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Egyptian Banking Institute



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Current Trends

Faster and Real-Time Payments

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Background

Modernizing payments is no more an option for banks to sustain their growth in the financial sector. As the financial landscape evolved, consumers and regulators are raising their expectations of instant payment options. Transactions that used to take days are now availed in seconds. Tech-savvy consumers and businesses value time nowadays more than ever before, they are expecting immediate settlement of their daily transactions. Furthermore, the pandemic added to the motivation of modernizing payment systems by increasing the usage of payments described as "fast," "faster," "real-time," and "instant". Not only this but even more important, is that **countries are moving towards activating systems of Real-time payments, to facilitate such transactions for all the financial players in their markets.**

Faster Payments: moving towards Real-time Payments

A "faster payment" is "a payment in which the transmission of the payment message and the availability of 'final' funds to the payee occur in real-time or near-real-time on or as near to a 24-hour and seven-day (24/7) basis as possible."

Actually, a faster payment is a payment method that enables payment settlements faster than traditional payment rails. To be specific, a faster payment option must 1) enable both payer and payee to see the transaction reflected in their respective account balances immediately and 2) provide funds that the payee can use right after the payer initiates the payment. And because of this, the payment is, by its nature, also irrevocable, meaning it cannot be reversed by the payer or the payer's financial institution (FI) after it is sent.²

Faster payment options are numerous and can be classified based on two differentiating factors:

- **Closed vs. open loops**

"Closed Loop" systems refer to payment options offered by a single central provider in which both the payer and the payee must maintain an account with that provider to transact. A case in point example is PayPAI

"Open Loop," in contrast, refers to systems that enable payers to pay much wider groups of payees, typically through a shared network. Some examples include: VisaDirect, MasterCard Send, and Zelle.

¹ Committee on Payment and Settlement Systems (2016) – Fast payments: Enhancing the speed and availability of retail payments, Bank for International Settlements, November.

² The Federal Reserve: <https://www.frbservices.org/financial-services/fednow/instant-payments-education/whats-in-a-name.html>

Real-Time Payments

Usage Cases of Faster and Real-time payments

Here comes the paragraph of:

Deferred vs. real-time settlements:

Deferred settlements: in these kinds of settlements the transfer of final funds between the payer's and the payee's accounts occurs *after* the payer had made the payment available to the payee.

Real-time settlement: in this alternative kind of settlement the transfer of final funds between the payer's and payee's accounts occurs with the transmission of the payment message and just seconds *before* the payee's financial account makes the payment available to the payee. Actually, as the payment is received immediately that minimizes the credit risk compared to the deferred settlement.

As per the above classification, Real-Time Payments can be defined as payments that are initiated and settled almost instantaneously. Actually, real-time payment networks provide 24x7x365 access, which means they are always online to process transfers. Real-time payments are one of the most significant financial innovations of the last decade.

An important point to highlight here is that faster payments and real-time payments are similar but not identical. In fact, all real-time payments are considered faster payments but not all faster payments are conducted in real-time.

Faster payments can be used for a variety of everyday transaction scenarios, among them:

- Person-to-Person (P2P)
- Consumer-to-Business (C2B)
- Consumer-to-Government (C2G)*
- Government-to-Consumer (G2C)*
- Business-to-Consumer (B2C)
- Business-to-Business (B2B)
- Account-to-Account (A2A): transfer of funds from one customer's account to another account typically owned by the same customer at either the same or another financial institution.

Among these options, P2P had been known as the most common faster payment transaction and with the rapid growth of the demand for it, amid the pandemic, P2P payments are becoming real-time, as well.

Real-Time systems' Implementation (Among Countries)

An example is that of Zelle, that have integrated into RTP to receive and settle Zelle P2P transactions in real-time.

Additionally, another case is related to Business to consumer transactions that had been growing fast in recent years, especially for the transactions related to insurance payments, which lead to a leap in its speed from faster to real-time rails.

Some countries were pioneers in launching systems of Real-time Payments' rails as that of Japan, United Kingdom, China and India.

In 2019, FIS recorded 54 countries activated real-time payment systems. Currently, FIS recorded that 60 real-time payments' systems are alive in 60 countries.³

For the United States, there are two major players in implementing the real-time systems: The Clearing House's RTP and The Federal Reserve's FedNow

Steps Towards Real-Time Payments

For the financial institutions, they would have to :

- Invest in real-time payments infrastructure.
- Begin to integrate with RTP systems and induce their consumers to integrate in the systems.
- Modernize their platforms to enable easy API integration.
- Invest in solving the problems of connectivity in rural areas.
- Address the security aspects associated with the implementation

On a Macro level, countries would need to

- Build a robust infrastructure needed for a centralized RTP system, alongside a scalable banking infrastructure and nationwide connectivity.
- Accelerate the regulatory actions at the same speed as that of the real-time payments' evolvement.

Videos shedding light on the topic

How Real-Time Payments are Powering the Future:

<https://youtu.be/AiAs6MEIL1o>

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