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Importance of teamwork: Spanish banks lead real-time payments implementation

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Article by José Luis Langa, Deputy managing director of Iberpay

The Spanish payment service company Iberpay was one of the first providers of clearing and settlement services for the Single Euro Payments Area (SEPA) Instant Credit Transfer (SCT Inst) at its launch in November 2017. We interviewed José Luis Langa, deputy managing director of Iberpay, to learn more about the challenges faced by an early technical partner in the pan-European SCT Inst real-time scheme.

Iberpay was one of the first providers of clearing and settlement services for SCT Inst. Can you tell us more about how Iberpay supports Spanish payment service providers (PSPs) in processing their SCT Inst services?

As one of the first European infrastructures prepared to process **instant payments**, Iberpay has worked closely with the Spanish banking community to provide not only a real-time payment platform, but also many other functionalities related to the exchange, clearing and settlement of SCT Inst transactions. This fully-fledged system that Iberpay provides to Spanish PSPs for processing SCT Inst as from the launch date (21 November 2017) onwards includes, among others, the following value-added features:

- **24/7** technical and operational support.
- **Automated liquidity management:** each participant may manage its liquidity defining its ceiling and floor boundaries, by means of Iberpay's user application.
- Online information on **liquidity transfers** and **limit management functionalities** for settling banks.
- Online transaction **status inquiries:** participants may know, at all times, the status of a transaction by means of web services or Iberpay's user application.

- Active management of banks' **availability**: participants are informed **in real-time** when other participants are temporarily unavailable in the event of outages.
- Advanced automated **routing functionalities and information**.
- **Automated queries and reports** to participants to support monitoring and reconciliation.
- Additional information such as **transaction monitoring, alerts, management of limits** for **Reachable Parties** on behalf of **Direct Participants**, and statistics.

Reachability to the rest of European PSPs in the SEPA area is guaranteed through the connection in place between **Iberpay and EBA Clearing's RT1 platform**. Thereby, as from November 2017, the Spanish banking community has been able to **exchange, clear and settle** credit transfers end to end and in few seconds, with other European PSPs by using Iberpay as a single interface for SCT Inst.

Moreover, many Spanish banks have also selected Iberpay as their Instructing Party to connect to TARGET Instant Payment Settlement (TIPS).

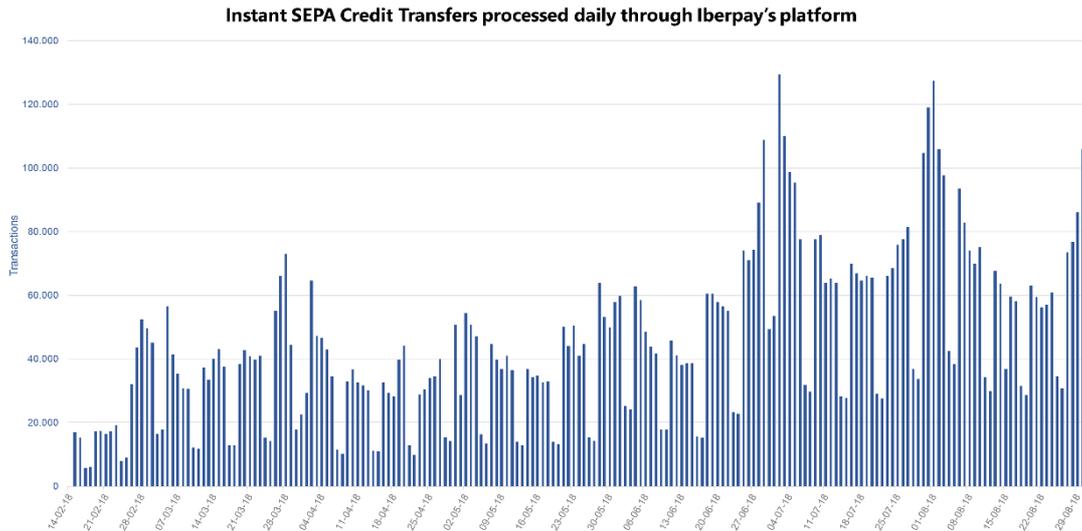
The decision to jointly reuse the efficiencies and the single interface with Iberpay's platform was key for the banks to cut costs and shorten the timeframe of their internal projects aiming to process their instant payments in an efficient, seamless way for the ultimate benefit of their customers. This single interface approach is also helping the banks to better manage their liquidity for instant payments.

Could you share some quantitative data regarding the clearing and settlement of transactions between financial institutions (participating PSPs, transactions processed, channels supported)?

There has been an ample and **swift adoption of instant payments in Spain**. Some 90 banks are currently participating in the system provided by Iberpay, representing more than **ninety percent** of the banking market in Spain. Although a critical mass has been achieved in a short period, **Iberpay is working together** with the remaining **small banks** to complete their enrolment aiming to have full reach for instant payments.

So far, the total number of SCT Inst processed through the platform since November 2017 is more than nine million amounting to more than seven billion euros. Therefore, the average value per transaction is around eight hundred euros, lower than the traditional SCT, as the number of Person-to-Person (PSP) transactions is growing steadily.

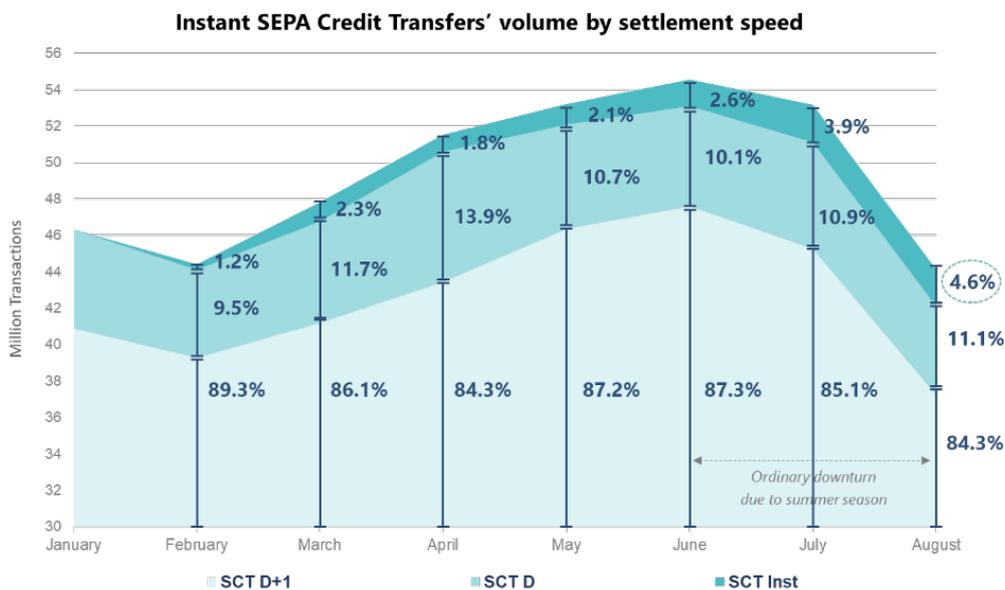
The traffic processed since November 2017 has been growing consistently and the current the daily average volume is around **80,000 transactions** with a peak day of more than **140,000**. During weekends and banking holidays, the usage of SCT Inst is somewhat lower, as well as nights and during the summer, but there is always some activity round the clock.



We are also pleased that the average processing time end to end in the interbank space, including settlement and confirmation, is **1.7 seconds** (2.2 seconds for transactions exchanged with RT1). We are proud of this **IT performance**, but we continuously work to further improve these results.

Even though SCT Inst volumes are still relatively low, the **evolution is quite encouraging**. We have also witnessed that most transactions take place among Iberpay's community of banks, while cross-border instant payments are consistently below five percent of the total, in line with traditional SCT figures.

In the following chart you may find the evolution of the usage of the three different processing speeds offered by Iberpay for credit transfers regarding the availability of the funds in the beneficiary's account: D+1; D; and Immediate, showing that SCT Inst use has raised by 4.6 percent.



As one of the pioneers, how would you describe Iberpay's first nine months of experience processing SCT Inst transactions? What are the main lessons already learned?

This project has required, and still requires today, great doses of hard work and close collaboration between the banks and Iberpay as many areas within the banks, such as **treasury, risk, compliance, accounting, IT, operations or product development** are heavily affected by instant payments.

Launching instant payments is not a 'plug-and-play' project as it demands many actions to be completed in these areas of the banks in order to have the system up and running. Moreover, the operational changes required in the back offices of the banks are extensive, even for those banks, which, like most in Spain, already have a core banking architecture working **real-time**.

Real-time processing requires significant investments, more comprehensive testing and 24/7 monitoring of transactions. It also implies substantial changes on how the systems are operated, as the impact on the organization and duties of staff in the operations, support and IT areas is also considerable.

We have also witnessed that banks are **implementing different strategies** in the adoption and use of instant payments. While some banks are already using SCT Inst extensively or even as the default solution to process all credit transfers from their clients, others are remaining just reachable, introducing instant payments through a very limited number of channels and use cases or offering SCT Inst as a **premium service**.

We expect that banks will be **progressively providing** this new instrument to their clients and corporates through a **wider range of channels**.

Can you tell us more about the landscape of instant payments in Spain, and how the SCT Inst scheme is changing it?

For the time being, rather than a tangible migration from traditional SCT, we can recognize the **rise of new transactions**, especially in the **P2P space**.

There is also a growing interest from many banks in **offering instant payments** in the **business-to-business (B2B)** space or for **public administration payments**, especially if the threshold of fifteen thousand euros were raised. In this regard, corporates have shown some interest in making multiple SCT Inst to pay their clients or even employees.

The launch of instant payments has been an important **milestone** in the construction of **modern and efficient payment systems** and it **perfectly suits** both the **business strategies** of the banks and **new customer expectations** in the **digital era**. In this regard, most of the SCT Inst processed by Iberpay come from **internet banking** as well as from the **Spanish P2P mobile service Bizum**. Banks are also working to offer

their client's different solutions, products and services that include instant payments as the underlying payment method.

How do you see the SCT Inst scheme evolving in the future?

We are still in the roll-out phase of instant payments in Europe. I believe that this stage will take some years to accomplish as the projects within the banks are **highly challenging**. I do not expect that a large-scale deployment of SCT Inst will be completed before 2020, when most banks in Europe should be reachable and active in the provision of this instrument.

Once this adoption phase is complete, rather than a great migration from traditional **SCT to SCT Inst**, my personal vision is that the instant payment volume growth could be due to the **addition of innovative products, services and channels** using **SCT Inst** as their preferred **payment instrument**. Following this view, instant payments are likely to coexist alongside most of the traditional payment instruments for many years, only displacing those instruments less fit for a digital economy.

I also expect further developments in the medium term aiming to make instant payments **suitable for immediate cross border transactions beyond Europe**, machine-to-machine payments, worldwide e-commerce or payments stemming from smart contracts.

In this forthcoming, digital environment, instant payments are likely to become the new norm for all kinds of corporate, consumer or government payments, where the funds transfer will not be in the middle of the transaction, but rather embedded in a painless customer experience.

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José Luis Langa started his career at the Spanish Central Bank in 1990. In 2000 he was appointed managing director of the Interbank Payment Service. In 2005, when this institution was reorganised to create Iberpay, he acted as its first interim managing director. Currently, he is deputy managing director of Iberpay, responsible for the international, business development and cash service. He participates in the Scheme Technical Forum (ESTF). He is also a member of the European Central Bank Advisory Group on Market Infrastructure for Payments (AMI-Pay) and deputy chair of the European Automated Clearing House Association (EACHA).

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