are processed through the Faster Payments scheme and in Europe, they are processed through the SEPA scheme, developed by the European Central Bank.

The basis of how RTP work



Customers can initiate real-time payments through mobile phones, digital wallets, tablets or websites. The request for payment triggers an interbank transaction between the payer and payee's account. Essentially, real-time payment processing involves four main steps: the authorisation; the posting, when funds become instantly available; the settlement and the notification, when both payer and payee are notified of the transaction status.

Benefits of Real-time payments

When it comes to customer service, RTP offers three priceless advantages: speed, availability and transparency. With RTP, customers no longer need to wait up to three working days to see funds reflect in their account as could happen, for instance, with traditional settlement methods such as BACS. RTP benefit companies and customers equally by enabling faster and frictionless pay-outs and refunds, which improve customer service, satisfaction and retention.

In fact, over three quarters of organisations have experienced, or expect to experience customer service gains from real-time payments (**Ovum report**). Most companies are willing to invest in real-time payments technology both because RTP improves their customer service, and because it drastically reduces company costs.

This technology allows customers to make or take payments at any time of the day, whenever suits them best, and they will get an automatic notification confirming that the payment is settled. This makes RTP at least equal to (if not more advantageous than) alternative debit or credit card schemes for both buyers and sellers. RTP also boosts data transparency and enables more efficient cash flow management, with instant data delivery. It is no wonder that RTP has moved to the high-priority list of financial companies as an essential service to offer, and a service that will continue to be indispensable.

Is RTP challenging traditional payment methods?

Given its benefits and high-speed growth, RTP may soon be challenging other more traditional payment methods. Take credit cards, for instance. Credit cards remain one of the most popular payment methods, with 2.8 billion credit cards in use worldwide. In the US, 70% of the population has a credit card, with 34% of Americans owning 3 or more credit cards (**Shift Processing report**). The figures are similar for European countries. However, we are experiencing a continuous decline of credit card usage, partially prompted by the financial instability caused by the global pandemic in 2020.

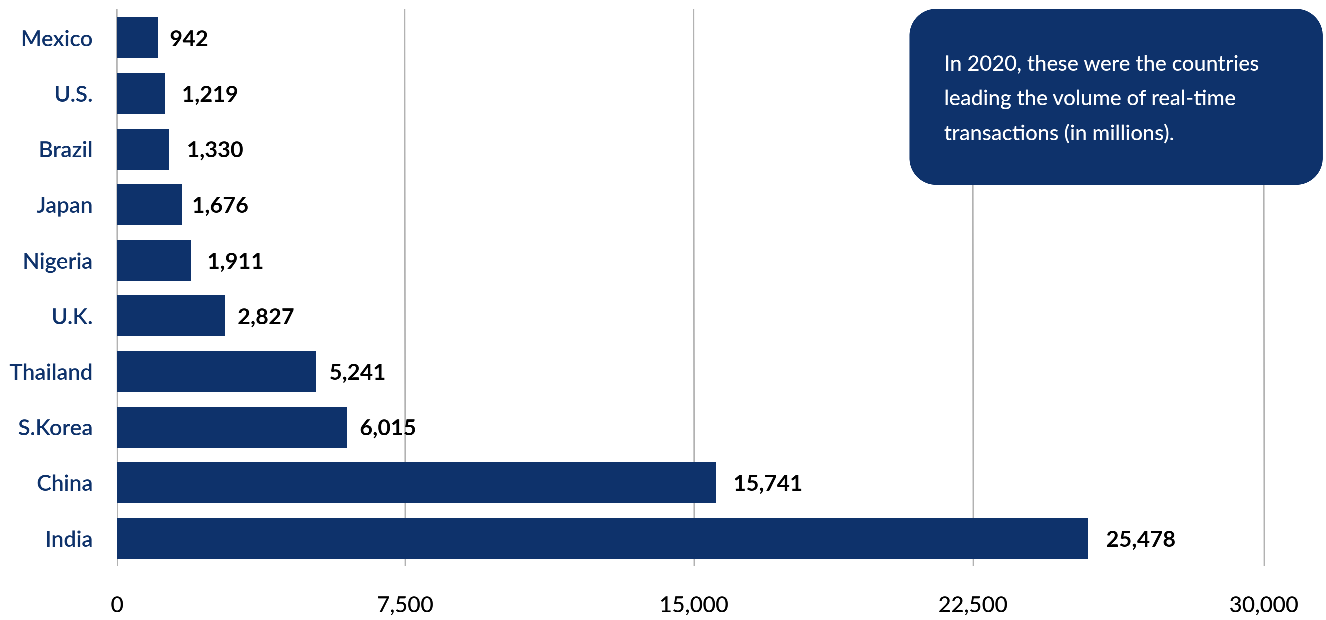
In the US, the number of prime and subprime credit card accounts has decreased for the third quarter in a row (**American Bankers Association report**). The statistics are concerning for credit card issuers. In 2019, digital online payments actually surpassed credit cards by payment volume, having reached $4.1 trillion (**Deloitte report**).

Giving credit has become riskier for banks and, contrastingly, customers are increasingly picky with their credit card deals. Moreover, more customers are choosing to pay their debt in full each month to avoid paying interest, so issuing banks are losing profit.

The rise of RTP is particularly beneficial for merchants. RTP are settled immediately, whilst credit card payments may take several days to clear. This can have an even bigger impact for small businesses who are used to waiting a long time for payments to be settled. Through RTP, they can now have instant access to funds, improve their cash flow and manage their finances more efficiently.

Moreover, credit cards are bound to chargebacks and disputes, which adds additional administrative complexity and costs to organisations that are looking to adopt these payment options.

The top 10 RTP markets across the globe



Source: ACI Worldwide

However, while RTP offers an array of great benefits that are set to reshape the payments world, it doesn't come without its downsides. Real-time payments are processed instantly and are therefore irrevocable. This in turn makes it more difficult for customers to get refunded if, for instance, they fall victim to fraud, the product they ordered is not delivered or the company they purchased from goes bankrupt.

With the already noticeable decline of credit card usage, and the advantages that RTP brings to consumers, merchants and financial institutions (under certain scenarios) the adoption of real-time payment methods is only set to increase over the coming years. This will likely stimulate and drive competition in the payments industry as different services position themselves for mainstream consumer adoption.

Each payment solution brings its own set of advantages and drawbacks for companies and consumers alike. Rather than focusing on a single payment option, companies will benefit from adopting a combination of solutions to provide customers with the best service levels and experience depending on the collection or payment scenario.

Offering a wide range of payment methods enables companies to deliver tailored payment experiences that suit each of their customers' needs, ensuring higher spend and more customer satisfaction.

Offering a range of payment methods, however, comes with significant technical challenges, as traditional companies need to integrate an ever increasing number of providers into multiple core systems that are often incompatible with modern technologies. This can make even seemingly simple integrations expensive and time-consuming to deploy. Imburse can help overcome these challenges. We do this by offering simple and flexible connectivity to payment providers and technologies worldwide, making integrations a stress-free, fast and cost-effective process. Reach out to our team or visit our website to learn more about our solution and the benefits we can bring to your business.

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