Courage and caution: instant retail payments

Finding the right balance in innovation

Without courage, the world stands still. The world needs people with big ideas who have the courage to bring those ideas to life. The Wright brothers, inventors of the airplane, spring to mind. They must have raised a few eyebrows when they first exclaimed they were going to fly! But they set their sights on going faster, further and higher than anyone before. While undoubtedly courageous, we would be wrong to assume that the Wright brothers did not, at the same time, exercise caution. They carried out many tests, for which they chose a sandy location in order to soften the impact in case of a crash landing and, with only one exception, the brothers never actually flew together in the same plane. They were courageous without throwing caution to the wind.

This balance between courage and caution is needed in every aspect of life, and retail payments are no exception! In today's fast-moving world, innovation in this field is absolutely crucial in order to keep pace with the changing needs of customers. However, new technology and tools must not be implemented rashly or without ensuring adequate safety. After all, the first priority for payment services is that they are safe, secure and reliable.

Reacting to a world gone digital

Much recent innovation has been driven by digitalisation, a phenomenon that has had a huge impact on almost every walk of life. Alongside the many advantages, it has also presented a number of challenges. It has called into question many traditional business models that, until recently, were hugely successful. One only needs to look at the music industry for one of the most striking examples. With online streaming and the sharing of music files over the internet, it has become clear that record companies cannot simply add the internet as an additional distribution channel for their products – they need to completely rethink their business models. As more and more people turn to digital streaming services like Spotify, sales of CDs are plummeting and artists and record companies will only survive this shift in consumer behaviour if they embrace it and adapt to it, rather than fight against it.

The retail payments industry now faces a similar choice. Whether it will undergo a transformation as deep and as quick as the one in the music industry remains to be seen, but it is clear that user expectations have changed and consumers are now asking themselves why, in this day and age, it still takes so long for an e-payment to be processed, when an e-mail can be sent to the other side of the world in a split second. Demand for instant payments is increasing and the time is ripe for some brave innovators to come up with solutions to meet this demand.
Giving consumers choice

Of course, just as there are people who still want to buy a CD for their collection, or who prefer to buy a newspaper than read the news online, or who rather travel by train than by plane, there will always be those who want to pay by cash or using the more “traditional” cashless payment methods. We are therefore no closer to becoming a completely cashless society as we are to having completely paperless offices, but what's important here is choice. Users should be able to pay in the way that suits them best at any given moment in time.

In order to provide that choice, the discussion must no longer be about if or when to implement instant payment solutions, but how. At its June meeting, the Euro Retail Payments Board (ERPB) – a multi-stakeholder group working to foster an integrated, innovative and competitive market for retail payments in euro in the European Union – agreed that, regardless of the payment instrument on which they are based, instant payment solutions should be developed at the pan-European level. If a pan-European solution cannot be developed and solutions are developed at the national level instead, these should at least be interoperable with other solutions based on the same payment instrument. The ERPB has invited the European Payments Council to develop a proposal for the design of an instant payment solution based on the SEPA credit transfer scheme, to be presented by November 2015.

Developing harmonised solutions

The SEPA project has laid the foundations for an integrated retail payments market in Europe. The goal of the project is to make the national borders within the European Union invisible when it comes to cross-border payments. Thanks to this project, Europe now has SEPA credit transfers and debit directs, two tools which make it possible for consumers to send and receive payments anywhere in Europe under the same conditions and at the same cost as a domestic transaction. The SEPA project and the harmonisation it has achieved therefore provides a solid basis on which to now build a pan-European instant payment solution.

However, the SEPA project has also shown that harmonisation projects can be quite time-consuming, which is why, given the speed with which innovation can move forward, Europe needs to be as proactive as possible. Indeed, some national communities have already begun to develop their own instant payment methods, while others are undecided as to whether to wait for a pan-European solution or to start developing their own too. Time is of the essence and a bit of the Wright brothers’ courage will be needed to get a pan-European solution off the ground.

Embracing the new environment

The good news is that the market pie for retail payments has not yet been sliced up and shared out, even if a few players have taken a first bite. Just as players in the music industry have had to rethink their business models in order to get a share of
the new digital market, so too must retail payment providers seize the moment to rethink their business models to embrace this new environment, and not simply add on a few internet services as an afterthought.

While a few non-banks have already taken some courageous steps forward in this domain, the comparative advantage that banks have means that, if they act now, they are in a strong position to take full advantage of this new market opportunity. As mentioned at the start, the Wright brothers were not just plucky, they were well prepared and understood the importance of caution. Banks tend to have well-developed data and operational security systems and enjoy the confidence of their customers, which is absolutely crucial if instant payments are to be a success and not just a brave experiment.

Regulating the new environment

The role of regulators and central banks in this field has not changed all that much. They are still responsible for maintaining confidence in payment systems by ensuring they are safe and efficient. But with the changing environment, security measures need to be adapted and upgraded. Moreover, the emergence of new payment services and providers means that regulators must ensure a level playing field for both new-comers and long-established players. Moreover, while Europe seeks to develop a pan-European solution, global service providers are focusing on global solutions, representing a further challenge that needs to be addressed.

Taking flight

These are just some of the challenges presented by the structural changes in the retail payments industry resulting from digitalisation. In the coming months and years, Europe will seek to build new, innovative solutions in response to this new environment. But if we want them to take flight, we need to follow the lead of the Wright brothers by putting in the right safety features. After that, the sky is the limit!