



# Instant Payments Main challenges & opportunities

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# Introduction

Target Instant Payment Settlement (TIPS) is a market infrastructure service launched by the Eurosystem in 2018 that enables 24/7/365 real-time settlement of instant payments in central bank money. Other instant payment systems do exist but most operate mainly on a national level, leading to a fragmented payments landscape.

While instant payments offer significant benefits to the businesses and clients, it also requires to adapt to the new operational dynamics, involving a cautious liquidity management to ensure the stability of the banking system, particularly during non-banking hours. It also requires banks to massively invest in their payments technology and infrastructure in order to enhance their operational capabilities and consequently be compliant with the 24/7/365 instant payments regulation.

The challenges and risks associated with increased liquidity withdrawals after regular market hours could be mitigated by implementing certain measures like enhancing liquidity management processes, real-time 24/7/365 payments monitoring capable of detecting any market stress and a clear communication strategy towards the clients.

The collaboration between market actors (banks, regulators, central banks, payment systems) is essential to make the instant payment a successful story. Additional measures could be introduced to this effect, enhancing the overall efficiency of the project.

In this presentation, we will review:

- The main challenges of instant payments
- The main opportunities
- The impacts of instant payments on market liquidity
- The instant payments in times of market tensions
- 24/7/365 ECB liquidity access for safeguarding the financial stability

After this introductory part, the next slides will dive into the more technical details of the different payment systems and conclude with some interesting solutions.



# Instant Payments – Main challenges

## Technology and interoperability

- Need for infrastructure modernization and system integration capable of managing instant payments and making the amounts available on the payee's account within 10 seconds
- Need for scalable and robust IT solutions to handle increased IP transaction volumes
- Payment systems interoperability between banks

## Operational challenges

- 24/7/365 availability of the payment systems; requiring robust operational processes, support and maintenance to manage liquidity at all times

## Cost management

- Initial investments needed for upgrading systems
- Ongoing maintenance costs
- Zero remuneration of Instant Payments
- Higher clearing & settlement fees (than SCT)

## Market collaboration and coordination

- Need for the industry to adhere to the new standards to ensure consistency and reliability
- Need for industry collaboration to maintain the interoperability between banks and systems in a fragmented payments landscape

## Liquidity management

- Need for advanced liquidity forecasts and robust cash management tools to ensure the process of instant payment transactions without any delay
- Need for pre-funding TIPS accounts adequately
- Need for setting up automated alerts for low balances to prevent payment delays
- Funds in TIPS are considered central bank money and also account for the reserve requirements

## Regulatory requirements and sanction screening

- Banks must comply with regulatory ratios that might be impacted by new liquidity requirements
- Ensuring compliance with regulatory standards regarding anti-money laundering (AML) as well as with data protection regulations (GDPR)

## Risk management and fraud prevention

- Need for liquidity risk management ensuring that banks do not overextend their available liquidity
- Need for managing the settlement risk associated with instant payment processing
- Need for a robust real-time fraud detection mechanism and prevention system

## New customer behaviors and expectations

- Clients' and corporates' behavior might evolve, e.g. launching instant payment of salaries on a Sunday or paying a provider after 6PM,
- User experience must be easy, secure and as reliable as traditional payment methods
- Need for developing internal efficient guidelines and efficient dispute resolution mechanism to quickly handle disputes with clients

## Competition and new entrants

- Need for rapid and constant market adaptation to keep pace with the consumers' preferences and evolving payments trends
- Competition from new entrants (fintechs)

## Public communication

- Need for immediate communication to clients in order to prevent panic and ensure confidence in the banking sector

## HR

- 24/7/365 availability of staff and systems, involving contractual revisions



## Instant Payments – Main opportunities

### Enhanced customer experience

- Clients benefit immediately from the transfer of funds, making transactions smoother and more efficient and have real-time access to their cash
- Late-minute payments to respect deadlines

### Business efficiency

- Improving cash in/outflows and reducing the need for short-term funding for businesses
- Lower costs associated with the payment processing
- Increased operational efficiency

### Innovation and new business models

- Development of new services such as real-time lending, pay-as-you-go insurance as well as on-demand payroll

### Reduced fraud and credit risk

- IP might reduce fraud risk thanks to investments in technology, improving the security of transactions
- IP settlement reduces the credit risk associated with open transactions

### International trade

- Facilitating more efficient cross-border transactions, driving international trade and economic growth

### Data insights

- Payment systems can provide data insights that can be used for better targeted decision-making and personalized customer services

## Instant Payments – Impacts on market liquidity

### Improved liquidity management

- Instant Payments allow for better cash flow management for business and individuals
- Immediate availability of funds allows for enhanced cash management and reduced idle time in the banking system

### Changes in bank liquidity reserves and collateral

- Need for holding higher liquidity reserves (remunerated at 0% currently).
- Need for larger liquidity buffers to ensure banks can meet IP demands at all times, therefore draining the liquidity in the market and affecting the ability to invest in other HQLA assets
- In case of collateralised lines, a need for higher collateral buffers, leading to potential effects on collateral scarcity

### Liquidity demand and volatility

- Higher short term liquidity needs and increased overall demand for liquidity might have an impact on the short term interbank market.
- Creating additional liquidity buffers will get more expensive in a world with less excess liquidity.
- More volatility linked to the increased speed and volume of transactions requires more pro-(re)active liquidity management

### Impact on central bank operations

- Central banks might need to enhance their Real-time Gross Settlement Systems to ensure smooth operation of IP systems
- Central banks might be confronted with different liquidity needs in the banking system and a potential impact on reserves

### Impact on liquidity ratios

- Banks will need additional liquidity buffers for complying with regulatory liquidity ratios (LCR, NSFR)



# Instant Payments in times of market tensions

## Challenges

### Continuous availability and liquidity drain

- 24/7/365 customer withdrawals possible
- No access to interbank lending market or central bank facilities after working hours
- SVB case showed that digitization could intensify liquidity outflows

### Panic and real-time withdrawals

- The ability to withdraw cash instantly might exacerbate panic in case of market tensions

### Systemic risk and contagion effect

- Instant payments could amplify systemic risk in the event of market tensions
- No more synchronization between the instantaneous cash market and the secured market that could serve as a liquidity backstop

## Mitigants

### Robust liquidity management and buffers

- Need for higher liquidity reserves buffers in order to cover potential outflows when markets are closed
- Pre-funding of TIPS accounts to handle unexpected outflows (No available cash transfer towards TIPS account after closing of T2)

### Technology and monitoring

- Implementing a continuous monitoring of outflows to detect unusual trends indicative of a market stress and setting up automated alerts in order to enable timely interventions
- Modelling techniques to anticipate payment patterns throughout the month / year

### Communication strategy towards clients

- Implementing an efficient communication towards clients in order to maintain transparency and reduce panic and disinformation in case of market tensions

## Potential future mitigants

### Communication with competent authorities

- An efficient communication channel with market authorities at a national level as well as European level to implement adequate measures to avoid a bank's liquidity depletion when markets are closed

### Regulatory measures

- Possibility to limit withdrawal amounts
- Adequate stress tests and liquidity requirements

### Access to central bank facilities?

- ECB could establish (automatic) standing facilities accessible after market closing



# Instant Payments – 24/7/365 ECB liquidity access for safeguarding financial stability ?

## Benefits

### Support for Instant Payment systems by

- Ensuring 24/7/365 operational continuity
- A robust (collateralized) backstop in times of unforeseen outflows or market tensions

### Enhanced stability and confidence

- Containing the contagion effect and preventing panic
- Maintaining confidence in the banking system
- Stabilizing the financial markets

## Considerations

- The ECB would be required to have a robust infrastructure in place to provide liquidity after the market close
- Banks could pre-fund their collateral pledged at ECB to benefit from continuous credit line 24/7/365
- Need for a well-defined regulatory framework to manage the use of liquidity after regular business hours and during weekends and holidays
- Remuneration of TIPS accounts comparable with ancillary payment systems

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